

**Seprod Limited**

**Financial Statements  
31 December 2009**

# Seprod Limited

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31 December 2009

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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 2009 and the consolidated and company statements of comprehensive income, 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.

**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 2009 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.

*PriceWaterhouse Coopers*

Chartered Accountants

1 March 2010  
Kingston, Jamaica

# Seprod Limited

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>Revenue</b>		9,495,060	9,257,660
Direct expenses		(6,744,696)	(7,158,157)
<b>Gross Profit</b>		2,750,364	2,099,503
Finance and other operating income	6	756,239	520,064
Selling expenses		(241,335)	(243,547)
Administration expenses		(1,019,715)	(874,836)
Other operating expenses		(34,771)	(36,926)
<b>Operating Profit</b>		2,210,782	1,464,258
Finance costs	9	(24,881)	(28,796)
<b>Profit before Taxation</b>		2,185,901	1,435,462
Taxation	10	(699,964)	(497,259)
<b>Net Profit</b>		1,485,937	938,203
<b>Other Comprehensive Income:</b>			
Unrealised fair value losses on available-for-sale investments		(44,024)	(86,206)
Realised fair value losses on available-for-sale investments		4,707	185
		(39,317)	(86,021)
<b>TOTAL COMPREHENSIVE INCOME</b>		1,446,620	852,182
<b>Net Profit is Attributable to:</b>			
Stockholders of the company	11	1,478,406	938,203
Non-controlling interest		7,531	-
		1,485,937	938,203
<b>Total Comprehensive Income is Attributable to:</b>			
Stockholders of the company		1,439,089	852,182
Non-controlling interest		7,531	-
		1,446,620	852,182
<b>Earnings per Stock Unit Attributable to Stockholders of the Company</b>	12	\$2.86	\$1.82

# Seprod Limited

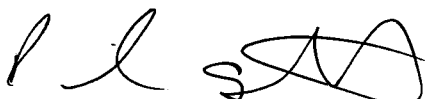
## Consolidated Balance Sheet

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

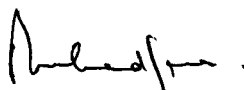
	Note	2009 \$'000	2008 \$'000
<b>Non-current Assets</b>			
Fixed assets	14	2,580,809	2,128,771
Intangible assets	15	44,679	52,019
Available-for-sale investments	16	1,243,086	684,840
Long term receivables	17	828,708	1,116,357
Retirement benefit asset	18	21,300	15,900
Biological assets	19	149,933	129,565
Deferred tax assets	27	370	606
		<u>4,868,885</u>	<u>4,128,058</u>
<b>Current Assets</b>			
Inventories	20	1,427,412	1,333,459
Biological assets	19	213,270	-
Receivables	21	1,021,887	981,999
Available-for-sale investments	16	997,781	403,599
Current portion of long term receivables	17	414,603	264,185
Taxation recoverable		16,990	16,351
Cash and bank balances	22	275,402	380,186
		<u>4,367,345</u>	<u>3,379,779</u>
<b>Current Liabilities</b>			
Payables	23	681,568	515,926
Current portion of long term liabilities	26	165,135	106,231
Taxation payable		309,458	249,333
		<u>1,156,161</u>	<u>871,490</u>
<b>Net Current Assets</b>			
		<u>3,211,184</u>	<u>2,508,289</u>
		<u>8,080,069</u>	<u>6,636,347</u>
<b>Equity Attributable to Stockholders of the Company</b>			
Share capital	24	561,287	561,287
Capital reserve	25	720,575	764,021
Retained earnings		5,696,919	4,550,042
		<u>6,978,781</u>	<u>5,875,350</u>
<b>Non-controlling Interest</b>			
		7,571	-
		<u>6,986,352</u>	<u>5,875,350</u>
<b>Non-current Liabilities</b>			
Long term liabilities	26	633,255	366,302
Deferred tax liabilities	27	394,262	335,295
Retirement benefit obligations	18	66,200	59,400
		<u>1,093,717</u>	<u>760,997</u>
		<u>8,080,069</u>	<u>6,636,347</u>

Approved for issue by the Board of Directors on 1 March 2010 and signed on its behalf by:



Paul B Scott

Director



Richard Jones

Director

# Seprod Limited

## Consolidated Statement of Changes in Equity

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Equity Attributable to Stockholders of the Company					Non-controlling Interest	Total Equity
	Number of Shares	Share Capital	Capital Reserve	Retained Earnings	Total		
	'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 2008	516,398	561,287	849,264	3,844,996	5,255,547	-	5,255,547
Total comprehensive income	-	-	(86,201)	938,203	852,182	-	852,182
Transfer to capital reserve – gain on sale of investments	-	-	778	(778)	-	-	-
Dividends paid (Note 13)	-	-	-	(232,379)	(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>	<b>-</b>	<b>5,875,350</b>
Non-controlling interest on incorporation of subsidiary	-	-	-	-	-	40	40
Total comprehensive income	-	-	(39,317)	1,478,406	1,439,089	7,531	1,446,620
Transfer from capital reserve – loss on sale of investments	-	-	(4,129)	4,129	-	-	-
Dividends paid (Note 13)	-	-	-	(335,658)	(335,658)	-	(335,658)
<b>Balance at 31 December 2009</b>	<b>516,398</b>	<b>561,287</b>	<b>720,575</b>	<b>5,696,919</b>	<b>6,978,781</b>	<b>7,571</b>	<b>6,986,352</b>

# Seprod Limited

## Consolidated Statement of Cash Flows

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>CASH RESOURCES WERE PROVIDED BY/(USED IN):</b>			
<b>Operating Activities</b>			
Cash provided by operating activities	28	969,260	321,110
<b>Investing Activities</b>			
Purchase of fixed assets		(602,584)	(438,740)
Proceeds on disposal of fixed assets		3,119	1,210
Purchase of available-for-sale investments		(1,270,341)	(528,818)
Proceeds from disposal of available-for-sale investments		254,596	280,783
Long term receivable		238,109	280,461
Cash paid on business combination		(61,355)	-
Interest received		401,675	269,741
Dividends received		2,379	-
Cash used in investing activities		(1,034,402)	(135,363)
<b>Financing Activities</b>			
Long term loans received		438,177	55,008
Long term loans repaid		(117,280)	(89,187)
Dividends paid		(335,658)	(232,379)
Interest paid		(24,881)	(28,796)
Cash used in financing activities		(39,642)	(295,354)
Decrease in cash and cash equivalents		(104,784)	(109,607)
Cash and cash equivalents at beginning of year		380,186	489,793
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	22	275,402	380,186



# Seprod Limited

## Statement of Comprehensive Income

**Year ended 31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

	<b>Note</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
<b>Revenue</b>		329,486	351,374
Direct expenses – purchases from subsidiaries for export		(329,486)	(351,374)
<b>Gross Profit</b>		-	-
Group costs recovered from subsidiaries		433,269	400,099
Finance and other operating income	6	1,590,748	520,506
Administration expenses		(460,144)	(423,028)
<b>Operating Profit</b>		1,563,873	497,577
Finance costs	9	(17,129)	(21,081)
<b>Profit before Taxation</b>		1,546,744	476,496
Taxation	10	(198,384)	(155,880)
<b>Net Profit</b>	11	1,348,360	320,616
<b>Other Comprehensive Income:</b>			
Unrealised fair value losses on available-for-sale investments		(44,024)	(86,206)
Realised fair value losses on available-for-sale investments		4,707	185
		(39,317)	(86,021)
<b>TOTAL COMPREHENSIVE INCOME</b>		1,309,043	234,595

# Seprod Limited


## Balance Sheet

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

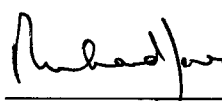
	Note	2009 \$'000	2008 \$'000
<b>Non-current Assets</b>			
Fixed assets	14	210,054	139,486
Available-for-sale investments	16	1,243,086	684,840
Investment in subsidiaries		971,930	873,945
Long term receivables	17	828,708	1,116,357
Retirement benefit asset	18	21,300	15,900
		<u>3,275,078</u>	<u>2,830,528</u>
<b>Current Assets</b>			
Receivables	21	89,191	193,886
Available-for-sale investments	16	997,781	403,599
Current portion of long term receivables	17	414,603	264,185
Cash and bank balances	22	79,240	229,281
		<u>1,580,815</u>	<u>1,090,951</u>
<b>Current Liabilities</b>			
Payables	23	153,809	156,544
Due to subsidiaries		407,358	509,437
Current portion of long term liabilities	26	25,833	25,833
Taxation payable		95,600	31,099
		<u>682,600</u>	<u>722,913</u>
<b>Net Current Assets</b>		<u>898,215</u>	<u>368,038</u>
		<u>4,173,293</u>	<u>3,198,566</u>
<b>Equity</b>			
Share capital	24	561,287	561,287
Capital reserve	25	139,086	182,532
Retained earnings		2,998,487	1,981,656
		<u>3,698,860</u>	<u>2,725,475</u>
<b>Non-current Liabilities</b>			
Long term liabilities	26	304,583	330,417
Deferred tax liabilities	27	103,650	83,274
Retirement benefit obligations	18	66,200	59,400
		<u>474,433</u>	<u>473,091</u>
		<u>4,173,293</u>	<u>3,198,566</u>

Approved for issue by the Board of Directors on 1 March 2010 and signed on its behalf by:



Paul B Scott

Director



Richard Jones

Director

# Seprod Limited

## Statement of Changes in Equity

**Year ended 31 December 2009**

(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 2008	516,398	561,287	267,775	1,894,197	2,723,259
Total comprehensive income	-	-	(86,021)	320,616	234,595
Transfer to 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>182,532</b>	<b>1,981,656</b>	<b>2,725,475</b>
Total comprehensive income	-	-	(39,317)	1,348,360	1,309,043
Transfer from capital reserve – loss on sale of investments	-	-	(4,129)	4,129	-
Dividends paid (Note 13)	-	-	-	(335,658)	(335,658)
<b>Balance at 31 December 2009</b>	<b>516,398</b>	<b>561,287</b>	<b>139,086</b>	<b>2,998,487</b>	<b>3,698,860</b>

# Seprod Limited

## Statement of Cash Flows

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>CASH RESOURCES WERE PROVIDED BY/(USED IN):</b>			
<b>Operating Activities</b>			
Cash used in operating activities	28	(62,062)	(126,828)
<b>Investing Activities</b>			
Purchase of fixed assets		(92,133)	(40,287)
Proceeds on disposal of fixed assets		62	150
Purchase of available-for-sale investments		(1,270,341)	(528,818)
Proceeds from disposal of available-for-sale investments		254,596	280,783
Cash outflow on incorporation of subsidiary		(97,985)	-
Long term receivable		238,109	280,461
Interest received		400,258	268,797
Dividends received		858,076	-
Cash provided by investing activities		290,642	261,086
<b>Financing Activities</b>			
Long term loans repaid		(25,834)	(25,833)
Dividends paid		(335,658)	(232,379)
Interest paid		(17,129)	(21,081)
Cash used in financing activities		(378,621)	(279,293)
Decrease in cash and cash equivalents		(150,041)	(145,035)
Cash and cash equivalents at beginning of year		229,281	374,316
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	22	79,240	229,281

# Seprod Limited

## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 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
Golden Grove Sugar Company Limited	Sugar production
Jamaica Edible Oils and Fats Company Limited	Dormant
Jamaica Detergents Limited	Dormant
Jamaica Feeds Limited	Dormant

All subsidiaries are wholly owned, with the exception of Golden Grove Sugar Company Limited which is owned 55% by the company and 45% by Fred M Jones Estate. Golden Grove Sugar Company Limited was incorporated during the year (Note 29).

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 1 January 2009 that are relevant to the Group's operations***

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

- **IAS 1 (Revised) 'Presentation of Financial Statements'**. The main objective in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. IAS 1 will affect the presentation of owner changes in equity and of comprehensive income. It will not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. IAS 1 will require an entity to present, in a statement of changes in shareholders' equity, all owner changes in shareholders' equity. All non-owner changes in shareholders' 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 are not permitted to be presented in the statement of changes in shareholders' equity. In applying this revision, the Group has presented all owner changes in equity in the statement of changes in equity, and all non-owner changes in equity in one performance statement (the statement of comprehensive income). Comparative information has been re-presented to conform with the revised standard.
- **IAS 36 (Amendment), 'Impairment of assets'**. 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 has applied the IAS 28 (Amendment) and provided the required disclosure where applicable for impairment tests from 1 January 2009.
- **IAS 38 (Amendment), 'Intangible Assets'**. The amendment 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. The amendment does not have any impact on the current year's financial statements.

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

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

***Standards, interpretations and amendments to published standards effective 1 January 2009 that are relevant to the Group's operations (continued)***

- **IAS 41 (Amendment), 'Agriculture'**. 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.
- **IFRS 7 (Amendment), Financial instruments** – disclosures (effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.
- **IFRS 8, Operating Segments**. 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. The standard does not have an effect on the Group's disclosure of segment information.

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

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been issued which were not yet effective at balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations.

- **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.
- **IAS 19 (Amendment), 'Employee benefits'** (effective from 1 July 2009). This amendment clarifies that a plan amendment that result in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service give rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets amended to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. There is also the deletion of guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. The Group will apply this amendment from 1 January 2010.

# Seprod Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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## 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)***

- **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.
- **IFRS 9, Financial instruments part 1: Classification and measurement** (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.



# Seprod Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (b) Basis of consolidation

#### ***Subsidiaries***

Subsidiaries are those entities in which the Group has power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus cost directly attributable to the acquisition. The excess of the cost is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

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

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.

### (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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (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 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 assets of similar age, breed and genetic merit.

# Seprod Limited

## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 3. Financial Risk Management

The disclosures provided in this note are based on the Group's investment portfolio as at 31 December 2009. As described in Note 33, the Group participated in the Jamaica Debt Exchange (JDX) which resulted in significant changes to the Group's investment portfolio in February 2010.

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 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 2009

(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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Available-for-sale investments	2,240,867	1,088,439	2,240,867	1,088,439
Long term receivables	1,243,311	1,380,542	1,243,311	1,380,542
Trade receivables	805,482	708,183	323	59,927
Cash and bank balances	275,402	380,186	79,240	229,281
	<u>4,565,062</u>	<u>3,557,350</u>	<u>3,563,741</u>	<u>2,758,189</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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
30 – 60 days	82,314	372,397	-	31,458
60 – 90 days	9,437	69,494	-	5,500
greater than 90 days	397,936	114,907	-	7,260
	<u>489,687</u>	<u>556,798</u>	<u>-</u>	<u>44,218</u>

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

Trade receivables of \$87,487,000 (2008 - \$77,878,000) for the Group and \$11,132,000 (2008 - \$Nil) for the company 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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
30 – 60 days	-	-	-	-
60 – 90 days	-	-	-	-
greater than 90 days	87,487	77,878	11,132	-
	<u>87,487</u>	<u>77,878</u>	<u>11,132</u>	<u>-</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At start of year	77,878	65,721	-	-
Provided during the year	4,582	31,010	11,132	-
Written off during the year	(5,121)	(768)	-	-
Unused amounts reversed	(10,148)	(18,085)	-	-
At end of year	<u>87,487</u>	<u>77,878</u>	<u>11,132</u>	<u>-</u>

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:

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Supermarket chains	40,440	24,155	-	-
Wholesalers	723,376	475,397	-	-
Retailers	92,592	127,947	-	-
Manufacturers	15,501	11,445	-	-
Other	21,060	147,117	11,455	59,927
	<u>892,969</u>	<u>786,061</u>	<u>11,455</u>	<u>59,927</u>
Less: Provision for impairment	(87,487)	(77,878)	(11,132)	-
	<u>805,482</u>	<u>708,183</u>	<u>323</u>	<u>59,927</u>

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

# Seprod Limited

Notes to the Financial Statements

31 December 2009

(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 2009

(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					
		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
		2009					
Long term liabilities		1,716	14,050	165,578	316,651	319,905	817,900
Trade payables		402,927	-	-	-	-	402,927
		404,643	14,050	165,578	316,651	319,905	1,220,827
		2008					
Long term liabilities		2,729	43,991	70,388	145,495	240,000	502,603
Trade payables		185,473	-	-	-	-	185,473
		188,202	43,991	70,388	145,495	240,000	688,076
		The Company					
		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
		2009					
Long term liabilities		-	8,910	25,799	74,342	240,000	349,051
		2008					
Long term liabilities		1,086	9,459	26,773	108,236	240,000	385,554

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 2009

(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% (2008 - 4%) 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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Effect on net profit	97,523	86,985	110,991	89,318
Effect on equity	97,523	86,985	110,991	89,318

# Seprod Limited

Notes to the Financial Statements

31 December 2009

(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
	<b>2009</b>			
<b>Financial Assets</b>				
Available-for-sale investments	847,308	1,056,049	337,510	2,240,867
Long term receivables	-	1,243,311	-	1,243,311
Trade receivables	742,673	62,809	-	805,482
Cash and bank	148,940	126,462	-	275,402
	1,738,921	2,488,631	337,510	4,565,062
<b>Financial Liabilities</b>				
Long term liabilities	410,321	388,069	-	798,390
Trade payables	402,927	-	-	402,927
	813,248	388,069	-	1,201,317
<b>Net financial position</b>	925,673	2,100,562	337,510	3,363,745
	<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	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	2,977,222

# Seprod Limited

Notes to the Financial Statements

31 December 2009

(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>2009</b>			
<b>Financial Assets</b>				
Available-for-sale investments	847,308	1,056,049	337,510	2,240,867
Long term receivables	-	1,243,311	-	1,243,311
Trade receivables	-	323	-	323
Cash and bank	(47,222)	126,462	-	79,240
	800,086	2,426,145	337,510	3,563,741
<b>Financial Liabilities</b>				
Long term liabilities	330,416	-	-	330,416
	330,416	-	-	330,416
<b>Net financial position</b>	469,670	2,437,277	337,510	3,244,457
	<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

# Seprod Limited

Notes to the Financial Statements

31 December 2009

(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 8% (2008 - 4%), with all other variables held constant, on the net profit and equity.

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Effect on net profit	23,584	4,756	23,584	4,756
Effect on equity	7,968	3,024	7,968	3,024



# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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>2009</b>							
<b>Financial assets</b>							
Available-for-sale investments	676,076	-	321,705	876,325	309,650	57,111	2,240,867
Long term receivables	-	34,138	380,465	828,708	-	-	1,243,311
Trade receivables	805,482	-	-	-	-	-	805,482
Cash and bank	275,402	-	-	-	-	-	275,402
	1,756,960	34,138	702,170	1,705,033	309,650	57,111	4,565,062
<b>Financial liabilities</b>							
Long term liabilities	1,658	11,430	158,733	306,664	-	319,905	798,390
Trade payables	402,927	-	-	-	-	-	402,927
	404,585	11,430	158,733	306,664	-	319,905	1,201,317
<b>Total interest repricing gap</b>	1,352,375	22,708	543,437	1,398,369	309,650	(262,794)	3,363,745
<b>2008</b>							
<b>Financial assets</b>							
Available-for-sale investments	55,531	156,897	230,000	552,112	69,252	24,647	1,088,439
Long term receivables	22,015	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	69,252	24,647	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	69,252	(215,353)	2,979,111

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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	
	2009						
Financial assets							
Available-for-sale investments	676,076	-	321,705	876,325	309,650	57,111	2,240,867
Long term receivables	-	34,138	380,465	828,708	-	-	1,243,311
Trade receivables	323	-	-	-	-	-	323
Cash and bank	79,240	-	-	-	-	-	79,240
	755,639	34,138	702,170	1,705,033	309,650	57,111	3,563,741
Financial liabilities							
Long term liabilities	-	6,458	19,375	64,583	-	240,000	330,416
	-	6,458	19,375	64,583	-	240,000	330,416
Total interest repricing gap	766,771	40,596	682,795	1,640,450	309,650	(182,889)	3,244,457
	2008						
Financial assets							
Available-for-sale investments	55,531	156,897	230,000	552,112	69,252	24,647	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	69,252	24,647	2,578,189
Financial liabilities							
Long term liabilities	-	6,458	19,375	90,417	-	240,000	356,250
	-	6,458	19,375	90,417	-	240,000	356,250
Total interest repricing gap	366,754	194,470	408,764	1,578,052	69,252	(215,353)	2,401,939

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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:

	2009 \$'000	2008 \$'000
Total long term liabilities	798,390	472,533
Less: related party loans	(319,905)	(240,000)
Debt	<u>478,485</u>	<u>232,533</u>
Equity	6,978,781	5,875,350
Total capital	<u>7,457,266</u>	<u>6,107,883</u>
Gearing ratio	<u>6.42%</u>	<u>3.81%</u>

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

#### (e) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table provides an analysis of financial instruments held as at 31 December 2009 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs)

There were no transfers between levels during the year.

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (e) Fair value estimation (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Available-for-sale investments –				
Quoted equities	57,311	-	-	57,311
Corporate bonds	-	-	104,411	104,411
Amounts held in US\$ mutual funds	-	112,237	-	112,237
Issued by the Government of Jamaica	-	1,966,908	-	1,966,908
	57,311	2,079,145	104,411	2,240,867

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The following methods and assumptions have been used in determining fair values for instruments not carried at their fair value:

- (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 \$1,330,823,000 (2008 - \$1,399,107,000). This was derived by discounting the contractual cash flows using the market rate of interest. The carrying value of these receivables is \$1,243,311,000 (2008 - \$1,380,542,000).
- (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 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 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.

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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.

	2009			
	Manufacturing	Distribution	Eliminations	Group
	\$'000	\$'000	\$'000	\$'000
External revenue	5,469,182	4,025,878	-	9,495,060
Inter-segment revenue	2,859,030	-	(2,859,030)	-
<b>Total revenue</b>	<b>8,328,212</b>	<b>4,025,878</b>	<b>(2,859,030)</b>	<b>9,495,060</b>
Segment result	1,302,952	199,654	-	1,502,606
Unallocated corporate income				708,176
<b>Operating profit</b>				<b>2,210,782</b>
Segment assets	4,613,828	738,489	-	5,352,317
Unallocated corporate assets				3,883,913
<b>Total consolidated assets</b>				<b>9,236,230</b>
Segment liabilities	1,432,480	65,331	-	1,497,811
Unallocated corporate liabilities				752,067
<b>Total consolidated liabilities</b>				<b>2,249,878</b>
Other segment items –				
Capital expenditure	503,185	7,266	-	510,451
Unallocated capital expenditure				92,133
<b>Total capital expenditure</b>				<b>602,584</b>
Depreciation	185,373	1,906	-	187,279
Unallocated depreciation				21,565
<b>Total depreciation</b>				<b>208,844</b>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Business Segments (Continued)

	2008			
	Manufacturing	Distribution	Eliminations	Group
	\$'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>438,741</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 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 6. Finance and Other Operating Income

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Interest income	432,391	263,746	430,974	262,802
Dividend income from subsidiaries	-	-	855,697	-
Other dividend income	2,379	-	2,379	-
Net foreign exchange gains	255,461	233,752	283,624	241,513
(Loss)/gain on sale of available-for-sale investments	(4,129)	778	(4,129)	778
Gain on disposal of fixed assets	62	350	62	150
Other	70,075	21,438	22,141	15,263
	<u>756,239</u>	<u>520,064</u>	<u>1,590,748</u>	<u>520,506</u>

### 7. Expenses by Nature

Total direct, selling, administration and other operating expenses:

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Advertising and promotion	51,944	42,065	13,508	3,799
Amortisation of intangible assets	7,340	7,341	-	-
Auditors' remuneration	14,136	11,815	4,091	3,404
Bad debt expense, net of recoveries	15,096	11,287	10,671	-
Cost of inventories recognised as an expense	5,278,266	5,810,611	329,486	351,374
Depreciation	208,844	175,994	21,565	19,410
Insurance	151,087	121,985	20,245	14,791
Professional services	52,090	44,193	36,850	30,473
Repairs and maintenance	261,089	224,123	15,471	27,263
Security	84,503	76,729	11,624	11,057
Staff costs (Note 8)	955,991	775,317	281,049	257,762
Utilities	378,712	423,235	13,808	16,691
Other	581,419	588,771	31,262	38,378
	<u>8,040,517</u>	<u>8,313,466</u>	<u>789,630</u>	<u>774,402</u>



# Seprod Limited

## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

### 8. Staff Costs

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	746,985	562,043	211,919	173,929
Statutory contributions	57,775	50,717	18,445	20,040
Pension (Note 18)	2,700	11,200	2,700	11,200
Other retirement benefits (Note 18)	11,800	9,400	11,800	9,400
Other	136,731	141,957	36,185	43,193
	<u>955,991</u>	<u>775,317</u>	<u>281,049</u>	<u>257,762</u>

### 9. Finance Costs

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Interest expense –				
Long term loans	21,579	27,737	16,255	20,034
Other	3,302	1,059	874	1,047
	<u>24,881</u>	<u>28,796</u>	<u>17,129</u>	<u>21,081</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current taxation	633,089	371,155	178,008	91,781
Adjustment to prior year provision	7,672	3,499	-	(3,333)
	640,761	374,654	178,008	88,448
Deferred taxation (Note 27)	59,203	122,605	20,376	67,432
	699,964	497,259	198,384	155,880

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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Profit before taxation	2,185,901	1,435,462	1,546,744	476,430
Tax calculated at a tax rate of 33⅓%	728,634	478,487	515,581	158,832
Adjusted for the effect of:				
Investment income not subject to tax	(28,391)	(6,574)	(313,624)	(6,574)
Additional depreciation charge on recognition of fixed assets of acquired subsidiaries at fair market value	2,629	2,629	-	-
Amortisation of intangible assets	2,447	1,882	-	-
Adjustment to prior year provision	7,672	3,499	-	(3,333)
Other allowances	(13,027)	(17,336)	(3,573)	(6,955)
	699,964	497,259	198,384	155,880

# Seprod Limited

## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

### 11. Net Profit Attributable to Stockholders of the Company

Dealt with as follows in the financial statements:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
The company	1,348,360	320,616
Dividend income from subsidiaries	(855,697)	-
	<u>492,663</u>	<u>320,616</u>
Subsidiaries	985,743	617,587
	<u>1,478,406</u>	<u>938,203</u>

### 12. Earnings per Stock Unit Attributable to Stockholders of the Company

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.

	<b>2009</b>	<b>2008</b>
Net profit attributable to stockholders (\$'000)	1,478,406	938,203
Weighted average number of ordinary stock units ('000)	516,398	516,398
Basic earnings per stock unit (\$)	<u>2.86</u>	<u>1.82</u>

The company has no dilutive potential ordinary shares.

### 13. Dividends

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Interim dividends – 65 cents (2008 – 45 cents) per stock unit	<u>335,658</u>	<u>232,379</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 14. Fixed Assets

	The Group					
	Freehold Land & Site Improvements	Buildings	Plant, Equipment & Furniture	Motor Vehicles	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	<b>2009</b>					
Cost -						
At 1 January 2009	295,071	925,860	2,217,775	37,212	158,667	3,634,585
On business combination	13,000	48,355	-	-	-	61,355
Additions	-	-	149,408	106,153	346,896	602,584
Disposals	-	-	(13,537)	(7,720)	-	(21,257)
Transfers	3,118	61,702	221,671	29,373	(315,864)	-
At 31 December 2009	311,189	1,036,044	2,575,317	165,018	189,699	4,277,267
Accumulated Depreciation -						
At 1 January 2009	-	469,932	1,016,644	19,238	-	1,505,814
Charge for the year	-	20,353	177,595	10,896	-	208,844
On disposals	-	-	(10,913)	(7,287)	-	(18,200)
At 31 December 2009	-	490,285	1,183,326	22,847	-	1,696,458
Net Book Value -						
At 31 December 2009	311,189	545,759	1,391,991	142,171	189,699	2,580,809
	<b>2008</b>					
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	-	-	(29,445)	(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	8,768	-	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

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(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
	2009					
Cost -						
At 1 January 2009	20,218	295,575	157,630	16,169	25,861	515,453
Additions	-	-	1,221	1,302	89,609	92,133
Disposals	-	-	-	(582)	-	(582)
Transfers	3,100	36,982	11,030	2,735	(53,866)	-
At 31 December 2009	23,336	332,557	169,882	19,624	61,605	607,004
Accumulated Depreciation -						
At 1 January 2009	-	223,809	137,173	14,985	-	375,967
Charge for the year	-	5,360	13,097	3,109	-	21,565
Relieved on disposals	-	-	-	(582)	-	(582)
At 31 December 2009	-	229,169	150,270	17,512	-	396,950
Net Book Value -						
At 31 December 2009	23,336	103,388	19,612	2,113	61,605	210,054
	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

# Seprod Limited

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### 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:

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Fair value of brands acquired	73,407	73,407
Less: Accumulated amortisation	(28,728)	(21,388)
	<u>44,679</u>	<u>52,019</u>

### 16. Available-for-sale Investments

	<b>The Group &amp; The Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Quoted equities	57,311	24,647
Corporate bonds	104,411	150,000
Amounts held in US\$ mutual funds	112,237	146,139
Government of Jamaica securities	1,966,908	767,653
	<u>2,240,867</u>	<u>1,088,439</u>
Less: securities maturing within 12 months	(997,781)	(172,637)
	<u>1,243,086</u>	<u>684,840</u>

Government of Jamaica securities and corporate bonds include interest receivable of \$47,418,000 (2008 – \$16,702,000). The weighted average effective interest rate on these securities was 13% (2008 – 14%).

The weighted average yield on amounts held in US\$ mutual funds was 7% (2008 – 8%).

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

	<b>The Group &amp; The Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at start of year	1,088,439	913,908
Additions	1,301,057	528,818
Disposals	(258,725)	(286,000)
Net fair value losses transferred to equity	(39,317)	(86,021)
Effect of changes in foreign exchange rates	149,413	17,734
Balance at end of year	<u>2,240,867</u>	<u>1,088,439</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 17. Long Term Receivables

	The Group & The Company	
	2009	2008
	\$'000	\$'000
(a) Musson Jamaica Limited	882,141	981,620
(b) Wight Properties Limited	361,170	398,922
	1,243,311	1,380,542
Less: Current portion	(414,603)	(264,185)
	<u>828,708</u>	<u>1,116,357</u>

- (a) 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, US\$15,239,250 of which was financed by a long term receivable. 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.

At 31 December 2009, the receivable balance of US\$9,906,000 was restructured and will be repaid in equal monthly installments for 3 years from that date at an interest rate of 12%, with the balance receivable in full at the end of the third year.

- (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, US\$6,000,000 of which was financed by a long term receivable. 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.

### 18. Retirement Benefits

Following the JDX (Note 33), there has been a significant reduction in interest rates and a downward shift in the Jamaica sovereign debt yield curve. This shift will result in a significant reduction in the discount rate used to measure the Group's obligations under its defined benefit pension and other retirement benefit plans. Accordingly, the Group's obligations under these plans are likely to increase significantly. The Group, in conjunction with its actuaries, is in the process of determining the impact on both the accounting measurement and funding of these plans.

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Retirement Benefits (Continued)

	<b>The Group &amp; The Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Assets/(liabilities) recognised in the balance sheet –		
Pension scheme	21,300	15,900
Medical benefits	(66,200)	(59,400)
Amounts recognised in the profit and loss account –		
Pension scheme	(2,700)	(11,200)
Medical benefits	(11,800)	(9,400)

#### **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:

	<b>The Group &amp; The Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Fair value of plan assets	643,200	645,000
Present value of obligations	(535,400)	(526,000)
	107,800	119,000
Unrecognised actuarial gains	(87,800)	(104,900)
Unrecognised past service cost	1,300	1,800
	21,300	15,900

The distribution of plan assets was as follows:

	<b>2009</b>		<b>2008</b>	
	<b>\$'000</b>	<b>%</b>	<b>\$'000</b>	<b>%</b>
Quoted equities	117,284	18	180,449	28
Real estate	195,338	30	149,168	23
Government of Jamaica securities	237,504	37	157,905	24
Repurchase agreements	15,128	3	101,426	16
Leases	44,604	7	20,840	3
Other	33,342	5	35,212	6
	643,200	100	645,000	100



# Seprod Limited

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**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Retirement Benefits (Continued)

#### *Pension scheme (continued)*

Plan assets include the company's ordinary stock units with a fair value of \$25,277,000 (2008 - \$31,288,000).

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>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	645,000	591,500
Expected return on plan assets	74,900	63,600
Employer contributions	2,700	3,000
Employee contributions	4,200	4,700
Benefits paid	(47,900)	(34,200)
Actuarial gains on plan assets	(35,700)	16,400
At end of year	<u>643,200</u>	<u>645,000</u>

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

	<b>The Group &amp; The Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	(526,000)	(443,300)
Current service cost	(17,300)	(16,300)
Interest cost	(66,900)	(56,800)
Past service cost -		
Non-vested benefits	-	(400)
Vested benefits	-	(17,200)
Employee contributions	4,200	4,700
Benefits paid	47,900	34,200
Actuarial gains/(losses) on obligations	<u>22,700</u>	<u>(30,900)</u>
At end of year	<u>(535,400)</u>	<u>(526,000)</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Retirement Benefits (Continued)

#### *Pension scheme (continued)*

The amounts recognised in the statement of comprehensive income were as follows:

	<b>The Group &amp; The Company</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost, net of employee contributions	(8,900)	(6,900)
Interest cost	(66,900)	(56,800)
Past service cost -		
Non-vested benefits	(500)	(600)
Vested benefits	-	17,200
Expected return on plan assets	74,900	63,600
Net actuarial gains recognised during the year	4,100	6,700
Total included in staff costs (Note 8)	<u>(2,700)</u>	<u>(11,200)</u>

The actual return on plan assets was \$39,200,000 (2008 – \$80,000,000).

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:

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Fair value of plan assets	643,200	645,000	591,500	525,400	545,200
Defined benefit obligation	(535,400)	(526,000)	(443,300)	(438,500)	(322,100)
Surplus	<u>107,800</u>	<u>119,000</u>	<u>148,200</u>	<u>86,900</u>	<u>223,100</u>
Experience adjustments –					
Fair value of plan assets	35,700	(16,400)	(40,900)	9,300	(85,500)
Defined benefit obligation	<u>(24,900)</u>	<u>5,500</u>	<u>(6,800)</u>	<u>22,600</u>	<u>59,400</u>

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

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### 18. 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>2009 \$'000</b>	<b>2008 \$'000</b>
Present value of obligations	(103,300)	(78,500)
Unrecognised actuarial losses	37,100	19,100
	<u>(66,200)</u>	<u>(59,400)</u>

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

	<b>The Group &amp; The Company</b>	
	<b>2009 \$'000</b>	<b>2008 \$'000</b>
At beginning of year	(78,500)	(67,300)
Current service cost	(700)	(600)
Interest cost	(10,000)	(8,200)
Benefits paid	5,000	4,600
Actuarial losses	(19,100)	(7,000)
At end of year	<u>(103,300)</u>	<u>(78,500)</u>

The amounts recognised in the statement of comprehensive income were as follows:

	<b>The Group &amp; The Company</b>	
	<b>2009 \$'000</b>	<b>2008 \$'000</b>
Current service cost	(700)	(600)
Interest cost	(10,000)	(8,200)
Net actuarial losses recognised during the year	(1,100)	(600)
Total included in staff costs (Note 8)	<u>(11,800)</u>	<u>(9,400)</u>

A 1% increase/(decrease) in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of \$1,300,000/(\$1,100,000), and an increase/(decrease) in the defined benefit obligation of \$10,600,000/(\$9,900,000).

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

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### 18. Retirement Benefits (Continued)

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

	2009	2008	2007	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000
Defined benefit obligation	(103,300)	(78,500)	(67,300)	(64,400)	(67,500)
Experience adjustments	18,000	3,200	2,400	(12,200)	(5,000)

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

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

	2009	2008
Discount rate	19%	13.0%
Expected return on plan assets	18%	12.0%
Future salary increases	14%	9.0%
Future pension increases	12%	6.0%
Long term increase in health costs	18%	12.0%
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

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**31 December 2009**

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### 19. Biological Assets

#### *Non-current – livestock*

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Dairy Livestock –		
2,130 (2008 – 1,955) Cows able to produce milk	80,395	72,288
2,237 (2008 – 1,951) Heifers being raised to produce milk in the future	67,470	53,716
Other Livestock –		
56 (2008 – 297) Bulls raised for sale and reproduction	2,068	3,562
	<u>149,933</u>	<u>129,565</u>

5,701,111 (2008 – 5,411,239) litres of milk with a “fair value less estimated point-of-sale costs” of \$284,871,000 (2008 – \$221,943,000) were produced during the period.

The movement in livestock during the year was as follows:

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at start of year	129,565	95,630
Purchases	1,730	7,619
Sales	(26,915)	(14,499)
Changes in fair value less estimated point-of-sale costs	45,553	40,815
Balance at end of year	<u>149,933</u>	<u>129,565</u>

#### *Current – sugar cane*

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Sugar cane –		
77,488 tonnes at \$2,752.30 per tonne	213,270	-

The movement in sugar cane during the year was as follows:

	<b>The Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Cultivation expenses	113,443	-
Changes in fair value less estimated point-of-sale costs	99,827	-
Balance at end of year	<u>213,270</u>	<u>-</u>

# Seprod Limited

## Notes to the Financial Statements

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### 20. Inventories

	The Group	
	2009	2008
	\$'000	\$'000
Raw and packaging materials	704,982	936,248
Work in progress	19,914	19,246
Finished goods	702,516	377,965
	<u>1,427,412</u>	<u>1,333,459</u>

### 21. Receivables

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade receivables	892,969	786,061	11,455	59,927
Less: Provision for impairment	(87,487)	(77,878)	(11,132)	-
	<u>805,482</u>	<u>708,183</u>	<u>323</u>	<u>59,927</u>
Other advances and prepayments	73,206	128,871	12,672	82,097
Other	143,199	144,945	76,196	51,862
	<u>1,021,887</u>	<u>981,999</u>	<u>89,191</u>	<u>193,886</u>

### 22. Cash and Cash Equivalents

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

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	<u>275,402</u>	<u>380,186</u>	<u>79,240</u>	<u>229,281</u>

### 23. Payables

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade payables	402,927	185,473	-	-
Accruals	243,103	219,314	59,410	107,993
Other	35,538	111,139	94,399	48,551
	<u>681,568</u>	<u>515,926</u>	<u>153,809</u>	<u>156,544</u>

# Seprod Limited

## Notes to the Financial Statements

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### 24. Share Capital

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Authorised -		
530,000,000 Ordinary shares		
Issued and fully paid -		
516,398,000 Ordinary stock units at no par value	<u>561,287</u>	<u>561,287</u>

### 25. Capital Reserve

This comprises:

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revaluation surplus on assets carried at deemed cost	346,551	346,551	105,340	105,340
Fair value losses on available-for-sale investments	(76,936)	(37,619)	(76,936)	(37,619)
Profits of subsidiaries capitalised	336,537	336,537	-	-
Redemption reserve	1,800	1,800	-	-
Realised gains on sale of investments	90,393	94,522	90,393	94,522
Other realised surplus	22,230	22,230	20,289	20,289
	<u>720,575</u>	<u>764,021</u>	<u>139,086</u>	<u>182,532</u>

### 26. Borrowings

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Long term loans	478,485	232,533	90,416	116,250
Less: Current portion	(165,135)	(106,231)	(25,833)	(25,833)
	<u>313,350</u>	<u>126,302</u>	<u>64,583</u>	<u>90,417</u>
Loans from related parties –				
Fred M Jones Estate	79,905	-	-	-
Facey Commodity Company Limited	240,000	240,000	240,000	240,000
	<u>319,905</u>	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>
	<u>633,255</u>	<u>366,302</u>	<u>304,583</u>	<u>330,417</u>

# Seprod Limited

## Notes to the Financial Statements

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### 26. Borrowings (Continued)

#### *Long term loans*

	The Group		The Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
(i) Development Bank of Jamaica Limited - 10.5%	-	1,820	-	-
(ii) Elopak Inc. - 8%	-	1,114	-	-
(iii) First Global Bank Limited - 11%	90,416	116,250	90,416	116,250
(iv) Kraft Foods (Jamaica) Limited - 8.5%	-	58,341	-	-
(v) Tetra Pak - LIBOR + 2%	29,837	55,008	-	-
(vi) Inter-American Investment Corp – LIBOR + 4.25%	358,232	-	-	-
	<u>478,485</u>	<u>232,533</u>	<u>90,416</u>	<u>116,250</u>

- (i) This loan was repayable by equal quarterly instalments and ended during the year. The loan was secured by a Deed of charge over Government of Jamaica Indexed Bond.
- (ii) This represented a US\$ financing agreement from a supplier for the purchase of raw materials and is repayable in 36 monthly installments commencing in October 2006.
- (iii) 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.
- (iv) This represented a US\$ loan from Kraft Foods (Jamaica) Limited which formed a part of the purchase consideration for the acquisition of operating assets. The loan was repaid in four semi-annual instalments commencing 28 February 2008.
- (v) 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.
- (vi) This loan is denominated in United States dollars and is repayable in 6 semi-annual instalments commencing 15 May 2010. The loan is secured by a promissory note.

#### ***Loans from related parties***

These loans are interest free and have no fixed terms of repayment.



# Seprod Limited

## Notes to the Financial Statements

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### 27. Deferred Taxation

Deferred income taxes are calculated in full on temporary differences under the liability method using a tax rate of 33⅓%.

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>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred tax assets	370	606	-	-
Deferred tax liabilities	(394,262)	(335,295)	(103,650)	(83,274)
	<u>(393,892)</u>	<u>(334,689)</u>	<u>(103,650)</u>	<u>(83,274)</u>

The movement in deferred taxation is as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at start of year	(334,689)	(212,084)	(83,274)	(15,842)
Charge to the statements of comprehensive income (Note 10)	(59,203)	(122,605)	(20,376)	(67,432)
Balance at end of year	<u>(393,892)</u>	<u>(334,689)</u>	<u>(103,650)</u>	<u>(83,274)</u>

# Seprod Limited

## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

### 27. Deferred Taxation (Continued)

The deferred tax charged to the statement of comprehensive income comprises the following temporary differences:

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Accelerated tax depreciation	(19,533)	(35,244)	8,676	(5,429)
Retirement benefits	467	4,333	467	4,333
Tax losses carried forward	(1,866)	(15,158)	-	-
Unrealised exchange gains	(16,682)	(70,932)	(16,682)	(70,932)
Other	(21,589)	(5,604)	(12,837)	4,596
	<u>(59,203)</u>	<u>(122,605)</u>	<u>(20,376)</u>	<u>(67,432)</u>

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Accelerated tax depreciation	(292,402)	(272,869)	(15,196)	(23,872)
Retirement benefits	14,967	14,500	14,967	14,500
Tax losses carried forward	15,282	17,148	-	-
Unrealised exchange gains	(87,614)	(70,932)	(87,614)	(70,932)
Other	(44,125)	(22,536)	(15,807)	(2,970)
	<u>(393,892)</u>	<u>(334,689)</u>	<u>(103,650)</u>	<u>(83,274)</u>

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred tax assets to be recovered within 12 months	15,282	15,158	-	-
Deferred tax liabilities to be settled within 12 months	<u>(44,125)</u>	<u>(22,536)</u>	<u>(15,807)</u>	<u>(2,970)</u>

Subject to agreement with the Taxpayer Audit and Assessment Department, losses available for offset against future profits of certain subsidiaries amount to \$126,887,000 (2008 – \$121,954,000).

Deferred tax assets of approximately \$27,014,000 (2008 – \$23,504,000) have not been recognised in respect of tax losses of certain subsidiaries. At 31 December 2009, tax losses carried forward for which no deferred tax assets have been recognised amounted to approximately \$81,042,000 (2008 – \$70,512,000).

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 28. Cash Generated from Operations

	The Group		The Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Net profit	1,485,937	938,203	1,348,360	320,616
Items not affecting cash resources:				
Amortisation of intangible assets	7,340	7,341	-	-
Depreciation	208,844	175,994	21,565	19,410
Unrealised foreign exchange gains	(245,291)	(216,443)	(250,291)	(221,443)
Loss/(gain) on sale of available-for-sale investments	4,129	(778)	4,129	(778)
Gain on sale of fixed assets	(62)	(350)	(62)	(150)
Interest income	(432,391)	(263,746)	(430,974)	(262,802)
Interest expense	24,881	28,796	17,129	21,081
Dividend income	(2,379)	-	(858,076)	-
Taxation	699,964	497,259	198,384	155,880
	1,750,972	1,166,276	50,164	31,814
Changes in operating assets and liabilities:				
Inventories	(93,953)	(538,465)	-	-
Receivables	(39,888)	(168,448)	104,695	(41,528)
Biological assets	(233,638)	(33,935)	-	-
Due to subsidiaries	-	-	(102,079)	(111,035)
Retirement benefits	1,400	13,000	1,400	13,000
Accounts payable	165,642	89,172	(2,735)	52,219
	1,550,535	527,600	51,445	(55,530)
Taxation paid	(581,275)	(206,490)	(113,507)	(71,298)
Cash provided by/(used in) operating activities	969,260	321,110	(62,062)	(126,828)

# Seprod Limited

## Notes to the Financial Statements

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### 29. Business Combinations

Golden Grove Sugar Company Limited was incorporated on 29 June 2009. Effective 1 July 2009, Golden Grove Sugar Company Limited acquired certain fixed assets of St Thomas Sugar Company Limited.

The goodwill on acquisition was arrived at as follows:

	<b>2009</b>
	<b>\$'000</b>
Fair value of assets acquired –	
Fixed assets	61,355
Purchase consideration –	
Cash paid (including direct costs of \$16,701,000)	(61,355)
	<u>-</u>

The fixed assets have been recognised at their acquisition cost as the assets were offered for public sale and were subject to a fair market exchange.

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

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

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### 30. 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 \$2,748,518,000 (2008 – \$1,238,409,000) to and purchases of \$13,642,000 (2008 – \$9,163,000) 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 \$273,630,000 and \$1,882,000 (2008 - \$204,704,000 and \$11,534,000), respectively in respect of these transactions.

A subsidiary paid cess of \$5,500,000 (2008 - \$5,177,000) based on the importation of copra-based and substitute products, to Coconut Industry Board, a major shareholder of the company.

#### (b) Key management compensation

	2009 \$'000	2008 \$'000
Wages and salaries	264,589	103,260
Statutory contributions	21,351	10,068
Other	1,876	1,311
	<u>287,816</u>	<u>114,639</u>
Directors' emoluments –		
Fees	9,370	8,010
Medical insurance premiums	11,338	13,840
Management remuneration (included above)	<u>78,784</u>	<u>22,969</u>

#### (c) Advances and loans

At 31 December, profit share advances to key management were as follows:

	2009 \$'000	2008 \$'000
Group Managing Director	-	18,550
Other key management personnel	2,574	53,493
	<u>2,574</u>	<u>72,043</u>

Loans to other related parties are disclosed in Note 17. Interest earned on these loans during the year amounted to US\$1,630,000 (2008 – US\$1,846,000).

Loans from other related parties are disclosed in Note 26. No interest was paid on these loans.

# Seprod Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 31. Contingencies and Commitments

- (a) Minimum annual lease payments required under operating lease arrangements in relation to factory rental by a subsidiary amount to US\$130,000, and these arrangements are set to expire in 2011. The subsidiary no longer uses the factory and earns annual rental of US\$82,000 under a sub-lease arrangement, which is set to expire in 2011.
- (b) A subsidiary has leased sugar cane lands from the Government of Jamaica for a period of 50 years with an option to renew for a further period of 25 years. The lease is fixed at a rate of US\$53 per hectare per annum for the first 5 years, after which it will be renegotiated in accordance with the provisions of the lease contract. Based on the current rate of US\$53 per hectare per annum, the annual lease cost to the subsidiary is US\$82,000.
- (c) At 31 December 2009, management had approved approximately \$463 million (2008 – \$269 million) for capital expenditure in respect of certain subsidiaries.

### 32. 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.

### 33. Subsequent Event

In February 2010, the Group participated in the Jamaica Debt Exchange (JDX) transaction. The JDX involved a par-for-par exchange of domestic debt instruments ("Old Notes") issued by the Government of Jamaica for new debt instruments ("New Notes") having lower interest rates and longer maturities. While the Old Notes were all callable by the Government of Jamaica, a majority of New Notes will be non-callable. Participation in the JDX was voluntary. Interest accrued on the Old Notes up to but excluding 24 February 2010 (the Final Settlement Date) will be paid in cash, net of applicable withholding taxes.

The JDX has had a significant impact on the expected future cash flows from the Group's investment portfolio. The Group has instituted adequate measures to mitigate the impact of reduced investment earnings on its profitability. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

	Pre JDX	Post JDX
Jamaican dollar denominated instruments –		
Face value exchanged (J\$'000)	685,387	685,387
Weighted average coupon rate (%)	19.13	12.10
Weighted average tenor to maturity (years)	<u>2</u>	<u>5</u>
United States dollar denominated instruments –		
Face value exchanged (US\$'000)	1,000	1,000
Weighted average coupon rate (%)	7.50	6.75
Weighted average tenor to maturity (years)	<u>2</u>	<u>3</u>