KPMG
**Chartered Accountants**
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W.I.

P.O. Box 76
Kingston
Jamaica, W.I.
Telephone +1 (876) 922-6640
Fax +1 (876) 922-7198
+1 (876) 922-4500
e-Mail firmmail@kpmg.com.jm

# INDEPENDENT AUDITORS' REPORT

To the Members of
LASCELLES, deMERCADO & CO. LIMITED

## Report on the Financial Statements

We have audited the unconsolidated financial statements of Lascelles, deMercado & Co. Limited ("company"), set out on pages 3 to 27, which comprise the company only balance sheet as at September 30, 2009, statements of income, changes in stockholders' equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

KPMG



INDEPENDENT AUDITORS' REPORT

To the Members of
LASCELLES, deMERCADO & CO. LIMITED

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

*Opinion*

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the company only as at September 30, 2009, and of its financial performance, changes in stockholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

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

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

KPMG

November 25, 2009

LASCELLES, deMERCADO & CO. LIMITED

Balance Sheet
September 30, 2009

| | Notes | 2009 $'000s | 2008 $'000s |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 8,878 | 8,384 |
| Accounts receivable | 3 | 15,568 | 93 |
| Taxation recoverable | | 345 | 814 |
| Due from subsidiaries | 4(a) | 17,648 | 17,601 |
| | | 42,439 | 26,892 |
| **Current liabilities** | | | |
| Due to subsidiaries | 4(b) | 26,645 | 11,038 |
| Accounts payable | 5 | 2,904 | 1,257 |
| | | 29,549 | 12,295 |
| **Net current assets** | | 12,890 | 14,597 |
| **Non-current assets** | | | |
| Employee benefits assets | 6 | 1,620,500 | 2,802,900 |
| Investments | 7 | 3,422,430 | 5,462,946 |
| Interest in subsidiaries shares, at cost | | 164,546 | 164,546 |
| Due from subsidiaries | 4(c) | 2,932,845 | 3,603,951 |
| Property, plant & equipment | 8 | 87,284 | 87,326 |
| | | 8,227,605 | 12,121,669 |
| | | 8,240,495 | 12,136,266 |
| Financed by: | | | |
| **Stockholders' equity** | | | |
| Share capital | 9 | 20,400 | 20,400 |
| Capital reserve | 10 | 1,792,368 | 2,560,368 |
| Employee benefits reserve | 11 | 1,080,333 | 1,868,600 |
| Equity revaluation reserve | | 3,371,671 | 5,412,187 |
| Unappropriated profits | | 1,435,553 | 1,340,285 |
| | | 7,700,325 | 11,201,840 |
| **Non-current liability** | | | |
| Deferred tax liability | 12 | 540,170 | 934,426 |
| | | 8,240,495 | 12,136,266 |

The financial statements, on pages 3 to 27, were approved for issue by the Board of Directors on November 25, 2009, and signed on its behalf by:

William A. McConnell, Director

Anthony J. Bell, Director

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

LASCELLES, deMERCADO & CO. LIMITED

Income Statement
Year ended September 30, 2009

| | Notes | 2009 $'000s | 2008 $'000s |
|---|---|---|---|
| Investment income and capital gains | 13 | 676,276 | 995,658 |
| Finance costs | | ( 91) | ( 3,646) |
| Finance income | | 477 | 245 |
| Net finance income/(costs) | 14 | 386 | ( 3,401) |
| | | 676,662 | 992,257 |
| Administration expenses, net of credits | | 198,045 | 392,000 |
| | | 874,707 | 1,384,257 |
| Pension assets derecognized | 15 | (1,385,800) | - |
| Other expenses | 16 | - | ( 635,121) |
| **(Loss)/profit before taxation** | 17 | ( 511,093) | 749,136 |
| Taxation | 18 | 394,256 | ( 132,412) |
| **Net (loss)/profit attributable to members** | | ( 116,837) | 616,724 |

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

LASCELLES, deMERCADO & CO. LIMITED

Statement of Changes in Stockholders' Equity
Year ended September 30, 2009

| | Share capital (note 9) $'000s | Capital reserve (note 10) $'000s | Employee benefits reserve (note 11) $'000s | Equity revaluation reserve $'000s | Unappropriated profits $'000s | Total $'000s |
|---|---|---|---|---|---|---|
| Balances at September 30, 2007 | 20,400 | 1,943,961 | 1,603,933 | 4,815,997 | 1,604,797 | 9,989,088 |
| Net profit attributable to members | - | - | - | - | 616,724 | 616,724* |
| Appreciation in fair value of investments | - | - | - | 596,190 | - | 596,190* |
| Transfer, net | - | 616,407 | 264,667 | - | ( 881,074) | - |
| Dividends and distributions (note 19) | - | - | - | - | ( 162) | ( 162) |
| Balances at September 30, 2008 | 20,400 | 2,560,368 | 1,868,600 | 5,412,187 | 1,340,285 | 11,201,840 |
| Net loss attributable to members | - | - | - | - | ( 116,837) | ( 116,837)* |
| Depreciation in fair value of investments | - | - | - | (2,040,516) | - | (2,040,516)* |
| Transfer, net | - | ( 768,000) | (788,267) | - | 1,556,267 | - |
| Dividends and distributions (note 19) | - | - | - | - | (1,344,162) | (1,344,162) |
| Balances at September 30, 2009 | 20,400 | 1,792,368 | 1,080,333 | 3,371,671 | 1,435,553 | 7,700,325 |

*Total recognized (losses)/gains for the year aggregated $(2,157,353,000)[2008: $1,212,914,000].
The accompanying notes form an integral part of the financial statements.

LASCELLES, deMERCADO & CO. LIMITED

Statement of Cash Flows
Year ended September 30, 2009

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Cash flows from operating activities | | |
| Net (loss)/profit attributable to members | ( 116,837) | 616,724 |
| Adjustments to reconcile net profit to net cash provided by operating activities: | | |
| Employee benefits | 1,182,400 | ( 397,000) |
| Depreciation | 42 | 42 |
| Interest income | ( 17) | ( 245) |
| Income tax (credit)/expense | ( 394,256) | 132,412 |
| Operating profit before changes in working capital | 671,332 | 351,933 |
| Change in working capital: | | |
| Accounts receivable | ( 15,475) | 136 |
| Due from subsidiaries | ( 47) | ( 5,704) |
| Due to subsidiaries | 15,607 | 9,269 |
| Accounts payable | 1,647 | ( 67,617) |
| Cash provided by operating activities | 673,064 | 288,017 |
| Interest received | 17 | 245 |
| Tax refunded | 469 | ( 61) |
| Net cash provided by operating activities | 673,550 | 288,201 |
| Cash flows from financing activity | | |
| Due from subsidiaries, being net cash flows from financing activity | 671,106 | (287,628) |
| Cash provided before dividends and distributions | 1,344,656 | 573 |
| Dividends and distributions paid | (1,344,162) | ( 162) |
| Net increase in cash and cash equivalents | 494 | 411 |
| Cash and cash equivalents at beginning of year | 8,384 | 7,973 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 8,878 | 8,384 |

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

## 1. The company

The company is incorporated in Jamaica under the Companies Act and is domiciled in Jamaica. Its ordinary and preference stock units are listed on the Jamaica Stock Exchange. The registered office of the company is situated at 23 Dominica Drive, Kingston 5, Jamaica, West Indies. Effective July 28, 2008, pursuant to a public offer initiated in December 2007 by its fellow subsidiary, CL Spirits Limited (immediate holding company), a company incorporated in St. Lucia and a wholly owned subsidiary of CL Financial Limited (ultimate holding company), a company incorporated in Trinidad and Tobago, together with other subsidiaries of the ultimate holding company, acquired 86.89% of the ordinary stock units and 97.15% of the preference stock units aggregating 92.01% of the voting rights of the company. In July 2009, the Government of Trinidad and Tobago effectively assumed control and direction of the ultimate holding company.

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

At September 30, 2009, the company did not directly employ any person.

## 2. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations issued by the International Accounting Standards Board (IASB), and comply with the provisions of the Jamaican Companies Act.

Certain new IFRS, and interpretations of and amendments to existing standards which were in issue, came into effect for the current financial year. The standard considered relevant to company is as follows:

- IFRIC 14 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14, effective for accounting periods beginning on or after January 1, 2008, was considered in preparing these financial statements (also see note 15).

At the date of authorisation of the financial statements the following relevant new standards, amendments to standards and interpretations, which were in issue, are not yet effective. Those standards and interpretations are effective for the accounting periods beginning on, or after the indicated dates:

- Amendments to *IFRS 2 Share-based payment – Vesting Conditions and Cancellations* (effective January 1, 2009). Under the amendment, non-vesting conditions are taken into account in measuring the grant date fair value of the share-based payment and there is no true-up for differences between expected and actual outcomes.

- Amendments to *IFRS 7 Financial Instruments: Disclosure (*effective January 1, 2009), require enhanced disclosures in respect of two aspects: disclosures over fair value measurement for financial instruments specifically in relation to the inputs used in the valuation techniques and the uncertainty associated with such valuations; and improving disclosures over liquidity risk, to address current diversity in practice.

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

(a) Statement of compliance (cont'd):

- *IFRS 9, Financial Instruments* (effective January 1, 2013) introduces new requirements for classifying and measuring financial assets. The standard also amends some of the requirements of *IFRS 7 Financial Instruments: Disclosures* including added disclosures about investments in equity instruments designated as fair value through other comprehensive income.

- *Revised IAS 1 – Presentation of Financial Statements* (effective January 1, 2009) requires presentation of all non-owner changes in equity in one or two statements either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Revised IAS 1 also requires that a statement of financial position be presented at the beginning of the comparative period when the entity restates the comparatives, a disclosure for reclassification adjustments and disclosure of dividends and related per share amounts be disclosed on the face of the statement of changes in equity or in the notes.

- *IAS 23, Revised – Borrowing Costs (*effective January 1, 2009) removes the option of immediately recognising all borrowing costs as an expense. The standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset.

- *IAS 24, Related Party Disclosure, revised* (effective January 1, 2011) introduces changes to the related party disclosure requirements for government-related entities and amends the definition of a related party. The standard also expands the list of transactions that require disclosure.

- *Amendments to IAS 32 Financial instruments: Presentation and IAS 1, Presentation of financial statements* (effective January 1, 2009). The amendments allow certain instruments that would normally be classified as liabilities to be classified, the equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification. The revisions are not expected to have any significant impact on the company's financial statement.

The adoption of IFRS 2, IFRS 7, IFRS 9, IAS 1 revised, IAS 23 revised, IAS 24 revised, and amendments to 1AS 32 revised and is expected to result in adjustments and additional disclosures to the financial statements. Management has not completed its evaluation of the impact of adopting these standards on the financial statements.

(b) Basis of preparation:

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

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

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

(c) Use of estimates and judgement:

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

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

(i) Pension and other post retirement benefits:

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

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

(ii) Impairment of available-for-sale financial assets:

Management assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. This determination requires significant judgment. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the requisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

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

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

(iii) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses on receivables in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions.
Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individually significant receivables with similar characteristics, such as credit risks.

(iv) Deferred taxation:

In recognising a deferred tax asset in the financial statements, management makes judgements regarding the utilisation of losses. Management makes an estimate of the future taxable profit against which the deductible temporary differences, unused tax losses or unused tax credit will be utilised.

(v) Residual value and expected useful life of property plant & equipment:

The residual value and the expected useful life of an asset are reviewed at least at each financial year-end, and, if expectations differ from previous estimates, the charge is accounted for. The useful life of an asset is defined in terms of the asset's expected utility to the company.

(d) Cash and cash equivalents:

This comprises cash and bank balances.

(e) Accounts receivable:

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

(f) Accounts payable:

Trade and other payables are stated at amortised cost.

(g) Provisions:

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

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

(h) Related parties:

A party is related to the company, if:

(i) directly, or indirectly through one or more intermediaries, the party:

- (a) is controlled by, or is under common control with, the company;
- (b) has an interest in the company that gives it significant influence over the entity; or
- (c) has joint control over the company;

(ii) the party is an associate of the company;

(iii) the party is a joint venture in which the company is a venturer;

(iv) the party is a member of the key management personnel of the company;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the company.

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

The company has a related party relationship with its immediate and ultimate holding companies, fellow subsidiaries and its directors and key management personnel.

(i) Employee benefits:

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

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

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

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

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

(j) Investments:

(i) Available-for-sale:

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

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

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

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

(ii) Loans and receivables:

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

(k) Interest in subsidiaries:

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

(l) Property, plant & equipment:

(i) Owned assets:

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

(ii) Depreciation:

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

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

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

(l) Property, plant & equipment (cont'd):

(ii) Depreciation (cont'd):

Depreciation rates are as follows:

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

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

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

(m) Impairment:

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

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

(i) Calculation of recoverable amount:

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

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

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

(m) Impairment (cont'd):

(ii) Reversals of impairment:

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

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

(n) Share capital:

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

(o) Revenue recognition:

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

(p) Foreign currencies:

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

(q) Income taxes:

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

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

Deferred tax is computed using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

(q) Income taxes (cont'd):

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

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

(r) Net finance costs:

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

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

(s) Financial instruments:

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

(t) Fair value disclosures:

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

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)
September 30, 2009

**3. Accounts receivable**

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Trade receivables | 473 | 473 |
| Other receivables | 15,568 | 93 |
| | 16,041 | 566 |
| Less: Allowance for impairment losses | ( 473) | (473) |
| | 15,568 | 93 |

**4. Due from subsidiaries**

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| (a) Due from subsidiaries within twelve months: | | |
| Ajas Limited | 10,934 | 10,934 |
| Lascelles Merchandise Limited | 5,894 | 5,894 |
| Tradewell Limited | 696 | 650 |
| Turks Island Importers Limited | 24 | 23 |
| Wray & Nephew Group Limited | 100 | 100 |
| | 17,648 | 17,601 |
| (b) Due to subsidiaries within twelve months: | | |
| CP Stephenson Limited | 640 | 662 |
| Lascelles Limited | 25,880 | 10,275 |
| Wray & Nephew Global Brands Limited | 125 | 101 |
| | 26,645 | 11,038 |
| (c) Due from subsidiaries after twelve months: | | |
| Globe Holdings Limited | 429,210 | 429,210 |
| J. Wray & Nephew Limited | 2,503,635 | 3,174,741 |
| | 2,932,845 | 3,603,951 |

**5. Accounts payable**

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Trade payables | 150 | 150 |
| Other payables | 2,754 | 1,107 |
| | 2,904 | 1,257 |

LASCELLES, deMERCADO & CO. LIMITED

Notes to the Financial Statements (Continued)
September 30, 2009

## 6. Employee benefits assets

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Present value of funded obligations | ( 4,095,700) | (3,911,000) |
| Fair value of plan assets | 10,926,000 | 9,446,900 |
| Unrecognised actuarial losses | ( 2,618,700) | (2,761,400) |
| Unrecognised amount due to limitation | ( 2,621,700) | - |
| Unrecognised past service costs | 30,600 | 28,400 |
| Recognised pension asset | 1,620,500 | 2,802,900 |

(i) Movements in funded obligations:

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Balance at beginning of year | (3,911,000) | (3,130,300) |
| Benefits paid | 322,000 | 205,100 |
| Interest cost | ( 512,200) | ( 400,500) |
| Current service costs | ( 237,100) | ( 197,800) |
| Past service costs – vested and non-vested benefits | - | ( 234,300) |
| Gain on curtailment | 30,700 | - |
| Actuarial gain/(loss) on obligation | 211,900 | ( 153,200) |
| Balance at end of year | (4,095,700) | (3,911,000) |

(ii) Movement in plan assets:

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Fair value of plan assets at beginning of year | 9,446,900 | 7,727,200 |
| Contributions paid | 171,800 | 150,400 |
| Expected return on plan assets | 1,218,300 | 770,000 |
| Benefits paid | ( 322,000) | ( 205,100) |
| Actuarial gain | 411,000 | 1,004,400 |
| Fair value of plan assets at end of year | 10,926,000 | 9,446,900 |
| Plan assets consist of the following: | | |
| Equities | 982,452 | 1,384,499 |
| Fixed income securities and other investments | 9,608,321 | 7,828,582 |
| Real estate | 335,227 | 233,819 |
| | 10,926,000 | 9,446,900 |

(iii) Plan assets also include investments in assets leased under operating lease arrangements with the company and its subsidiaries, with a fair value of $288,347,000 (2008: $311,331,000).

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

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

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Balance at beginning of year | 2,802,900 | 2,405,900 |
| Contributions paid | 34,100 | 30,500 |
| (Expense)/credit recognised in the income statement | (1,216,500) | 366,500 |
| Balance at end of year | 1,620,500 | 2,802,900 |

(v) (Expense)/credit recognised in the income statement:

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Current service costs | ( 93,100) | ( 84,200) |
| Interest on obligations | ( 512,200) | ( 400,500) |
| Actuarial gains recognised | 765,600 | 75,800 |
| Expected return on plan assets | 1,218,300 | 770,000 |
| Change in disallowed assets | (2,621,700) | 207,200 |
| Past service costs – non-vested benefits | ( 4,100) | ( 800) |
| Past service costs – vested benefits | - | ( 201,000) |
| Gain on curtailment | 30,700 | - |
| | (1,216,500) | 366,500 |
| Actual return on plan assets | 1,629,300 | 1,774,400 |

Of the above (expense)/credit recognised in the income statement, total credit recognised as administrative, marketing and selling expenses aggregated $169.3 million (2008:$366.5 million) and expense recognised representing pension asset derecognised aggregated $1,385.8 million (note 15).

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

| | 2009 | 2008 |
|---|---|---|
| Discount rate | 19% | 13% |
| Expected return on plan assets | 17% | 13% |
| Future salary increases | 15% | 9% |
| Future pension increases | 0-9% | 0-6% |

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

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

(vii) Historical information:

(a) Defined benefit pension plan:

| | 2009 $'000s | 2008 $'000s | 2007 $'000s | 2006 $'000s | 2005 $'000s |
|---|---|---|---|---|---|
| Present value of the defined benefit obligations | ( 4,095,700) | (3,911,000) | (3,130,300) | (2,702,300) | (2,172,400) |
| Fair value of plan assets | 10,926,000 | 9,446,900 | 7,727,200 | 6,697,300 | 5,820,900 |
| Experience adjustments arising on plan liabilities | ( 390,100) | ( 209,600) | ( 179,300) | ( 71,600) | ( 129,500) |
| Experience adjustments arising on plan assets | 411,000 | 1,004,400 | 384,000 | 309,300 | 328,400 |

## 7. Investments

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Available-for-sale: | | |
| Quoted | 3,422,316 | 5,462,832 |
| Unquoted, at cost, less impairment loss | 114 | 114 |
| | 3,422,430 | 5,462,946 |

## 8. Property, plant & equipment

| | Freehold land $'000s | Freehold buildings $'000s | Office fixtures, furniture and motor vehicles $'000s | Total $'000s |
|---|---|---|---|---|
| At cost or deemed cost: | | | | |
| September 30, 2007 to 2009 | 87,121 | 1,985 | 603 | 89,709 |
| Depreciation: | | | | |
| September 30, 2007 | - | 1,738 | 603 | 2,341 |
| Charge for the year | - | 42 | - | 42 |
| September 30, 2008 | - | 1,780 | 603 | 2,383 |
| Charge for the year | - | 42 | - | 42 |
| September 30, 2009 | - | 1,822 | 603 | 2,425 |
| Net book values: | | | | |
| September 30, 2009 | 87,121 | 163 | - | 87,284 |
| September 30, 2008 | 87,121 | 205 | - | 87,326 |

**8. Property, plant & equipment (cont'd)**

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

**9. Share capital**

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Authorised in shares, stated, issued and fully paid stock units of no par value: | | |
| 96,000,000 Ordinary units | 19,200 | 19,200 |
| 10,000 6% Non-redeemable cumulative preference units | 200 | 200 |
| 50,000 15% Non-redeemable cumulative preference units | 1,000 | 1,000 |
| | 20,400 | 20,400 |

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

**10. Capital reserve**

This mainly comprises capital dividends received and revaluation surplus (note 8) and is available for distribution after deduction of transfer tax of 4%.

**11. Employee benefits reserve**

Employee benefits reserve represents accumulated unrealised pension credits, which represents the excess of fair value of scheme assets over the obligation, restricted to the present value of the possible reduction in future contribution, net of deferred tax.

**12. Deferred tax liability**

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

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Property, plant & equipment | 3 | 121 |
| Foreign exchange gain | - | 5 |
| Employee benefits | 540,167 | 934,300 |
| | 540,170 | 934,426 |

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

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

At September 30, 2009, a deferred tax liability of $47 million (2008: $2,766 million) relating to investment in certain subsidiaries and associated companies has not been recognised, as the company controls, or significantly controls, whether the liability will be incurred and management is satisfied that it will not be incurred in the foreseeable future.

## 13. Investment income and capital gains

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Quoted investment income | 675,842 | 379,072 |
| Capital distribution | 434 | 616,586 |
| | 676,276 | 995,658 |

## 14. Net finance cost/ (income)

| | 2009<br>$'000s | 2008<br>$'000s |
|---|---|---|
| Bank charges | 91 | 78 |
| Loss on foreign exchange | - | 3,568 |
| Finance costs | 91 | 3,646 |
| Bank interest | ( 17) | ( 245) |
| Gain on foreign exchange | (460) | - |
| Finance income | (477) | ( 245) |
| Finance (income)/cost, net | (386) | 3,401 |

## 15. Pension asset derecognised

Effective January 1, 2009, the Lascelles, Henriques et al Superannuation Fund (LHSF), a defined benefit pension scheme was closed to the admission of new members. New employees will now join Lascelles, deMercado Defined Contributory Fund, a defined contribution scheme administered by the company and its subsidiaries.

Whilst the fund was open to new entrants, it was assumed that it would continue indefinitely. On closure of Lascelles, Henriques et al Superannuation Fund (LHSF) to new members, the fund now has a finite life and any distribution of residual surpluses thereafter are conditional on regulatory approval. Consequently, the present value of the economic benefits available to the employers in the form of reductions in future contributions has been reduced by an aggregate amount of $1,385.8 million.

## 16. Other expenses

In the prior year, this comprised legal and professional fees, and brokerage expenses relating to the negotiation and sale of shares in the company to CL Financial Limited on July 28, 2008. It was financed through the gain on disposal of the shares held by a subsidiary in the company.

## 17. Disclosure of expenses and related party transactions

Profit before taxation is stated after charging/(crediting) the following:

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Directors' emoluments: | | |
| Fees | 2,950 | 2,401 |
| Management remuneration | Nil | Nil |
| Rent received – related party | ( 20) | ( 10) |
| Audit fees | Nil | Nil |
| Staff costs, excluding unrealised pension credits | Nil | Nil |
| Depreciation | 42 | 42 |

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

## 18. Taxation

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Deferred taxation: | | |
| Origination and reversal of temporary differences, net | (394,256) | 132,412 |

Reconciliation of effective tax rate:

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| (Loss)/profit before taxation | (511,093) | 749,136 |
| Computed "expected" taxation (credit)/expense @ 33⅓% | (170,364) | 249,712 |
| Difference between profit for financial statements and tax reporting purposes on: | | |
| Tax-free dividend income | (223,650) | (124,850) |
| Disallowed expenses | ( 242) | 213,018 |
| Tax-free capital gain | - | (205,468) |
| Actual taxation expense | (394,256) | 132,412 |

## 19. Dividends and distributions

Dividends and distributions paid, gross, are as follows:

| | 2009 $'000s | 2008 $'000s |
|---|---|---|
| Ordinary stock units @ $14.00 per stock | 1,344,000 | - |
| 6% Non-redeemable cumulative preference stock units | 12 | 12 |
| 15% Non-redeemable cumulative preference stock units | 150 | 150 |
| | 1,344,162 | 162 |

At a meeting of the Board of Directors, held on June 12, 2009, an interim dividend of $6.00 per stock unit and a special interim dividend of $8.00 per stock unit were declared. This dividend was paid on June 30, 2009 to ordinary stockholders on record as at the close of business on June 26, 2009.

Half-yearly dividends were paid to the 6% and 15% Non-redeemable cumulative preference stockholders on March 31, 2009 and September 30, 2009.

## 20. Contingencies and commitments

(a) The company has entered into contracts to lease certain lots of land to a related party, at a nominal rental, until 2012.

(b) The company has given an undertaking to support the operations of certain loss-making subsidiaries for the foreseeable future.

(c) Security for bank indebtedness of the group has been furnished in the form of:

(i) Negative pledge given by the company in the aggregate amount of $1.4 billion (2008: $1.5 billion);

(ii) Letter of undertaking given by the company to maintain a maximum debt to equity ratio, as defined; and

(iii) Letter of undertaking given by the company not to charge any of its assets or shareholdings without the prior consent of the lender, except in the normal course of business.

## 21. Financial risk management

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

The Board of Directors, together with senior management delegates of its ultimate holding company, has overall responsibility for the establishment and oversight of the company's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the company and to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. At September 30, 2009, the company did not have any material exposure to credit risk.

*Cash and cash equivalents*

Cash and cash equivalents are placed with substantial financial institutions for short-term periods and management believes these institutions have minimal risk of default.

*Trade receivables*

Management establishes an allowance for impairment that represents its estimate of losses in respect of trade and other receivables. Management's policy is to provide for balances based on past default experience, current economic conditions and expected recovery.

**21. Financial risk management (cont'd)**

(a) Credit risk (cont'd):

*Due from subsidiaries*

All subsidiaries must meet minimum requirements that are established and enforced by the company's management.

(b) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Interest rate risk:

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

The company seeks to contract long-term liabilities at fixed interest rates for the duration of the loans. Bank overdrafts, are also subject to interest rates which are fixed in advance but which may be varied with appropriate notice by the lender.

Interest bearing financial assets have been contracted at variable interest rates for the duration of their terms.

At the reporting date the interest profile of the company's interest bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | 2009 | 2008 |
| | $'000s | $'000s |
| Variable rate: | | |
| Assets | 2,555 | 2,143 |

*Fair value sensitivity analysis for fixed rate instruments*

The company does not hold any fixed rate financial assets that are subject to material changes in fair value through profit or loss.

*Cash flow sensitivity analysis for variable rate instruments*

An increase/(decrease) of 500 (2008: 100) basis points in interest rates at the reporting date would have increased/(decreased) profit for the year by $ 128,000 (2008: $21,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

**21. Financial risk management (cont'd)**

(b) Market risk (cont'd):

(ii) Foreign currency risk:

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

The company incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Jamaican dollar. Such exposures comprise the monetary assets and liabilities of the company that are not denominated in that currency. The main foreign currency risks of the company are denominated in United States dollars (US$), which is the principal intervening currency for the company and its Jamaican subsidiaries.

The company and its subsidiaries jointly manage foreign exchange exposure by maintaining adequate liquid resources in appropriate currencies and by managing the timing of payments on foreign currency liabilities.

The table below shows the company's main foreign currency exposure at the balance sheet date.

| | Net foreign currency monetary assets | |
|---|---|---|
| | 2009 | 2008 |
| | US$ | US$ |
| Cash and cash equivalents | 29 | 31 |
| Due to fellow subsidiary | ( 2) | ( 2) |
| Investments | 112 | 140 |
| Net exposure | 139 | 169 |

Exchange rates, in terms of Jamaica dollars, were as follows:

| | US$ |
|---|---|
| November 25, 2009 | 89.48 |
| September 30, 2009 | 88.65 |
| September 30, 2008 | 72.28 |

*Sensitivity analysis*

A 10% (2008: 5%) strengthening/weakening of the US$ against the Jamaica dollar would have increased/(decreased) profit for the year by $1,237,000 (2008: $609,000). This analysis assumes that all other variables, in particular interest rates, remain constant.

## 21. Financial risk management (cont'd)

(b) Market risk (cont'd):

(iii) Equity price risk:

Equity price risk arises from available-for-sale equity securities held by the company as part of its investment portfolio and is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Management monitors equity securities in its investment portfolio based on market expectations. The primary goal of the company's investment strategy is to maximise investment returns.

A 10% (2008: 5%) increase or decrease in the bid price at the balance sheet date would have an increase and an equal decrease respectively in equity of $342 million (2008: $273 million).

(c) Liquidity risk:

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liability when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Management aims at maintaining flexibility in funding by keeping lines of funding available with relevant suppliers and bankers, sourcing the appropriate currency through open market purchase to match foreign currency liabilities and by pursuing prompt payment policies.

The following are the contractual maturities of financial liabilities:

| | Carrying Amount $'000 | Contractual cash flows $'000 | Less than 1 year $'000 |
|---|---|---|---|
| September 30, 2009 | | | |
| Accounts payable | 2,904 | 2,904 | 2,904 |
| Due to subsidiaries | 26,645 | 26,645 | 26,645 |
| | 29,549 | 29,549 | 29,549 |
| September 30, 2008 | | | |
| Accounts payable | 1,257 | 1,257 | 1,257 |
| Due to subsidiaries | 11,038 | 11,038 | 11,038 |
| | 12,295 | 12,295 | 12,295 |

**21. Financial risk management (cont'd)**

(d) Capital management:

The Board of Directors monitors the return on capital, which is defined as total shareholders' equity. The board's policy is to maintain a strong capital base so as to maintain shareholder and market confidence and sustain the future development of the business. The Board of Directors' objective is to pursue growth and maintain profitable operations. There were no changes in the company's approach to capital management during the year.