

**Seprod Limited**

**Financial Statements  
31 December 2012**

# Seprod Limited

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31 December 2012

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## ***Independent Auditors' Report***

To the Members of  
Seprod Limited

### **Report on the Consolidated and Company Stand Alone Financial Statements**

We have audited the accompanying consolidated financial statements of Seprod Limited and its subsidiaries, set out on pages 1 to 58, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying financial statements of Seprod Limited standing alone, which comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Consolidated and Company Stand Alone Financial Statements***

Management is responsible for the preparation of consolidated and company stand alone financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and company stand alone financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated and company stand alone 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 about whether the consolidated and company stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and company stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and company stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and company stand alone financial statements that give a true and fair view 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 consolidated and company stand alone financial statements.

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

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

In our opinion, the consolidated financial statements of Seprod Limited and its subsidiaries, and the financial statements of Seprod Limited standing alone give a true and fair view of the financial position of Seprod Limited and its subsidiaries and the Seprod Limited standing alone as at 31 December 2012, and of their financial performance and cash flows for the year then ended, so far as concerns the members of Seprod Limited, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**Report on Other Legal and Regulatory Requirements**

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 consolidated and company stand alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

*PricewaterhouseCoopers*

Chartered Accountants  
14 March 2013  
Kingston, Jamaica

# Seprod Limited

## Consolidated Statement of Comprehensive Income Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|  | Note | 2012<br>\$'000      | 2011<br>\$'000     |
|--|------|---------------------|--------------------|
| <b>Revenue</b>   |      | 12,723,578          | 12,005,202         |
| Direct expenses  |      | <u>(10,071,209)</u> | <u>(9,570,234)</u> |
| <b>Gross Profit</b>  |      | 2,652,369           | 2,434,968          |
| Finance and other operating income   | 6    | 527,687             | 469,858            |
| Selling expenses   |      | (362,719)           | (339,706)          |
| Administration expenses  |      | (1,386,917)         | (1,219,231)        |
| Other operating expenses   |      | <u>(94,152)</u>     | <u>(89,575)</u>    |
| <b>Operating Profit</b>  |      | 1,336,268           | 1,256,314          |
| Finance costs  | 9    | <u>(105,696)</u>    | <u>(62,363)</u>    |
| <b>Profit before Taxation</b>  |      | 1,230,572           | 1,193,951          |
| Taxation   | 10   | <u>(379,770)</u>    | <u>(426,671)</u>   |
| <b>Net Profit</b>  |      | 850,802             | 767,280            |
| <b>Other Comprehensive Income, net of taxes</b>                            |      |                     |                    |
| Unrealised fair value gains on available-for-sale investments              |      | 50,826              | 36,208             |
| Realised fair value gains on available-for-sale investments                |      | (56,108)            | (27,543)           |
|  |      | <u>(5,282)</u>      | <u>8,665</u>       |
| <b>TOTAL COMPREHENSIVE INCOME</b>  |      | <u>845,520</u>      | <u>775,945</u>     |
| <b>Net Profit is attributable to:</b>                                      |      |                     |                    |
| Stockholders of the company  | 11   | 895,536             | 873,894            |
| Non-controlling interest   |      | <u>(44,734)</u>     | <u>(106,614)</u>   |
|  |      | <u>850,802</u>      | <u>767,280</u>     |
| <b>Total Comprehensive Income is attributable to:</b>                      |      |                     |                    |
| Stockholders of the company  |      | 890,254             | 882,559            |
| Non-controlling interest   |      | <u>(44,734)</u>     | <u>(106,614)</u>   |
|  |      | <u>845,520</u>      | <u>775,945</u>     |
| <b>Earnings per Stock Unit attributable to Stockholders of the Company</b> | 12   | <u>\$1.73</u>       | <u>\$1.69</u>      |

# Seprod Limited

## Consolidated Statement of Financial Position

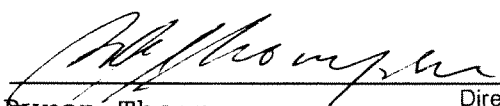
31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|   | Note | 2012<br>\$'000   | 2011<br>\$'000   |
|---|------|------------------|------------------|
| <b>Non-current Assets</b>                                 |      |                  |                  |
| Property, plant and equipment                             | 14   | 3,807,107        | 3,492,698        |
| Intangible assets   | 15   | 22,657           | 29,997           |
| Available-for-sale investments                            | 16   | 2,356,918        | 1,054,699        |
| Long term receivables                                     | 17   | 248,303          | 698,171          |
| Retirement benefit asset                                  | 18   | 3,600            | 21,700           |
| Biological assets   | 19   | 246,105          | 223,830          |
|   |      | <u>6,684,690</u> | <u>5,521,095</u> |
| <b>Current Assets</b>                                     |      |                  |                  |
| Inventories   | 20   | 2,290,592        | 1,553,417        |
| Biological assets   | 19   | 446,696          | 349,917          |
| Trade and other receivables                               | 21   | 2,103,746        | 2,456,696        |
| Available-for-sale investments                            | 16   | 16,021           | 265,341          |
| Current portion of long term receivables                  | 17   | 339,470          | 456,047          |
| Taxation recoverable                                      |      | 41,850           | 46,933           |
| Cash and bank balances                                    | 22   | 275,905          | 249,926          |
|   |      | <u>5,514,280</u> | <u>5,378,277</u> |
| <b>Current Liabilities</b>                                |      |                  |                  |
| Provisions  | 31   | 30,585           | -                |
| Payables  | 23   | 1,820,119        | 795,159          |
| Current portion of long term liabilities                  | 26   | 825,449          | 1,152,374        |
| Bank overdraft  | 22   | 82,614           | -                |
| Taxation payable  |      | 129,940          | 74,062           |
|   |      | <u>2,888,707</u> | <u>2,021,595</u> |
| <b>Net Current Assets</b>                                 |      |                  |                  |
|   |      | <u>2,625,573</u> | <u>3,356,682</u> |
|   |      | <u>9,310,263</u> | <u>8,877,777</u> |
| <b>Equity Attributable to Stockholders of the Company</b> |      |                  |                  |
| Share capital   | 24   | 561,287          | 561,287          |
| Capital reserve   | 25   | 916,661          | 921,943          |
| Retained earnings   |      | 7,055,835        | 6,588,910        |
|   |      | <u>8,533,783</u> | <u>8,072,140</u> |
| <b>Non-controlling Interest</b>                           |      |                  |                  |
|   |      | <u>(61,930)</u>  | <u>(17,196)</u>  |
|   |      | <u>8,471,853</u> | <u>8,054,944</u> |
| <b>Non-current Liabilities</b>                            |      |                  |                  |
| Long term liabilities                                     | 26   | 472,954          | 400,000          |
| Deferred tax liabilities                                  | 27   | 262,756          | 330,433          |
| Retirement benefit obligations                            | 18   | 102,700          | 92,400           |
|   |      | <u>838,410</u>   | <u>822,833</u>   |
|   |      | <u>9,310,263</u> | <u>8,877,777</u> |

Approved for issue by the Board of Directors on 14 March 2013 and signed on its behalf by:

  
Melanie Subratie Director

  
Byron Thompson Director

# Seprod Limited

## Consolidated Statement of Changes in Equity

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|   | Equity Attributable to Stockholders of the Company |               |                 |                   | Total     | Non-controlling Interest | Total Equity |
|---|--|---------------|-----------------|-------------------|-----------|--------------------------|--------------|
|   | Number of Shares                                   | Share Capital | Capital Reserve | Retained Earnings |           |                          |              |
|   | '000   | \$'000        | \$'000          | \$'000            |           |                          |              |
| <b>Balance as at 1 January 2011</b>                                       | 516,398  | 561,287       | 894,929         | 6,304,869         | 7,761,085 | (169,528)                | 7,591,557    |
| Total comprehensive income  | -  | -             | 8,665           | 873,894           | 882,559   | (106,614)                | 775,945      |
| Transaction with owners:  |  |               |                 |                   |           |                          |              |
| Transfer to capital reserve – gain on sale of investments                 | -  | -             | 18,349          | (18,349)          | -         | -                        | -            |
| Additional equity contribution in subsidiary by non-controlling interests | -  | -             | -               | -                 | -         | 79,905                   | 79,905       |
| Dividends declared (Note 13)  | -  | -             | -               | (392,463)         | (392,463) | -                        | (392,463)    |
| Dilution of non-controlling interest in subsidiary                        | -  | -             | -               | (179,041)         | (179,041) | 179,041                  | -            |
|   | -  | -             | 18,349          | (589,853)         | (571,504) | 258,946                  | (312,558)    |
| <b>Balance at 31 December 2011</b>  | 516,398  | 561,287       | 921,943         | 6,588,910         | 8,072,140 | (17,196)                 | 8,054,944    |
| Total comprehensive income  | -  | -             | (5,282)         | 895,536           | 890,254   | (44,734)                 | 845,520      |
| Transactions with owners:   |  |               |                 |                   |           |                          |              |
| Dividends declared (Note 13)  | -  | -             | -               | (428,611)         | (428,611) | -                        | (428,611)    |
| <b>Balance at 31 December 2012</b>  | 516,398  | 561,287       | 916,661         | 7,055,835         | 8,533,783 | (61,930)                 | 8,471,853    |

# Seprod Limited

## Consolidated Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|  | Note | 2012<br>\$'000        | 2011<br>\$'000        |
|--|------|-----------------------|-----------------------|
| <b>Cash Flows from Operating Activities</b>              |      |                       |                       |
| Cash provided by/(used in) operating activities          | 28   | <u>1,594,341</u>      | <u>(441,401)</u>      |
| <b>Cash Flows from Investing Activities</b>              |      |                       |                       |
| Purchase of property, plant and equipment                |      | (698,266)             | (881,784)             |
| Proceeds on disposal of property, plant and equipment    |      | 2,557                 | 7,640                 |
| Purchase of available-for-sale investments               |      | (1,236,385)           | -                     |
| Proceeds from disposal of available-for-sale investments |      | 220,634               | 776,591               |
| Repayment of long term receivables                       |      | 606,787               | 59,141                |
| Issue of long term receivables                           |      | -                     | (142,255)             |
| Interest received  |      | 229,185               | 331,952               |
| Dividends received                                       |      | <u>3,955</u>          | <u>3,549</u>          |
| Cash (used in)/provided by investing activities          |      | <u>(871,533)</u>      | <u>154,834</u>        |
| <b>Cash Flows from Financing Activities</b>              |      |                       |                       |
| Long term loans received                                 |      | 718,244               | 1,433,312             |
| Long term loans repaid                                   |      | (974,301)             | (624,191)             |
| Dividends paid   |      | (423,305)             | (392,463)             |
| Interest paid  |      | <u>(100,081)</u>      | <u>(62,363)</u>       |
| Cash (used in)/provided by financing activities          |      | <u>(779,443)</u>      | <u>354,295</u>        |
| (Decrease)/ increase in cash and cash equivalents        |      | (56,635)              | 67,728                |
| Cash and cash equivalents at beginning of year           |      | <u>249,926</u>        | <u>182,198</u>        |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>          | 22   | <u><u>193,291</u></u> | <u><u>249,926</u></u> |



# Seprod Limited

## Statement of Comprehensive Income

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|   | Note | 2012<br>\$'000          | 2011<br>\$'000        |
|---|------|-------------------------|-----------------------|
| Group costs recovered from subsidiaries                       |      | 477,170                 | 449,193               |
| Finance and other operating income                            | 6    | 2,473,230               | 458,683               |
| Administration expenses                                       | 7    | (528,239)               | (465,208)             |
| <b>Operating Profit</b>                                       |      | <u>2,422,161</u>        | <u>442,668</u>        |
| Finance costs   | 9    | (83,952)                | (45,915)              |
| <b>Profit before Taxation</b>                                 |      | <u>2,338,209</u>        | <u>396,753</u>        |
| Taxation  | 10   | (93,281)                | (82,936)              |
| <b>Net Profit</b>   | 11   | <u>2,244,928</u>        | <u>313,817</u>        |
| <b>Other Comprehensive Income:</b>                            |      |                         |                       |
| Unrealised fair value gains on available-for-sale investments |      | 50,826                  | 36,208                |
| Realised fair value gains on available-for-sale investments   |      | (56,108)                | (27,543)              |
|   |      | <u>(5,282)</u>          | <u>8,665</u>          |
| <b>TOTAL COMPREHENSIVE INCOME</b>                             |      | <u><u>2,239,646</u></u> | <u><u>322,482</u></u> |

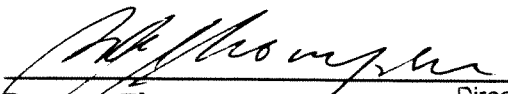
**Seprod Limited****Statement of Financial Position****31 December 2012**

(expressed in Jamaican dollars unless otherwise indicated)

|  | Note | 2012<br>\$'000   | 2011<br>\$'000   |
|--|------|------------------|------------------|
| <b>Non-current Assets</b>                |      |                  |                  |
| Property, plant and equipment            | 14   | 195,933          | 192,613          |
| Available-for-sale investments           | 16   | 2,356,918        | 1,054,699        |
| Investment in subsidiaries               |      | 1,437,102        | 1,437,102        |
| Long term receivables                    | 17   | 248,303          | 698,171          |
| Retirement benefit asset                 | 18   | 3,600            | 21,700           |
|  |      | <u>4,241,856</u> | <u>3,404,285</u> |
| <b>Current Assets</b>                    |      |                  |                  |
| Trade and other receivables              | 21   | 537,705          | 644,273          |
| Available-for-sale investments           | 16   | 16,021           | 265,341          |
| Current portion of long term receivables | 17   | 339,470          | 456,047          |
| Due from subsidiaries                    |      | 3,008,250        | 1,636,120        |
| Cash and bank balances                   | 22   | 77,541           | 37,272           |
|  |      | <u>3,978,987</u> | <u>3,039,053</u> |
| <b>Current Liabilities</b>               |      |                  |                  |
| Payables                                 | 23   | 252,824          | 170,768          |
| Current portion of long term liabilities | 26   | 596,063          | 803,594          |
| Bank overdraft                           | 22   | 82,614           | -                |
| Taxation payable                         |      | 22,279           | 33,228           |
|  |      | <u>953,780</u>   | <u>1,007,590</u> |
| <b>Net Current Assets</b>                |      |                  |                  |
|  |      | <u>3,025,207</u> | <u>2,031,463</u> |
|  |      | <u>7,267,063</u> | <u>5,435,748</u> |
| <b>Equity</b>                            |      |                  |                  |
| Share capital                            | 24   | 561,287          | 561,287          |
| Capital reserve                          | 25   | 335,172          | 340,454          |
| Retained earnings                        |      | 5,820,524        | 4,004,207        |
|  |      | <u>6,716,983</u> | <u>4,905,948</u> |
| <b>Non-current Liabilities</b>           |      |                  |                  |
| Long term liabilities                    | 26   | 400,000          | 400,000          |
| Deferred tax liabilities                 | 27   | 47,380           | 37,400           |
| Retirement benefit obligations           | 18   | 102,700          | 92,400           |
|  |      | <u>550,080</u>   | <u>529,800</u>   |
|  |      | <u>7,267,063</u> | <u>5,435,748</u> |

Approved for issue by the Board of Directors on 14 March 2013 and signed on its behalf by:

  
 \_\_\_\_\_  
 Melanie Subratie Director

  
 \_\_\_\_\_  
 Byron Thompson Director

# Seprod Limited

## Statement of Changes in Equity

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|  | Number<br>of Shares | Share<br>Capital | Capital<br>Reserve | Retained<br>Earnings | Total     |
|--|---------------------|------------------|--------------------|----------------------|-----------|
|  | '000                | \$'000           | \$'000             | \$'000               | \$'000    |
| Balance as at 1 January 2011                                   | 516,398             | 561,287          | 313,440            | 4,101,202            | 4,975,929 |
| Total comprehensive income                                     | -                   | -                | 8,665              | 313,817              | 322,482   |
| Transactions with owners:                                      |                     |                  |                    |                      |           |
| Transfer from capital reserve – gain on sale of<br>investments | -                   | -                | 18,349             | (18,349)             | -         |
| Dividends declared (Note 13)                                   | -                   | -                | -                  | (392,463)            | (392,463) |
|  | -                   | -                | 18,349             | (410,812)            | (392,463) |
| <b>Balance at 31 December 2011</b>                             | 516,398             | 561,287          | 340,454            | 4,004,207            | 4,905,948 |
| Total comprehensive income                                     | -                   | -                | (5,282)            | 2,244,928            | 2,239,646 |
| Transactions with owners:                                      |                     |                  |                    |                      |           |
| Dividends declared (Note 13)                                   | -                   | -                | -                  | (428,611)            | (428,611) |
| <b>Balance at 31 December 2012</b>                             | 516,398             | 561,287          | 335,172            | 5,820,524            | 6,716,983 |

# Seprod Limited

## Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

|  | Note | 2012<br>\$'000        | 2011<br>\$'000       |
|--|------|-----------------------|----------------------|
| <b>Cash Flows from Operating Activities</b>              |      |                       |                      |
| Cash used in operating activities                        | 28   | <u>(1,200,519)</u>    | <u>(1,174,073)</u>   |
| <b>Cash Flows from Investing Activities</b>              |      |                       |                      |
| Purchase of property, plant and equipment                |      | (23,415)              | (62,443)             |
| Proceeds on disposal of property, plant and equipment    |      | 153                   | 330                  |
| Purchase of available-for-sale investments               |      | (1,236,385)           | -                    |
| Proceeds from disposal of available-for-sale investments |      | 220,634               | 776,591              |
| Repayment of long term receivables                       |      | 606,787               | 59,141               |
| Issue of long term receivables                           |      | -                     | (142,255)            |
| Interest received  |      | 351,522               | 313,652              |
| Dividends received                                       |      | <u>1,953,666</u>      | <u>3,549</u>         |
| Cash provided by investing activities                    |      | <u>1,872,962</u>      | <u>948,565</u>       |
| <b>Cash Flows from Financing Activities</b>              |      |                       |                      |
| Long term loans received                                 |      | 400,000               | 1,200,000            |
| Long term loans repaid                                   |      | (609,617)             | (514,583)            |
| Dividends paid   |      | (423,305)             | (392,463)            |
| Interest paid  |      | <u>(81,866)</u>       | <u>(45,915)</u>      |
| Cash (used in)/provided by financing activities          |      | <u>(714,788)</u>      | <u>247,039</u>       |
| (Decrease)/increase in cash and cash equivalents         |      | (42,345)              | 21,531               |
| Cash and cash equivalents at beginning of year           |      | <u>37,272</u>         | <u>15,741</u>        |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>          | 22   | <u><u>(5,073)</u></u> | <u><u>37,272</u></u> |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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 subsidiary</b>                    | <b>Principal activities</b>                       |
|--|---|
| Belvedere Limited                            | Agriculture                                       |
| Caribbean Products Company Limited           | Manufacture and sale of oils and fats             |
| Golden Grove Sugar Company Limited           | Sugar production                                  |
| Industrial Sales Limited                     | Sale of consumer products                         |
| International Biscuits Limited               | Manufacture and sale of biscuit products          |
| Jamaica Grain and Cereals Limited            | Manufacture and sale of corn products and cereals |
| Serge Island Dairies Limited                 | Manufacture and sale of milk products and juices  |
| Serge Island Farms Limited                   | Dairy farming                                     |
| 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 80% by the company and 20% by Fred M. Jones Estate Limited (2011 – 55% and 45%, respectively).

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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 and biological 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 and amendments to published standards effective during the year***

At the date of authorization of these financial statements, certain new and amended standards and interpretations to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has determined that none are relevant to its operations.

#### ***New and amended standards 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 and amendments to existing standards have been issued which were not yet effective at statement of financial position date, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations.

- **Amendment to IAS 1, 'Presentation of financial statements'** (effective for annual periods beginning on or after 1 July 2012). The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is not expected to have a significant impact on the Group's financial statements.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

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

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

- **IAS 19, 'Employee benefits'** (effective for annual periods beginning on or after 1 January 2013). This amendment will eliminate the corridor approach to recognition of actuarial gains and losses arising from IAS 19 pension valuations and will result in the recognition of all actuarial gains and losses in other comprehensive income (OCI) as they occur. Additionally, all past service costs will be immediately recognised and interest cost and expected return on plan assets will be replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is assessing the impact of future adoption of the standard on its financial statements.
- **IFRS 9, Financial instruments part 1: Classification and measurement** (effective for annual periods beginning on or after 1 January 2015) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments. 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 2015, 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 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

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

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

- **IFRS 10, 'Consolidated Financial Statements'**, (effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and Separate Financial Statements', and SIC-12, 'Consolidation – Special Purpose Entities'. IAS 27 (Revised) now renamed 'Separate Financial Statements'. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a Group consolidates as its subsidiaries. The Group is assessing the impact of future adoption of the standard on its financial statements.
- **IFRS 11, 'Joint Arrangements'**, (effective for annual periods beginning on or after 1 January 2013). IFRS 11 is a more realistic reflection of joint arrangements, focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group currently has no joint arrangements, therefore the standard is not expected to have any significant impact on the Group's financial statements.
- **IFRS 12, 'Disclosure of Interests in Other Entities'**, (effective for annual periods beginning on or after 1 January 2013). IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group is assessing the impact of future adoption of the standard on its financial statements.
- **IFRS 13, 'Fair Value Measurement'**, (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in IFRS 7, 'Financial instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The Group is assessing the impact of future adoption of the standard on its financial statements.

There are no other new or amended standards and interpretations that are issued but not yet effective that are expected to have a significant impact on the accounting policies or financial disclosures of the Group.



# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (b) Basis of consolidation

##### ***Consolidation of 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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intercompany transactions, balances and unrealised gains and losses on transactions between the Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 statement of financial position.

##### ***Transactions with non-controlling interests***

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (c) Revenue and income 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 collectability of the related receivables is reasonably assured. Some products are often sold with a right of return.

##### *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.

##### *Interest income*

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

##### *Dividend income*

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

#### (d) 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 also the company's functional 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 profit or loss.

Translation differences resulting from changes in the amortised cost of foreign currency monetary assets classified as available-for-sale are recognised in profit or loss. Other changes in the fair value of these assets are recognised in other comprehensive income. 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 other comprehensive income.

#### (e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Property, plant and equipment

Buildings, plant and equipment are recorded at cost or deemed cost, less accumulated depreciation and impairment losses. All other property, plant and equipment 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 property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

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

#### (g) Intangible assets

##### *Brands*

Brands obtained by the Group in a business combination are recognised at fair value at the acquisition date. These brands are deemed to have a finite useful life, and are carried at cost 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 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (i) Investments

The Group classifies its investments 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 date of the statement of financial position, 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 profit or loss and other changes in the carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary available-for-sale investments and non-monetary available-for-sale investments are recognised in other comprehensive income.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as gains and losses from investment securities. Interest on available-for-sale investments is calculated using the effective interest method and is recognised in profit or loss. Dividends on available-for-sale investments are recognised in profit or loss 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 reporting 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 profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments recognised in profit or loss are not reversed through profit or loss.

#### (j) Long term receivables

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

#### (k) Biological assets

Biological assets are measured at their fair value. 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 2012

(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, cost being determined using the weighted average cost method. 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 statement of financial position at cost and comprise cash at bank and in hand, net of bank overdraft.

#### (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 profit or loss 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 reporting 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 profit or loss, except where it relates to items charged or credited to other comprehensive income or equity, in which case, deferred tax is also dealt with in other comprehensive income or equity.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (r) Employee benefits

##### ***Pension obligations***

###### *Defined benefit plan*

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 date of the statement of financial position 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.

###### *Defined contribution plan*

The employees of the Group also participate in an Individual Retirement Scheme operated by an independent insurance company. The Group makes fixed contributions to the scheme for participating employees. The Group has no obligation for the benefits provided under the scheme as these are payable by, and accounted for by the insurance company. Accordingly, the Group recognises a cost equal to its contributions payable in respect of each accounting period in the statement of comprehensive income.

##### ***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 profit or loss 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 directors.

#### (u) Share capital

##### *Share issuance cost*

Incremental costs directly attributable to the issue of new shares are shown in stockholders' equity as a deduction from the proceeds.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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### 3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

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

#### ***Central treasury department***

The central treasury department is responsible for managing the Group's financial 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 manages 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 for the Group includes currency risk, interest rate and other price risk.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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 its holdings of investments. 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 in Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations. The disclosures provided in this note are based on the Company's investment portfolio as at 31 December 2012. As described in Note 32, the Group participated in the National Debt Exchange (NDX) which resulted in significant changes to the Group's investment portfolio in February 2013.

#### *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 over 30 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 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

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

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

Trade receivables that are less than 90 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 |          |
|----------------------|----------------|----------------|-------------|----------|
|                      | 2012           | 2011           | 2012        | 2011     |
|                      | \$'000         | \$'000         | \$'000      | \$'000   |
| 30 – 60 days         | 26,840         | 78,485         | -           | -        |
| 60 – 90 days         | 34,905         | 26,826         | -           | -        |
| greater than 90 days | 454,763        | 443,316        | -           | -        |
|                      | <u>516,508</u> | <u>548,627</u> | <u>-</u>    | <u>-</u> |

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

Trade receivables of \$113,100,000 (2011 – \$107,643,000) for the Group and \$3,619,000 (2011 – \$3,383,000) 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. All of the aforementioned impaired receivables balances were greater than 90 days old.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

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

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

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

|                                   | The Group      |                | The Company  |              |
|-----------------------------------|----------------|----------------|--------------|--------------|
|                                   | 2012           | 2011           | 2012         | 2011         |
|                                   | \$'000         | \$'000         | \$'000       | \$'000       |
| At start of year                  | 107,643        | 89,191         | 3,383        | 3,569        |
| Amounts recovered during the year | (16,869)       | (558)          | -            | -            |
| Provided during the year          | 22,326         | 25,294         | 236          | -            |
| Unused amounts reversed           | -              | (6,284)        | -            | (186)        |
| At end of year                    | <u>113,100</u> | <u>107,643</u> | <u>3,619</u> | <u>3,383</u> |

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

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

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

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

|                                | The Group        |                  | The Company    |                |
|--------------------------------|------------------|------------------|----------------|----------------|
|                                | 2012             | 2011             | 2012           | 2011           |
|                                | \$'000           | \$'000           | \$'000         | \$'000         |
| Supermarket chains             | 57,022           | 72,393           | -              | -              |
| Wholesalers                    | 909,459          | 889,432          | -              | -              |
| Retailers                      | 278,563          | 298,104          | -              | -              |
| Manufacturers                  | 40,063           | 37,492           | -              | -              |
| Others                         | 95,124           | 23,531           | 3,619          | 3,383          |
|                                | <u>1,380,231</u> | <u>1,320,952</u> | <u>3,619</u>   | <u>3,383</u>   |
| Less: Provision for impairment | <u>(113,100)</u> | <u>(107,643)</u> | <u>(3,619)</u> | <u>(3,383)</u> |
|                                | <u>1,267,131</u> | <u>1,213,309</u> | <u>-</u>       | <u>-</u>       |

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

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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 investments.
- (v) Managing the concentration and profile of debt maturities.

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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:

|                       | <b>The Group</b>                     |                                     |                                      |                                    |                         |
|-----------------------|--------------------------------------|-------------------------------------|--------------------------------------|------------------------------------|-------------------------|
|                       | <b>Within 1<br/>Month<br/>\$'000</b> | <b>1 to 3<br/>Months<br/>\$'000</b> | <b>3 to 12<br/>Months<br/>\$'000</b> | <b>1 to 5<br/>Years<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|                       | <b>2012</b>                          |                                     |                                      |                                    |                         |
| Long term liabilities | -                                    | 19,808                              | 890,283                              | 547,846                            | 1,457,937               |
| Trade payables        | 1,415,221                            | -                                   | -                                    | -                                  | 1,415,221               |
| Bank overdraft        | 82,614                               | -                                   | -                                    | -                                  | 82,614                  |
| Other payables        | 114,600                              | -                                   | -                                    | -                                  | 114,600                 |
|                       | <b>1,612,435</b>                     | <b>19,808</b>                       | <b>890,283</b>                       | <b>547,846</b>                     | <b>3,070,372</b>        |
|                       | <b>2011</b>                          |                                     |                                      |                                    |                         |
| Long term liabilities | -                                    | 18,000                              | 1,248,764                            | 461,600                            | 1,728,364               |
| Trade payables        | 466,049                              | -                                   | -                                    | -                                  | 466,049                 |
| Other payables        | 104,296                              | -                                   | -                                    | -                                  | 104,296                 |
|                       | <b>570,345</b>                       | <b>18,000</b>                       | <b>1,248,764</b>                     | <b>461,600</b>                     | <b>2,298,709</b>        |
|                       | <b>The Company</b>                   |                                     |                                      |                                    |                         |
|                       | <b>Within 1<br/>Month<br/>\$'000</b> | <b>1 to 3<br/>Months<br/>\$'000</b> | <b>3 to 12<br/>Months<br/>\$'000</b> | <b>1 to 5<br/>Years<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|                       | <b>2012</b>                          |                                     |                                      |                                    |                         |
| Long term liabilities | -                                    | 19,808                              | 650,986                              | 472,408                            | 1,143,202               |
| Bank overdraft        | 82,614                               | -                                   | -                                    | -                                  | 82,614                  |
| Other payables        | 87,488                               | -                                   | -                                    | -                                  | 87,488                  |
|                       | <b>170,102</b>                       | <b>19,808</b>                       | <b>650,986</b>                       | <b>472,408</b>                     | <b>1,313,304</b>        |
|                       | <b>2011</b>                          |                                     |                                      |                                    |                         |
| Long term liabilities | -                                    | 18,000                              | 885,400                              | 461,600                            | 1,365,000               |
| Other payables        | 78,290                               | -                                   | -                                    | -                                  | 78,290                  |
|                       | <b>78,290</b>                        | <b>18,000</b>                       | <b>885,400</b>                       | <b>461,600</b>                     | <b>1,443,290</b>        |

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

# Seprod Limited

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(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 or 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 purchases and sales transactions and investing and financing activities.

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 profit before taxation arising from changes in foreign exchange rates. There is no effect on other items of equity. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% devaluation/1% revaluation (2011 - 1% revaluation/devaluation) 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 long term receivables, trade receivables, investment securities classified as available-for-sale, payables and long term liabilities.

|                                    | The Group      |                | The Company    |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Effect on profit before taxation - |                |                |                |                |
| <b>US\$</b>                        |                |                |                |                |
| 10% devaluation (2011 – 1%)        | 86,345         | 12,644         | 218,040        | 16,006         |
| 1% revaluation (2011 – 1%)         | (8,635)        | (12,644)       | (21,804)       | (16,006)       |
| <b>Other currencies</b>            |                |                |                |                |
| 10% devaluation (2011 – 1%)        | 19,832         | 2,964          | 20,406         | 2,964          |
| 1% revaluation (2011 – 1%)         | (1,983)        | (2,964)        | (2,041)        | (2,964)        |

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### 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\$<br>J\$'000 | US\$<br>J\$'000  | Other<br>J\$'000 | Total<br>J\$'000 |
|                                | <b>2012</b>           |                  |                  |                  |
| <b>Financial Assets</b>        |                       |                  |                  |                  |
| Available-for-sale investments | 384,823               | 1,115,802        | 195,703          | 1,696,328        |
| Long term receivables          | -                     | 587,773          | -                | 587,773          |
| Trade and other receivables    | 1,474,234             | 511,038          | -                | 1,985,272        |
| Cash and bank                  | 208,970               | 55,979           | 8,359            | 273,308          |
|                                | <u>2,068,027</u>      | <u>2,270,592</u> | <u>204,062</u>   | <u>4,542,681</u> |
| <b>Financial Liabilities</b>   |                       |                  |                  |                  |
| Long term liabilities          | 996,063               | 302,340          | -                | 1,298,403        |
| Bank overdraft                 | 82,614                | -                | -                | 82,614           |
| Trade and other payables       | 419,271               | 1,104,805        | 5,745            | 1,529,821        |
|                                | <u>1,497,948</u>      | <u>1,407,145</u> | <u>5,745</u>     | <u>2,910,838</u> |
| <b>Net financial position</b>  | <u>570,079</u>        | <u>863,447</u>   | <u>198,317</u>   | <u>1,631,843</u> |
|                                | <b>2011</b>           |                  |                  |                  |
| <b>Financial Assets</b>        |                       |                  |                  |                  |
| Available-for-sale investments | 548,724               | 406,558          | 282,373          | 1,237,655        |
| Long term receivables          | -                     | 1,154,218        | -                | 1,154,218        |
| Trade and other receivables    | 1,932,734             | 78,444           | -                | 2,011,178        |
| Cash and bank                  | 196,042               | 39,868           | 14,016           | 249,926          |
|                                | <u>2,677,500</u>      | <u>1,679,088</u> | <u>296,389</u>   | <u>4,652,977</u> |
| <b>Financial Liabilities</b>   |                       |                  |                  |                  |
| Long term liabilities          | 1,376,641             | 175,733          | -                | 1,552,374        |
| Trade and other payables       | 331,366               | 238,979          | -                | 570,345          |
|                                | <u>1,708,007</u>      | <u>414,712</u>   | <u>-</u>         | <u>2,122,719</u> |
| <b>Net financial position</b>  | <u>969,493</u>        | <u>1,264,376</u> | <u>296,389</u>   | <u>2,530,258</u> |

# Seprod Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

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

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

|                                | The Company           |                  |                  |                  |
|--------------------------------|-----------------------|------------------|------------------|------------------|
|                                | Jamaican\$<br>J\$'000 | US\$<br>J\$'000  | Other<br>J\$'000 | Total<br>J\$'000 |
|                                | <b>2012</b>           |                  |                  |                  |
| <b>Financial Assets</b>        |                       |                  |                  |                  |
| Available-for-sale investments | 384,823               | 1,115,802        | 195,703          | 1,696,328        |
| Long term receivables          | -                     | 587,773          | -                | 587,773          |
| Other receivables              | 104,629               | 420,843          | -                | 525,472          |
| Due from subsidiaries          | 3,008,250             | -                | -                | 3,008,250        |
| Cash and bank                  | 13,203                | 55,979           | 8,359            | 77,541           |
|                                | <u>3,510,905</u>      | <u>2,180,397</u> | <u>204,062</u>   | <u>5,895,364</u> |
| <b>Financial Liabilities</b>   |                       |                  |                  |                  |
| Long term liabilities          | 996,063               | -                | -                | 996,063          |
| Bank overdraft                 | 82,614                | -                | -                | 82,614           |
| Other payables                 | 87,488                | -                | -                | 87,488           |
|                                | <u>1,166,165</u>      | <u>-</u>         | <u>-</u>         | <u>1,166,165</u> |
| <b>Net financial position</b>  | <u>2,344,740</u>      | <u>2,180,397</u> | <u>204,062</u>   | <u>4,729,199</u> |
|                                | <b>2011</b>           |                  |                  |                  |
| <b>Financial Assets</b>        |                       |                  |                  |                  |
| Available-for-sale investments | 548,724               | 406,558          | 282,373          | 1,237,655        |
| Long term receivables          | -                     | 1,154,218        | -                | 1,154,218        |
| Other receivables              | 633,429               | -                | -                | 633,429          |
| Due from subsidiaries          | 1,636,120             | -                | -                | 1,636,120        |
| Cash and bank                  | (16,612)              | 39,868           | 14,016           | 37,272           |
|                                | <u>2,801,661</u>      | <u>1,600,644</u> | <u>296,389</u>   | <u>4,698,694</u> |
| <b>Financial Liabilities</b>   |                       |                  |                  |                  |
| Long term liabilities          | 1,203,594             | -                | -                | 1,203,594        |
| Other payables                 | 78,290                | -                | -                | 78,290           |
|                                | <u>1,281,884</u>      | <u>-</u>         | <u>-</u>         | <u>1,281,884</u> |
| <b>Net financial position</b>  | <u>1,519,777</u>      | <u>1,600,644</u> | <u>296,389</u>   | <u>3,416,810</u> |

# Seprod Limited

## Notes to the Financial Statements

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(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.

Seprod 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 borrowings and available-for-sale debt instruments. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on profit before taxation based on floating rate borrowing and available-for-sale debt instruments. The sensitivity of other components of equity is calculated by revaluing fixed rate available-for-sale investments for the effects of the assumed changes in interest rates.

The following table indicates the sensitivity to a reasonably possible increase/(decrease) in interest rates of 4%/(1%) in respect of Jamaican dollar denominated instruments (2011 – 0.5% increase/decrease) and increase/(decrease) of 2.5%/(0.5%) for United States dollar denominated instruments (2011 – 0.5% increase/decrease), with all other variables held constant, on profit before taxation and other components of equity.

| Change in<br>basis points<br>2012<br>JMD / USD | Effect on<br>Profit before<br>Taxation<br>2012<br>\$'000 | Effect on<br>Other<br>Components<br>of Equity<br>2012<br>\$'000 | Change in<br>basis<br>points<br>2011<br>JMD / USD | Effect on<br>Profit before<br>Taxation<br>2011<br>\$'000 | Effect on<br>Other<br>Components<br>of Equity<br>2011<br>\$'000 |
|--|--|---|---|--|---|
| <b>The Group</b>                               |  |   |   |  |   |
| +400/+250                                      | 2,716  | (7,365)   | +50/+50   | 4,194  | (16,306)  |
| -100/-50                                       | (641)  | 5,657   | -50/-50   | (4,194)  | 16,860  |
| <b>The Company</b>                             |  |   |   |  |   |
| +400/+250                                      | 1,960  | (7,365)   | +50/+50   | 2,450  | (16,306)  |
| -100/-50                                       | (490)  | 5,657   | -50/-50   | (2,450)  | 16,860  |



# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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<br>\$'000  |
|-------------------------------------|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------------|------------------|
|                                     | Within 1<br>Month<br>\$'000 | 1 to 3<br>Months<br>\$'000 | 3 to 12<br>Months<br>\$'000 | 1 to 5<br>Years<br>\$'000 | Over<br>5 Years<br>\$'000 | Non-<br>Interest<br>Bearing<br>\$'000 |                  |
|                                     | 2012                        |                            |                             |                           |                           |                                       |                  |
| <b>Financial assets</b>             |                             |                            |                             |                           |                           |                                       |                  |
| Available-for-sale investments      | -                           | 109,910                    | -                           | 547,831                   | 378,702                   | -                                     | 1,036,443        |
| Long term receivables               | 96,792                      | 190,064                    | 24,880                      | 132,672                   | 143,365                   | -                                     | 587,773          |
| Trade and other receivables         | -                           | 420,843                    | 69,148                      | -                         | -                         | 1,495,281                             | 1,985,272        |
| Cash and bank                       | 273,283                     | -                          | -                           | -                         | -                         | 2,622                                 | 275,905          |
|                                     | <u>370,075</u>              | <u>720,817</u>             | <u>94,028</u>               | <u>680,503</u>            | <u>522,067</u>            | <u>1,497,903</u>                      | <u>3,885,393</u> |
| <b>Financial liabilities</b>        |                             |                            |                             |                           |                           |                                       |                  |
| Long term liabilities               | -                           | 712,448                    | 585,955                     | -                         | -                         | -                                     | 1,298,403        |
| Bank overdraft                      | 82,614                      | -                          | -                           | -                         | -                         | -                                     | 82,614           |
| Trade and other payables            | 49,814                      | -                          | -                           | -                         | -                         | 1,480,037                             | 1,529,821        |
|                                     | <u>132,428</u>              | <u>712,448</u>             | <u>585,955</u>              | <u>-</u>                  | <u>-</u>                  | <u>1,480,037</u>                      | <u>2,910,838</u> |
| <b>Total interest repricing gap</b> | <u>237,647</u>              | <u>8,369</u>               | <u>(491,927)</u>            | <u>680,503</u>            | <u>522,067</u>            | <u>17,866</u>                         | <u>974,555</u>   |
| <b>2011</b>                         |                             |                            |                             |                           |                           |                                       |                  |
| <b>Financial assets</b>             |                             |                            |                             |                           |                           |                                       |                  |
| Available-for-sale investments      | -                           | 90,000                     | 305,840                     | 408,908                   | 432,907                   | -                                     | 1,237,655        |
| Long term receivables               | -                           | 12,900                     | 296,705                     | 844,613                   | -                         | -                                     | 1,154,218        |
| Trade and other receivables         | -                           | -                          | -                           | -                         | -                         | 2,011,178                             | 2,011,178        |
| Cash and bank                       | 249,850                     | -                          | -                           | -                         | -                         | 76                                    | 249,926          |
|                                     | <u>249,850</u>              | <u>102,900</u>             | <u>602,545</u>              | <u>1,253,521</u>          | <u>432,907</u>            | <u>2,011,254</u>                      | <u>4,652,977</u> |
| <b>Financial liabilities</b>        |                             |                            |                             |                           |                           |                                       |                  |
| Long term liabilities               | -                           | 20,117                     | 1,091,750                   | 440,507                   | -                         | -                                     | 1,552,374        |
| Trade and other payables            | -                           | -                          | -                           | -                         | -                         | 570,345                               | 570,345          |
|                                     | <u>-</u>                    | <u>20,117</u>              | <u>1,091,750</u>            | <u>440,507</u>            | <u>-</u>                  | <u>570,345</u>                        | <u>2,122,719</u> |
| <b>Total interest repricing gap</b> | <u>249,850</u>              | <u>82,783</u>              | <u>(489,205)</u>            | <u>813,014</u>            | <u>432,907</u>            | <u>1,440,909</u>                      | <u>2,530,258</u> |



# Seprod Limited

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### 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.

#### (e) Fair values of financial instruments

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 the statement of financial position date 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).

|                                     | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000  |
|-------------------------------------|-------------------|-------------------|-------------------|------------------|
| <b>2012</b>                         |                   |                   |                   |                  |
| Available-for-sale investments –    |                   |                   |                   |                  |
| Quoted equities                     | 57,305            | -                 | -                 | 57,305           |
| Unquoted equities                   | -                 | -                 | 1,279,189         | 1,279,189        |
| Issued by the Government of Jamaica | -                 | 1,036,445         | -                 | 1,036,445        |
|                                     | <u>57,305</u>     | <u>1,036,445</u>  | <u>1,279,189</u>  | <u>2,372,939</u> |
| <b>2011</b>                         |                   |                   |                   |                  |
| Available-for-sale investments –    |                   |                   |                   |                  |
| Quoted equities                     | 82,385            | -                 | -                 | 82,385           |
| Issued by the Government of Jamaica | -                 | 1,237,655         | -                 | 1,237,655        |
|                                     | <u>82,385</u>     | <u>1,237,655</u>  | <u>-</u>          | <u>1,320,040</u> |

There were no transfers between levels during the year.

# Seprod Limited

## Notes to the Financial Statements

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### 3. Financial Risk Management (Continued)

#### (e) Fair values of financial instruments (continued)

The movement in instruments classified as level 3 was as follows:

|   | 2012<br>\$'000   | 2011<br>\$'000 |
|---|------------------|----------------|
| At start of year                                    | -                | 100,056        |
| Additions   | 1,223,469        | -              |
| Disposals   | -                | (100,816)      |
| Fair value gains                                    | 18,581           | -              |
| Foreign exchange gains recognised in profit or loss | 37,139           | 760            |
| At end of year                                      | <u>1,279,189</u> | <u>-</u>       |

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. 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 re-measured at their fair value after initial recognition:

- (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 \$608,785,000 (2011 – \$1,190,509,000). This was derived by discounting the contractual cash flows using the market rate of interest. The carrying value of these receivables is \$587,773,000 (2011 – \$1,154,218,000).
- (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.

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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.

#### ***Fair value of certain biological assets***

The Group measures its biological assets at fair value less costs to sell. In doing this valuation for cane, the Group first determines a price per tonne of cane, based on the established price per tonne of sugar, and certain cane to sugar conversion efficiency metrics, as established by the Sugar Industry Authority (SIA), the regulatory body which oversees the local sugar industry. This price per tonne of fully grown cane is used as the base for determining the fair value for the cane in each field, at the various stages in the cane harvest cycle.

In valuing the cane for each cane field in each cane farm, the group estimates each field's yield, by estimating the tonnes of cane to be reaped, per hectare of cane planted. The value of the cane considers the stage of growth of the cane, using certain assumptions regarding the relationship between the stage of growth of the cane and the cane's value.

#### ***Fair value of unquoted equities***

The fair value of securities not quoted in an active market may be determined using valuation techniques. The Group exercises judgement and estimates on the quantity and quality of cashflow projections used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows. The models used to determine fair values are reviewed by external experts. The fair value is sensitive to the assumptions used in the computation, the primary assumption being the discount rate of 11.19% and a market participant minority discount of 20%. For the valuation of unquoted ordinary shares at the year-end if the discount rate had increased/decreased to 12%/11% with all other variables constant, the fair value would increase/decrease from US\$7,162,000 to US\$5,333,000/US\$6,425,000.

# Seprod Limited

## Notes to the Financial Statements

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(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, sugar and biscuits.
- (b) Distribution - The merchandising of consumer goods.

|                                       | 2012                    |                        |                        | Group<br>\$'000   |
|---------------------------------------|-------------------------|------------------------|------------------------|-------------------|
|                                       | Manufacturing<br>\$'000 | Distribution<br>\$'000 | Eliminations<br>\$'000 |                   |
| External revenue                      | 8,142,046               | 4,581,532              | -                      | 12,723,578        |
| Inter-segment revenue                 | 3,613,491               | -                      | (3,613,491)            | -                 |
| <b>Total revenue</b>                  | <b>11,755,537</b>       | <b>4,581,532</b>       | <b>(3,613,491)</b>     | <b>12,723,578</b> |
| Segment result                        | 1,310,019               | 162,955                | -                      | 1,472,974         |
| Unallocated corporate income          |                         |                        |                        | (136,706)         |
| <b>Operating profit</b>               |                         |                        |                        | <b>1,336,268</b>  |
| Segment assets                        | 7,503,911               | 919,618                | -                      | 8,423,529         |
| Unallocated corporate assets          |                         |                        |                        | 3,775,441         |
| <b>Total consolidated assets</b>      |                         |                        |                        | <b>12,198,970</b> |
| Segment liabilities                   | 1,955,720               | 268,134                | -                      | 2,223,854         |
| Unallocated corporate liabilities     |                         |                        |                        | 1,503,263         |
| <b>Total consolidated liabilities</b> |                         |                        |                        | <b>3,727,117</b>  |
| Other segment items –                 |                         |                        |                        |                   |
| Capital expenditure                   | 664,176                 | 10,675                 | -                      | 674,851           |
| Unallocated capital expenditure       |                         |                        |                        | 23,415            |
| <b>Total capital expenditure</b>      |                         |                        |                        | <b>698,266</b>    |
| Depreciation                          | 358,343                 | 2,626                  | -                      | 360,969           |
| Unallocated depreciation              |                         |                        |                        | 20,037            |
| <b>Total depreciation</b>             |                         |                        |                        | <b>381,006</b>    |

# Seprod Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 5. Business Segments (Continued)

|                                       | 2011              |                  |                    | Group             |
|---------------------------------------|-------------------|------------------|--------------------|-------------------|
|                                       | Manufacturing     | Distribution     | Eliminations       |                   |
|                                       | \$'000            | \$'000           | \$'000             | \$'000            |
| External revenue                      | 7,532,030         | 4,473,172        | -                  | 12,005,202        |
| Inter-segment revenue                 | 3,445,025         | -                | (3,445,025)        | -                 |
| <b>Total revenue</b>                  | <b>10,977,055</b> | <b>4,473,172</b> | <b>(3,445,025)</b> | <b>12,005,202</b> |
| Segment result                        | 1,056,345         | 206,494          | -                  | 1,262,839         |
| Unallocated corporate income          |                   |                  |                    | (6,525)           |
| <b>Operating profit</b>               |                   |                  |                    | <b>1,256,314</b>  |
| Segment assets                        | 6,615,178         | 914,128          | -                  | 7,529,306         |
| Unallocated corporate assets          |                   |                  |                    | 3,370,066         |
| <b>Total consolidated assets</b>      |                   |                  |                    | <b>10,899,372</b> |
| Segment liabilities                   | 1,152,773         | 154,628          | -                  | 1,307,401         |
| Unallocated corporate liabilities     |                   |                  |                    | 1,537,027         |
| <b>Total consolidated liabilities</b> |                   |                  |                    | <b>2,844,428</b>  |
| Other segment items –                 |                   |                  |                    |                   |
| Capital expenditure                   | 812,966           | 6,375            | -                  | 819,341           |
| Unallocated capital expenditure       |                   |                  |                    | 62,443            |
| <b>Total capital expenditure</b>      |                   |                  |                    | <b>881,784</b>    |
| Depreciation                          | 292,502           | 2,663            | -                  | 295,165           |
| Unallocated depreciation              |                   |                  |                    | 20,597            |
| <b>Total depreciation</b>             |                   |                  |                    | <b>315,762</b>    |

The Group's customers are mainly resident in, and operate from, Jamaica.

# Seprod Limited

## Notes to the Financial Statements

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### 6. Finance and Other Operating Income

|   | The Group      |                | The Company      |                |
|---|----------------|----------------|------------------|----------------|
|   | 2012           | 2011           | 2012             | 2011           |
|   | \$'000         | \$'000         | \$'000           | \$'000         |
| Interest income from subsidiaries                         | -              | -              | 131,986          | 113,500        |
| Other interest income                                     | 208,060        | 320,377        | 198,411          | 302,077        |
| Dividend income from subsidiaries                         | -              | -              | 1,949,711        | -              |
| Other dividend income                                     | 4,604          | 3,549          | 4,604            | 3,549          |
| Net foreign exchange gains                                | 146,143        | 907            | 165,115          | 3,456          |
| Gain on sale of available-for-sale investments            | 6,420          | 18,349         | 6,420            | 18,349         |
| (Loss)/ gain on disposal of property, plant and equipment | (294)          | 6,598          | 95               | 330            |
| Other   | 162,754        | 120,078        | 16,888           | 17,722         |
|   | <u>527,687</u> | <u>469,858</u> | <u>2,473,230</u> | <u>458,683</u> |

### 7. Expenses by Nature

Total direct, selling, administration and other operating expenses:

|  | The Group         |                   | The Company    |                |
|--|-------------------|-------------------|----------------|----------------|
|  | 2012              | 2011              | 2012           | 2011           |
|  | \$'000            | \$'000            | \$'000         | \$'000         |
| Advertising and promotion                    | 118,966           | 98,975            | 10,760         | 1,303          |
| Amortisation of intangible assets            | 7,341             | 7,341             | -              | -              |
| Auditors' remuneration                       | 16,776            | 17,400            | 4,535          | 4,489          |
| Bad debt expense, net of recoveries          | 5,299             | 18,452            | 461            | -              |
| Cost of inventories recognised as an expense | 7,288,333         | 7,134,657         | -              | -              |
| Depreciation                                 | 381,006           | 315,762           | 20,037         | 20,597         |
| Insurance                                    | 157,461           | 156,374           | 12,062         | 14,071         |
| Professional services                        | 44,448            | 39,928            | 28,226         | 25,924         |
| Provision for legal claim                    | 29,050            | -                 | -              | -              |
| Provision for tax assessment                 | 8,749             | -                 | -              | -              |
| Repairs and maintenance                      | 395,936           | 404,196           | 18,404         | 17,471         |
| Security                                     | 106,847           | 95,544            | 14,644         | 13,641         |
| Staff costs (Note 8)                         | 1,662,330         | 1,436,953         | 352,376        | 305,173        |
| Utilities                                    | 805,840           | 741,752           | 23,282         | 17,042         |
| Other  | 886,615           | 751,412           | 43,452         | 45,497         |
|  | <u>11,914,997</u> | <u>11,218,746</u> | <u>528,239</u> | <u>465,208</u> |



# Seprod Limited

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### 8. Staff Costs

|  | The Group        |                  | The Company    |                |
|--|------------------|------------------|----------------|----------------|
|  | 2012             | 2011             | 2012           | 2011           |
|  | \$'000           | \$'000           | \$'000         | \$'000         |
| Wages and salaries                       | 1,334,520        | 1,153,945        | 233,326        | 207,070        |
| Statutory contributions                  | 100,714          | 89,242           | 20,038         | 19,092         |
| Pension – defined benefit (Note 18)      | 22,100           | 11,000           | 22,100         | 11,000         |
| Pension - defined contribution (Note 18) | 19,688           | 13,469           | 9,780          | 4,004          |
| Other retirement benefits (Note 18)      | 21,300           | 18,800           | 21,300         | 18,800         |
| Other                                    | 164,008          | 150,497          | 45,832         | 45,207         |
|  | <u>1,662,330</u> | <u>1,436,953</u> | <u>352,376</u> | <u>305,173</u> |

### 9. Finance Costs

|                    | The Group      |               | The Company   |               |
|--------------------|----------------|---------------|---------------|---------------|
|                    | 2012           | 2011          | 2012          | 2011          |
|                    | \$'000         | \$'000        | \$'000        | \$'000        |
| Interest expense – |                |               |               |               |
| Long term loans    | 95,186         | 53,702        | 83,387        | 44,598        |
| Other              | 10,510         | 8,661         | 565           | 1,317         |
|                    | <u>105,696</u> | <u>62,363</u> | <u>83,952</u> | <u>45,915</u> |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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 33 $\frac{1}{3}$ %:

|                                    | The Group |         | The Company |          |
|------------------------------------|-----------|---------|-------------|----------|
|                                    | 2012      | 2011    | 2012        | 2011     |
|                                    | \$'000    | \$'000  | \$'000      | \$'000   |
| Current taxation                   | 449,098   | 397,217 | 84,721      | 99,403   |
| Adjustment to prior year provision | (1,651)   | 18,582  | (1,420)     | 5,685    |
|                                    | 447,447   | 415,799 | 83,301      | 105,088  |
| Deferred taxation (Note 27)        | (67,677)  | 10,872  | 9,980       | (22,152) |
|                                    | 379,770   | 426,671 | 93,281      | 82,936   |

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 33 $\frac{1}{3}$ %, as follows:

|   | The Group |           | The Company |          |
|---|-----------|-----------|-------------|----------|
|   | 2012      | 2011      | 2012        | 2011     |
|   | \$'000    | \$'000    | \$'000      | \$'000   |
| Profit before taxation  | 1,230,572 | 1,193,951 | 2,338,209   | 396,753  |
| Tax calculated at a tax rate of 33 $\frac{1}{3}$ %                                      | 410,191   | 397,983   | 779,403     | 132,251  |
| Adjusted for the effect of:   |           |           |             |          |
| Investment income not subject to tax  | (4,946)   | (44,178)  | (659,078)   | (44,178) |
| Adjustment to prior year provision  | (1,651)   | 18,582    | (1,420)     | 5,685    |
| Profit of subsidiaries not subject to tax   | (18,445)  | (22,913)  | -           | -        |
| Effect of change in tax rate (Note 27)  | (87,760)  | -         | (15,793)    | -        |
| Tax losses of subsidiaries for which no deferred tax assets have been created (Note 27) | 75,286    | 66,893    | -           | -        |
| Other charges and credits   | 7,095     | 10,304    | (9,831)     | (10,822) |
|   | 379,770   | 426,671   | 93,281      | 82,936   |

Certain subsidiaries are granted relief from taxation as approved farmer under section 36D of the Income Tax Act 1982, for a period of 10 years commencing in the year of assessment 2008. As such, profits of these subsidiaries for the year amounting to \$55,335,000 (2011- \$68,739,000) were not subject to tax.

# Seprod Limited

## Notes to the Financial Statements

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

Dealt with as follows in the financial statements:

|                                   | <b>2012</b>    | <b>2011</b>    |
|-----------------------------------|----------------|----------------|
|                                   | <b>\$'000</b>  | <b>\$'000</b>  |
| The company                       | 2,244,928      | 313,817        |
| Dividend income from subsidiaries | (1,949,711)    | -              |
|                                   | <u>295,217</u> | <u>313,817</u> |
| Subsidiaries                      | 600,319        | 560,077        |
|                                   | <u>895,536</u> | <u>873,894</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>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Net profit attributable to stockholders (\$'000)       | 895,536     | 873,894     |
| Weighted average number of ordinary stock units ('000) | 516,398     | 516,398     |
| Basic earnings per stock unit (\$)                     | <u>1.73</u> | <u>1.69</u> |

The company has no dilutive potential ordinary shares.

### 13. Dividends

|   | <b>2012</b>    | <b>2011</b>    |
|---|----------------|----------------|
|   | <b>\$'000</b>  | <b>\$'000</b>  |
| Interim dividends -                       |                |                |
| 53 cents per stock unit – 7 August 2012   | 273,691        | -              |
| 30 cents per stock unit – 9 November 2012 | 154,920        | -              |
| 50 cents per stock unit – 8 July 2011     | -              | 258,199        |
| 26 cents per stock unit – 7 November 2011 | -              | 134,264        |
|   | <u>428,611</u> | <u>392,463</u> |

# Seprod Limited

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### 14. Property, Plant and Equipment

|                            | The Group                               |           |                                    |                   |                     |           |
|----------------------------|---|-----------|------------------------------------|-------------------|---------------------|-----------|
|                            | Freehold<br>Land & Site<br>Improvements | Buildings | Plant,<br>Equipment<br>& Furniture | Motor<br>Vehicles | Work in<br>Progress | Total     |
|                            | \$'000                                  | \$'000    | \$'000                             | \$'000            | \$'000              | \$'000    |
|                            | <b>2012</b>                             |           |                                    |                   |                     |           |
| Cost -                     |   |           |                                    |                   |                     |           |
| At 1 January 2012          | 526,982                                 | 1,157,491 | 3,434,247                          | 267,475           | 347,934             | 5,734,129 |
| Additions                  | 37,565                                  | 15,344    | 116,116                            | 9,890             | 519,351             | 698,266   |
| Disposals                  | -                                       | (879)     | (2,340)                            | (3,508)           | (619)               | (7,346)   |
| Transfers                  | 318                                     | 37,322    | 514,892                            | 64,937            | (617,469)           | -         |
| At 31 December 2012        | 564,865                                 | 1,209,278 | 4,062,915                          | 338,794           | 249,197             | 6,425,049 |
| Accumulated Depreciation - |   |           |                                    |                   |                     |           |
| At 1 January 2012          | -                                       | 538,483   | 1,584,750                          | 118,198           | -                   | 2,241,431 |
| Charge for the year        | -                                       | 25,138    | 284,413                            | 71,455            | -                   | 381,006   |
| On disposals               | -                                       | (29)      | (1,920)                            | (2,546)           | -                   | (4,495)   |
| At 31 December 2012        | -                                       | 563,592   | 1,867,243                          | 187,107           | -                   | 2,617,942 |
| Net Book Value -           |   |           |                                    |                   |                     |           |
| At 31 December 2012        | 564,865                                 | 645,686   | 2,195,672                          | 151,687           | 249,197             | 3,807,107 |
|                            | <b>2011</b>                             |           |                                    |                   |                     |           |
| Cost -                     |   |           |                                    |                   |                     |           |
| At 1 January 2011          | 430,889                                 | 1,106,279 | 2,840,525                          | 231,490           | 263,939             | 4,873,122 |
| Additions                  | 53,140                                  | 3,264     | 192,561                            | 9,274             | 623,545             | 881,784   |
| Disposals                  | -                                       | -         | (18,097)                           | (2,578)           | (102)               | (20,777)  |
| Transfers                  | 42,953                                  | 47,948    | 419,258                            | 29,289            | (539,448)           | -         |
| At 31 December 2011        | 526,982                                 | 1,157,491 | 3,434,247                          | 267,475           | 347,934             | 5,734,129 |
| Accumulated Depreciation - |   |           |                                    |                   |                     |           |
| At 1 January 2011          | -                                       | 514,133   | 1,367,635                          | 63,636            | -                   | 1,945,404 |
| Charge for the year        | -                                       | 24,350    | 234,272                            | 57,140            | -                   | 315,762   |
| On disposals               | -                                       | -         | (17,157)                           | (2,578)           | -                   | (19,735)  |
| At 31 December 2011        | -                                       | 538,483   | 1,584,750                          | 118,198           | -                   | 2,241,431 |
| Net Book Value -           |   |           |                                    |                   |                     |           |
| At 31 December 2011        | 526,982                                 | 619,008   | 1,849,497                          | 149,277           | 347,934             | 3,492,698 |

# Seprod Limited

## Notes to the Financial Statements

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### 14. Property, Plant and Equipment (Continued)

|                            | The Company                             |           |                                    |                   |                     |         |
|----------------------------|---|-----------|------------------------------------|-------------------|---------------------|---------|
|                            | Freehold<br>Land & Site<br>Improvements | Buildings | Plant,<br>Equipment<br>& Furniture | Motor<br>Vehicles | Work in<br>Progress | Total   |
|                            | \$'000                                  | \$'000    | \$'000                             | \$'000            | \$'000              | \$'000  |
|                            | <b>2012</b>                             |           |                                    |                   |                     |         |
| Cost -                     |   |           |                                    |                   |                     |         |
| At 1 January 2012          | 66,289                                  | 339,025   | 180,491                            | 32,042            | 2,536               | 620,383 |
| Additions                  |   | 6,774     | 1,122                              | -                 | 15,519              | 23,415  |
| Disposals                  | -                                       | -         | (131)                              | -                 | -                   | (131)   |
| Transfers                  |   | 2,288     | 5,151                              | 7,797             | (15,236)            | -       |
| At 31 December 2012        | 66,289                                  | 348,087   | 186,633                            | 39,839            | 2,819               | 643,667 |
| Accumulated Depreciation - |   |           |                                    |                   |                     |         |
| At 1 January 2012          | -                                       | 240,534   | 167,441                            | 19,795            | -                   | 427,770 |
| Charge for the year        | -                                       | 5,805     | 5,500                              | 8,732             | -                   | 20,037  |
| Relieved on disposals      | -                                       | -         | (73)                               | -                 | -                   | (73)    |
| At 31 December 2012        | -                                       | 246,339   | 172,868                            | 28,527            | -                   | 447,734 |
| Net Book Value -           |   |           |                                    |                   |                     |         |
| At 31 December 2012        | 66,289                                  | 101,748   | 13,765                             | 11,312            | 2,819               | 195,933 |
|                            | <b>2011</b>                             |           |                                    |                   |                     |         |
| Cost -                     |   |           |                                    |                   |                     |         |
| At 1 January 2011          | 23,336                                  | 332,746   | 171,415                            | 30,420            | 2,601               | 560,518 |
| Additions                  | 42,953                                  | -         | 7,892                              | -                 | 11,598              | 62,443  |
| Disposals                  | -                                       | -         | -                                  | (2,578)           | -                   | (2,578) |
| Transfers                  | -                                       | 6,279     | 1,184                              | 4,200             | (11,663)            | -       |
| At 31 December 2011        | 66,289                                  | 339,025   | 180,491                            | 32,042            | 2,536               | 620,383 |
| Accumulated Depreciation - |   |           |                                    |                   |                     |         |
| At 1 January 2011          | -                                       | 234,773   | 159,990                            | 14,988            | -                   | 409,751 |
| Charge for the year        | -                                       | 5,761     | 7,451                              | 7,385             | -                   | 20,597  |
| Relieved on disposals      | -                                       | -         | -                                  | (2,578)           | -                   | (2,578) |
| At 31 December 2011        | -                                       | 240,534   | 167,441                            | 19,795            | -                   | 427,770 |
| Net Book Value -           |   |           |                                    |                   |                     |         |
| At 31 December 2011        | 66,289                                  | 98,491    | 13,050                             | 12,247            | 2,536               | 192,613 |

Certain of the group's property, plant and equipment have been pledged as security for its borrowings (Note 26).

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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>2012</b>      | <b>2011</b>   |
|                                | <b>\$'000</b>    | <b>\$'000</b> |
| Fair value of brands acquired  | 73,407           | 73,407        |
| Less: Accumulated amortisation | (50,750)         | (43,410)      |
|                                | <u>22,657</u>    | <u>29,997</u> |

### 16. Available-for-Sale Investments

|  | <b>The Group &amp;<br/>The Company</b> |                  |
|--|--|------------------|
|  | <b>2012</b>                            | <b>2011</b>      |
|  | <b>\$'000</b>                          | <b>\$'000</b>    |
| Quoted equities                            | 57,305                                 | 82,385           |
| Unquoted equities                          | 1,279,189                              | -                |
| Government of Jamaica securities           | 1,036,445                              | 1,237,655        |
|  | <u>2,372,939</u>                       | <u>1,320,040</u> |
| Less: Securities maturing within 12 months | (16,021)                               | (265,341)        |
|  | <u>2,356,918</u>                       | <u>1,054,699</u> |

Government of Jamaica securities and corporate bonds include interest receivable of \$16,021,000 (2011 – \$42,803,000). The weighted average effective interest rate on these securities was 9.96% (2011 – 9%).

During the year, the company purchased 42,214 ordinary shares (12.5%) and 20,486 preference shares (34%) in Facey Commodity Company Limited, a related company. As the company does not exercise significant influence over the related party, the investment has been treated as available-for sale and is carried at fair value. The preference shares are denominated in United States dollars. As the shares are unlisted, fair values were determined using cash flows discounted using a rate based on market interest rate and a risk premium specific to the unlisted security of 11.19%.

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

|   | <b>The Group &amp;<br/>The Company</b> |                  |
|---|--|------------------|
|   | <b>2012</b>                            | <b>2011</b>      |
|   | <b>\$'000</b>                          | <b>\$'000</b>    |
| Balance at start of year                    | 1,320,040                              | 2,090,566        |
| Additions                                   | 1,236,385                              | -                |
| Disposals                                   | (240,996)                              | (777,359)        |
| Net fair value (losses)/gains               | (5,282)                                | 8,665            |
| Effect of changes in foreign exchange rates | 62,792                                 | (1,832)          |
| Balance at end of year                      | <u>2,372,939</u>                       | <u>1,320,040</u> |

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### 17. Long Term Receivables

|                              | <b>The Group &amp;<br/>The Company</b> |                       |
|------------------------------|--|-----------------------|
|                              | <b>2012</b>                            | <b>2011</b>           |
|                              | <b>\$'000</b>                          | <b>\$'000</b>         |
| (a) Musson (Jamaica) Limited | 309,211                                | 754,159               |
| (b) Orrett and Musson        | 278,562                                | 400,059               |
|                              | <u>587,773</u>                         | <u>1,154,218</u>      |
| Less: Current portion        | (339,470)                              | (456,047)             |
|                              | <u><u>248,303</u></u>                  | <u><u>698,171</u></u> |

- (a) On 2 October 2007, the company sold its 50% shareholding in Gatcombe Investments Limited 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 was 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. The loan is unsecured.

At 31 December 2009, the receivable balance of US\$9,906,000 at that date was restructured with repayments due in equal monthly installments of US\$50,000 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.

At the end of January 2012, the receivable balance of \$3,656,000, at that date was restructured with repayments due in equal monthly installments of US\$30,000 for 3 years from that date at an interest rate of 9%, with the balance receivable in full at the end of the third year.

- (b) During 2010, the company entered into an agreement to lend Orrett and Musson Investment Company Limited, a subsidiary of Musson (Jamaica) Limited, US\$3,000,000 to be used exclusively for business purposes. The amount was repayable on or before 31 December 2011. The amount was restructured and is now repayable on 31 March 2013. Interest is charged monthly at a rate of 9%. The amount includes interest receivable of \$2,113,000 at the year end (2011 – Nil). The loan is unsecured.

### 18. Retirement Benefits

|  | <b>The Group &amp;<br/>The Company</b> |                        |
|--|--|------------------------|
|  | <b>2012</b>                            | <b>2011</b>            |
|  | <b>\$'000</b>                          | <b>\$'000</b>          |
| Assets/(liabilities) recognised in the statement of financial position – |  |                        |
| Pension scheme   | 3,600                                  | 21,700                 |
| Medical benefits   | (102,700)                              | (92,400)               |
| Amounts recognised in profit or loss –                                   |  |                        |
| Pension scheme   | (22,100)                               | (11,000)               |
| Medical benefits   | (21,300)                               | (18,800)               |
|  | <u><u>(21,300)</u></u>                 | <u><u>(18,800)</u></u> |

# Seprod Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 18. Retirement Benefits (Continued)

#### *Pension scheme*

In addition to the defined benefit pension scheme described below, employees of the Group hired on or after 1 January 2002, participate in an Individual Retirement Scheme operated by an independent insurance company. Employees participating in the scheme contribute up to 15% of pensionable earnings while the company contributes 5%. The Group and the company's contribution for the year amounted to \$19,688,000 (2011 - \$13,469,000) and \$9,780,000 (2011 - \$4,004,000), respectively (Note 8).

The Group operates a defined benefit scheme for employees of the Group hired prior to 1 January 2002. The scheme is 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 scheme was closed to new members as at 31 December 2001. As the subsidiaries make fixed contributions to the pension scheme and have no further legal or constructive obligations under the scheme, the pension asset and obligations are accounted for in the financial statements of the company. The subsidiaries recognise a cost equal to their contributions payable in respect of each accounting period in profit or loss.

A funding valuation is performed triennially by independent actuaries. The latest valuation was done as at 31 August 2011 and revealed that the scheme was adequately funded.

The defined benefit asset recognised in the statement of financial position was determined as follows:

|                                | <b>The Group &amp;<br/>The Company</b> |               |
|--------------------------------|--|---------------|
|                                | <b>2012</b>                            | <b>2011</b>   |
|                                | <b>\$'000</b>                          | <b>\$'000</b> |
| Fair value of plan assets      | 745,500                                | 744,100       |
| Present value of obligations   | (772,400)                              | (779,300)     |
|                                | (26,900)                               | (35,200)      |
| Unrecognised actuarial losses  | 30,500                                 | 56,600        |
| Unrecognised past service cost | -                                      | 300           |
|                                | <u>3,600</u>                           | <u>21,700</u> |

The distribution of plan assets was as follows:

|                                  | <b>2012</b>    |              | <b>2011</b>    |            |
|----------------------------------|----------------|--------------|----------------|------------|
|                                  | <b>\$'000</b>  | <b>%</b>     | <b>\$'000</b>  | <b>%</b>   |
| Quoted equities                  | 156,555        | 21.0         | 177,027        | 24         |
| Real estate                      | 224,395        | 30.1         | 191,917        | 26         |
| Government of Jamaica securities | 260,925        | 35.0         | 286,844        | 38         |
| Repurchase agreements            | 29,075         | 3.9          | 19,063         | 3          |
| Leases                           | 61,876         | 8.3          | 42,327         | 6          |
| Other                            | 12,674         | 1.7          | 26,922         | 3          |
|                                  | <u>745,500</u> | <u>100.0</u> | <u>744,100</u> | <u>100</u> |



# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(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 \$26,413,000 (2011 – \$37,969,000).

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 statement of financial position date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The movement in the fair value of plan assets during the year was as follows:

|                                 | <b>The Group &amp;<br/>The Company</b> |                |
|---------------------------------|--|----------------|
|                                 | <b>2012</b>                            | <b>2011</b>    |
|                                 | <b>\$'000</b>                          | <b>\$'000</b>  |
| At beginning of year            | 744,100                                | 707,000        |
| Expected return on plan assets  | 95,400                                 | 76,200         |
| Employer contributions          | 4,000                                  | 3,000          |
| Employee contributions          | 6,800                                  | 5,200          |
| Benefits paid                   | (79,200)                               | (37,600)       |
| Actuarial losses on plan assets | (25,600)                               | (9,700)        |
| At end of year                  | <u>745,500</u>                         | <u>744,100</u> |

The movement in the present value of obligations during the year was as follows:

|   | <b>The Group &amp;<br/>The Company</b> |                  |
|---|--|------------------|
|   | <b>2012</b>                            | <b>2011</b>      |
|   | <b>\$'000</b>                          | <b>\$'000</b>    |
| At beginning of year                    | (779,300)                              | (656,800)        |
| Current service cost                    | (38,600)                               | (21,900)         |
| Interest cost                           | (99,700)                               | (75,200)         |
| Employee contributions                  | 14,300                                 | 5,200            |
| Benefits paid                           | 79,200                                 | 37,600           |
| Actuarial gains/(losses) on obligations | 51,700                                 | (68,200)         |
| At end of year                          | <u>(772,400)</u>                       | <u>(779,300)</u> |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Retirement Benefits (Continued)

#### *Pension scheme (continued)*

The amounts recognised in profit or loss was as follows:

|   | <b>The Group &amp;<br/>The Company</b> |                 |
|---|--|-----------------|
|   | <b>2012</b>                            | <b>2011</b>     |
|   | <b>\$'000</b>                          | <b>\$'000</b>   |
| Current service cost, net of employee contributions | (17,500)                               | (11,500)        |
| Interest cost                                       | (99,700)                               | (75,200)        |
| Past service cost -                                 |  |                 |
| Non-vested benefits                                 | (300)                                  | (500)           |
| Expected return on plan assets                      | 95,400                                 | 76,200          |
| Total included in staff costs (Note 8)              | <u>(22,100)</u>                        | <u>(11,000)</u> |

The actual return on plan assets was \$66,300,000 (2011 – \$66,500,000).

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

|                            | <b>2012</b>     | <b>2011</b>     | <b>2010</b>   | <b>2009</b>    | <b>2008</b>    |
|----------------------------|-----------------|-----------------|---------------|----------------|----------------|
|                            | <b>\$'000</b>   | <b>\$'000</b>   | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b>  |
| Fair value of plan assets  | 745,500         | 744,100         | 707,000       | 643,200        | 645,000        |
| Defined benefit obligation | (772,400)       | (779,300)       | (656,800)     | (535,400)      | (526,000)      |
| (Deficit)/Surplus          | <u>(26,900)</u> | <u>(35,200)</u> | <u>50,200</u> | <u>107,800</u> | <u>119,000</u> |
| Experience adjustments –   |                 |                 |               |                |                |
| Fair value of plan assets  | 4,500           | 9,700           | 14,600        | 35,700         | (16,400)       |
| Defined benefit obligation | (3,000)         | 34,900          | 6,000         | (24,900)       | 5,500          |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 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. Obligations under the medical scheme are payable by, and accounted for, by the company as the subsidiaries do not have any legal or constructive obligations under the scheme.

The liability recognised in the statement of financial position was determined as follows:

|                                       | <b>The Group &amp;<br/>The Company</b> |                 |
|---------------------------------------|--|-----------------|
|                                       | <b>2012</b>                            | <b>2011</b>     |
|                                       | <b>\$'000</b>                          | <b>\$'000</b>   |
| Present value of unfunded obligations | (126,900)                              | (125,900)       |
| Unrecognised actuarial losses         | 24,200                                 | 33,500          |
|                                       | <u>(102,700)</u>                       | <u>(92,400)</u> |

The movement in the present value of obligations during the year was as follows:

|                      | <b>The Group &amp;<br/>The Company</b> |                  |
|----------------------|--|------------------|
|                      | <b>2012</b>                            | <b>2011</b>      |
|                      | <b>\$'000</b>                          | <b>\$'000</b>    |
| At beginning of year | (125,900)                              | (126,500)        |
| Current service cost | (400)                                  | (600)            |
| Interest cost        | (16,200)                               | (14,200)         |
| Benefits paid        | 11,000                                 | 8,100            |
| Actuarial gains      | 4,600                                  | 7,300            |
| At end of year       | <u>(126,900)</u>                       | <u>(125,900)</u> |

The amounts recognised in profit and loss were as follows:

|   | <b>The Group &amp;<br/>The Company</b> |                 |
|---|--|-----------------|
|   | <b>2012</b>                            | <b>2011</b>     |
|   | <b>\$'000</b>                          | <b>\$'000</b>   |
| Current service cost                            | (400)                                  | (600)           |
| Interest cost                                   | (16,200)                               | (14,200)        |
| Net actuarial losses recognised during the year | (4,700)                                | (4,000)         |
| Total included in staff costs (Note 8)          | <u>(21,300)</u>                        | <u>(18,800)</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 \$1,400,000/(\$1,200,000), and an increase/(decrease) in the defined benefit obligation of \$13,600,000/(\$11,400,000).

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

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### 18. Retirement Benefits (Continued)

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

|                            | <b>2012</b>   | <b>2011</b>   | <b>2010</b>   | <b>2009</b>   | <b>2008</b>   |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
|                            | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b> |
| Defined benefit obligation | (126,900)     | (125,900)     | (126,500)     | (103,300)     | (78,500)      |
| Experience adjustments     | 1,600         | 7,300         | 11,700        | 18,000        | 3,200         |

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

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

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| Discount rate  | 10.0%       | 10.5%       |
| Expected return on plan assets                                   | 10.0%       | 10.0%       |
| Future salary increases  | 7.0%        | 7.0%        |
| Future pension increases   | 4.5%        | 5.0%        |
| Long term increase in health costs                               | 9.5%        | 9.5%        |
| Average expected remaining service life of the employees (years) | <u>7</u>    | <u>8</u>    |

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 2012

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### 19. Biological Assets

#### *Non-current – livestock*

|   | <u>The Group</u> |                |
|---|------------------|----------------|
|   | <b>2012</b>      | <b>2011</b>    |
|   | <b>\$'000</b>    | <b>\$'000</b>  |
| Dairy Livestock –   |                  |                |
| 2,631 (2011 – 2,121) Cows able to produce milk                          | 144,328          | 121,201        |
| 2,613 (2011 – 2,416) Heifers being raised to produce milk in the future | 85,568           | 88,350         |
| Other Livestock –   |                  |                |
| 128 (2011 – 144) Bulls raised for sale and reproduction                 | 5,399            | 4,420          |
| 1,422 (2011 – 1,254) Sheep raised for sale and reproduction             | 9,475            | 8,561          |
| 10 (2011 – 9) Horses raised   | 375              | 338            |
| 80 (2011 – 80) Bee colonies   | 960              | 960            |
|   | <u>246,105</u>   | <u>223,830</u> |

6,305,813 (2011 – 5,501,729) litres of milk with a fair value, less estimated point-of-sale costs of \$406,071,000 (2011 – \$357,661,000) were produced during the period.

The movement in livestock during the year was as follows:

|   | <u>The Group</u> |                |
|---|------------------|----------------|
|   | <b>2012</b>      | <b>2011</b>    |
|   | <b>\$'000</b>    | <b>\$'000</b>  |
| Balance at start of year  | 223,830          | 211,712        |
| Purchases   | 228              | 1,896          |
| Sales   | (30,864)         | (43,677)       |
| Changes in fair value less estimated point-of-sale costs - cattle | 49,857           | 50,338         |
| Changes in fair value less estimated point-of-sale costs - sheep  | 3,054            | 3,561          |
| Balance at end of year  | <u>246,105</u>   | <u>223,830</u> |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 19. Biological Assets (Continued)

#### Current – sugar cane

|                                      | <b>The Group</b> |               |
|--------------------------------------|------------------|---------------|
|                                      | <b>2012</b>      | <b>2011</b>   |
|                                      | <b>\$'000</b>    | <b>\$'000</b> |
| 97,637 tonnes (2011 – 99,621 tonnes) | 446,696          | 349,917       |

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

|  | <b>The Group</b> |               |
|--|------------------|---------------|
|  | <b>2012</b>      | <b>2011</b>   |
|  | <b>\$'000</b>    | <b>\$'000</b> |
| Balance at start of year                                 | 349,917          | 162,268       |
| Net cost of cane cultivation and value of cane harvested | (311,535)        | (271,839)     |
| Changes in fair value less estimated point-of-sale costs | 408,314          | 459,488       |
| Balance at end of year                                   | 446,696          | 349,917       |

### 20. Inventories

|                             | <b>The Group</b> |               |
|-----------------------------|------------------|---------------|
|                             | <b>2012</b>      | <b>2011</b>   |
|                             | <b>\$'000</b>    | <b>\$'000</b> |
| Raw and packaging materials | 1,762,633        | 994,594       |
| Work in progress            | 37,852           | 36,253        |
| Finished goods              | 490,107          | 522,570       |
|                             | 2,290,592        | 1,553,417     |

### 21. Trade and Other Receivables

|                                | <b>The Group</b> |               | <b>The Company</b> |               |
|--------------------------------|------------------|---------------|--------------------|---------------|
|                                | <b>2012</b>      | <b>2011</b>   | <b>2012</b>        | <b>2011</b>   |
|                                | <b>\$'000</b>    | <b>\$'000</b> | <b>\$'000</b>      | <b>\$'000</b> |
| Trade receivables              | 1,380,231        | 1,320,952     | 3,619              | 3,383         |
| Less: Provision for impairment | (113,100)        | (107,643)     | (3,619)            | (3,383)       |
|                                | 1,267,131        | 1,213,309     | -                  | -             |
| Other advances and prepayments | 118,474          | 445,518       | 12,233             | 10,844        |
| Due from affiliate (Note 29)   | 420,843          | 550,000       | 420,843            | 550,000       |
| Other                          | 297,298          | 247,869       | 104,629            | 83,429        |
|                                | 2,103,746        | 2,456,696     | 537,705            | 644,273       |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

### 22. Cash and Cash Equivalents

|                          | The Group |         | The Company |        |
|--------------------------|-----------|---------|-------------|--------|
|                          | 2012      | 2011    | 2012        | 2011   |
|                          | \$'000    | \$'000  | \$'000      | \$'000 |
| Cash at bank and in hand | 265,692   | 249,926 | 67,328      | 37,272 |
| Short-term deposits      | 10,213    | -       | 10,213      | -      |
|                          | 275,905   | 249,926 | 77,541      | 37,272 |
| Bank overdraft           | (82,614)  | -       | (82,614)    | -      |
|                          | 193,291   | 249,926 | (5,073)     | 37,272 |

Included in the short-term deposits is \$583,000 (2011 – nil) representing interest receivable for both the Group and company.

### 23. Payables

|                | The Group |         | The Company |         |
|----------------|-----------|---------|-------------|---------|
|                | 2012      | 2011    | 2012        | 2011    |
|                | \$'000    | \$'000  | \$'000      | \$'000  |
| Trade payables | 1,415,221 | 466,049 | -           | -       |
| Accruals       | 290,298   | 224,814 | 165,336     | 92,478  |
| Other          | 114,600   | 104,296 | 87,488      | 78,290  |
|                | 1,820,119 | 795,159 | 252,824     | 170,768 |

### 24. Share Capital

|  | 2012    | 2011    |
|--|---------|---------|
|  | \$'000  | \$'000  |
| Authorised -                                     |         |         |
| 530,000,000 Ordinary shares                      |         |         |
| Issued and fully paid -                          |         |         |
| 516,398,000 Ordinary stock units at no par value | 561,287 | 561,287 |

# Seprod Limited

## Notes to the Financial Statements

31 December 2012

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### 25. Capital Reserve

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012           | 2011           | 2012           | 2011           |
|  | \$'000         | \$'000         | \$'000         | \$'000         |
| Revaluation surplus on assets carried at deemed cost | 346,551        | 346,551        | 105,340        | 105,340        |
| Fair value gains on available-for-sale investments   | 88,688         | 93,970         | 88,688         | 93,970         |
| Profits of subsidiaries capitalised                  | 336,537        | 336,537        | -              | -              |
| Redemption reserve                                   | 1,800          | 1,800          | -              | -              |
| Realised gains on sale of investments                | 120,855        | 120,855        | 120,855        | 120,855        |
| Other realised surplus                               | 22,230         | 22,230         | 20,289         | 20,289         |
|  | <u>916,661</u> | <u>921,943</u> | <u>335,172</u> | <u>340,454</u> |

### 26. Long Term Liabilities

|                       | The Group        |                  | The Company    |                  |
|-----------------------|------------------|------------------|----------------|------------------|
|                       | 2012             | 2011             | 2012           | 2011             |
|                       | \$'000           | \$'000           | \$'000         | \$'000           |
| Loan amounts          | 1,292,723        | 1,548,780        | 990,383        | 1,200,000        |
| Interest payable      | 5,680            | 3,594            | 5,680          | 3,594            |
|                       | <u>1,298,403</u> | <u>1,552,374</u> | <u>996,063</u> | <u>1,203,594</u> |
| Less: Current portion | (825,449)        | (1,152,374)      | (596,063)      | (803,594)        |
|                       | <u>472,954</u>   | <u>400,000</u>   | <u>400,000</u> | <u>400,000</u>   |

|  | The Group        |                  | The Company    |                  |
|--|------------------|------------------|----------------|------------------|
|  | 2012             | 2011             | 2012           | 2011             |
|  | \$'000           | \$'000           | \$'000         | \$'000           |
| (i) Tetra Pak – LIBOR + 2%                           | 116,385          | -                | -              | -                |
| (ii) Tetra Pak – LIBOR + 2%                          | -                | 60,111           | -              | -                |
| (iii) Inter-American Investment Corp – LIBOR + 4.25% | -                | 115,468          | -              | -                |
| (iv) Jamaica Cane Product Sales – LIBOR + 3%         | -                | 173,201          | -              | -                |
| (v) Jamaica Cane Product Sales – LIBOR + 3%          | 185,955          | -                | -              | -                |
| (vi) National Commercial Bank (Jamaica) Limited – 9% | 590,383          | 800,000          | 590,383        | 800,000          |
| (vii) Commercial paper – 8%                          | 400,000          | 400,000          | 400,000        | 400,000          |
|  | <u>1,292,723</u> | <u>1,548,780</u> | <u>990,383</u> | <u>1,200,000</u> |



# Seprod Limited

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### 26. Long Term Liabilities (Continued)

- (i) This represents US\$ financing agreements from a supplier and are repayable in sixteen quarterly installments commencing 1 March 2012. It is secured by property, plant and equipment acquired under the loan agreements.
- (ii) This represented US\$694,128 financing agreement from a supplier and was paid in four quarterly payments during 2012.
- (iii) This loan was denominated in United States dollars and is repayable in 6 semi-annual instalments commencing 15 May 2011. The loan is secured by a promissory note. The loan was repaid during the year.
- (iv) The loan was denominated in United States dollars and was repaid at the end of the 2011/2012 crop from sugar cane proceeds.
- (v) The loan is denominated in United States dollars and is repayable at the end of the 2012/2013 crop from sugar cane proceeds.
- (vi) This loan is denominated in Jamaican dollars and was received on 24 November 2011 for an initial period of one year, and is revolving thereafter. The loan attracts interest at a rate of 9% per annum and is due in full at maturity. The loan is unsecured.
- (vii) This represents various commercial paper issued by Seprod and arranged by Bank of Nova Scotia Jamaica Limited. These amounts are denominated in Jamaican dollars and were received on 24 November 2011 and mature in November 2014. The instruments attract interest at a rate of 8% for the first six months, and thereafter, float at WATBY plus 1.5% until maturity. Interest payments are made semi-annually. These amounts are secured by promissory notes issued by Seprod.

### 27. Deferred Taxation

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

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

The movement in deferred taxation is as follows:

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
| Balance at start of year                       | (330,433)      | (319,561)      | (37,400)       | (59,552)       |
| Credited/(charged) to profit or loss (Note 10) | 67,677         | (10,872)       | (9,980)        | 22,152         |
| Balance at end of year                         | (262,756)      | (330,433)      | (47,380)       | (37,400)       |

# Seprod Limited

## Notes to the Financial Statements

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### 27. Deferred Taxation (Continued)

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

|                              | The Group      |                 | The Company    |                |
|------------------------------|----------------|-----------------|----------------|----------------|
|                              | 2012<br>\$'000 | 2011<br>\$'000  | 2012<br>\$'000 | 2011<br>\$'000 |
| Accelerated tax depreciation | 71,726         | (29,968)        | 5,287          | 7,238          |
| Retirement benefits          | 1,208          | 6,200           | 1,208          | 6,200          |
| Tax losses carried forward   | 5,352          | 1,934           | -              | -              |
| Unrealised exchange gains    | (23,020)       | (779)           | (23,250)       | (779)          |
| Other                        | 12,411         | 11,741          | 6,775          | 9,493          |
|                              | <u>67,677</u>  | <u>(10,872)</u> | <u>(9,980)</u> | <u>22,152</u>  |

The deferred tax assets/(liabilities) in the statement of financial position comprise the following temporary differences:

|                              | The Group        |                  | The Company     |                 |
|------------------------------|------------------|------------------|-----------------|-----------------|
|                              | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000  | 2011<br>\$'000  |
| Accelerated tax depreciation | (241,971)        | (313,072)        | (5,775)         | (11,062)        |
| Retirement benefits          | 24,775           | 23,567           | 24,775          | 23,567          |
| Tax losses carried forward   | 7,286            | 1,934            | -               | -               |
| Unrealised exchange gains    | (66,726)         | (43,476)         | (66,726)        | (43,476)        |
| Other                        | 13,880           | 614              | 346             | (6,429)         |
|                              | <u>(262,756)</u> | <u>(330,433)</u> | <u>(47,380)</u> | <u>(37,400)</u> |

Subject to agreement with the Taxpayer Audit and Assessment Department, losses available for offset against future profits of certain subsidiaries amount to \$989,549,000 (2011 – \$743,018,000). Of those losses, no deferred tax assets have been created in respect of \$968,873,000 (2011 - \$737,216,000) as the Group is uncertain of its ability to utilise those losses in the future.

During the 2012/13 budget presentation, the Government of Jamaica announced a reduction in the corporate income tax rate for unregulated entities, from 33 1/3% to 25%, effective 1 January 2013. The change in the tax rate was signed into law on 28 December 2012 and as such has been applied in determining the amounts for deferred taxation in these financial statements.

On 12 February 2013, the Minister of Finance and Planning announced that a surtax of 5% will be imposed on the taxable income of large unregulated entities, effective from 1 April 2013. This represents an addition to 25% tax rate to be levied as at 1 January 2013. Based on Minister Paper 15 of 2013 issued by the Ministry of Finance and Planning, "large unregulated companies" are to be defined as those companies with gross income equal to or greater than \$500,000,000, that are not regulated by the Financial Services Commission, Bank of Jamaica, the Ministry of Finance & Planning or the Office of Utilities Regulation. The surtax has not been applied in determining the amounts for taxation in these financial statements as it had not been enacted or substantively enacted at 31 December 2012. Had the surtax been recognised in the financial statements at 31 December 2012 there would have been an increase of \$52,551,000 and \$9,476,000 in deferred tax liabilities recognised in the statement of financial position and an decrease/increase of \$52,551,000 and \$9,476,000 in the deferred tax credit/charge in the statement of comprehensive income for the Group and the company, respectively.

# Seprod Limited

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### 28. Cash Generated from Operations

|   | The Group        |                  | The Company        |                    |
|---|------------------|------------------|--------------------|--------------------|
|   | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000     | 2011<br>\$'000     |
| Net profit  | 850,802          | 767,280          | 2,244,928          | 313,817            |
| Items not affecting cash resources:                         |                  |                  |                    |                    |
| Amortisation of intangible assets                           | 7,340            | 7,341            | -                  | -                  |
| Depreciation  | 381,006          | 315,762          | 20,037             | 20,597             |
| Unrealised foreign exchange<br>(gains)/losses               | (101,021)        | (24,986)         | (101,021)          | (11,568)           |
| Gain on sale of available-for-sale<br>investments           | (6,420)          | (18,349)         | (6,420)            | (18,349)           |
| Loss/(gain) on disposal of property, plant<br>and equipment | 294              | (6,598)          | (95)               | (330)              |
| Interest income   | (208,060)        | (320,377)        | (330,397)          | (415,577)          |
| Interest expense  | 105,696          | 62,363           | 83,952             | 45,915             |
| Retirement benefits   | 28,400           | 18,600           | 28,400             | 18,600             |
| Dividend income   | (4,604)          | (3,549)          | (1,954,315)        | (3,549)            |
| Taxation  | 379,770          | 426,671          | 93,281             | 82,936             |
|   | <u>1,433,203</u> | <u>1,224,158</u> | <u>78,350</u>      | <u>32,492</u>      |
| Changes in operating assets and liabilities:                |                  |                  |                    |                    |
| Inventories   | (737,175)        | (4,986)          | -                  | -                  |
| Receivables   | 357,143          | (1,096,675)      | 110,761            | (532,400)          |
| Biological assets   | (119,054)        | (199,767)        | -                  | -                  |
| Due to subsidiaries   | -                | -                | (1,372,130)        | (612,416)          |
| Provisions  | 30,585           | -                | -                  | -                  |
| Accounts payable  | 1,016,125        | 117,110          | 76,750             | 40,674             |
|   | <u>1,980,827</u> | <u>39,840</u>    | <u>(1,106,269)</u> | <u>(1,071,650)</u> |
| Taxation paid   | <u>(386,486)</u> | <u>(481,241)</u> | <u>(94,250)</u>    | <u>(102,423)</u>   |
| Cash provided by operating<br>activities                    | <u>1,594,341</u> | <u>(441,401)</u> | <u>(1,200,519)</u> | <u>(1,174,073)</u> |

Significant non-cash transactions during the year were interest and dividend income earned by the company from subsidiaries, which were settled through intercompany accounts (Note 6).

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### 29. 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 \$2,979,969,000 (2011 – \$2,987,670,000) to and purchases of \$170,000 (2011 – \$10,859,000) from Musson (Jamaica) Limited, T.Geddes Grant (Distributors) Limited and Facey Commodity Company Limited occurred during the year. The Chairman of the company's Board of Directors is a major shareholder and Chairman of the Board of Directors of these entities. Trade receivables and payables include \$487,752,000 and \$25,104,000 (2011 - \$427,757,000 and \$27,343,000), respectively, in respect of these transactions.

A subsidiary paid cess of \$5,108,000 (2011 - \$4,481,000) based on the importation of copra-based and substitute products to Coconut Industry Board, a major shareholder of the company.

#### (b) Key management compensation

|  | <b>2012</b>    | <b>2011</b>    |
|--|----------------|----------------|
|  | <b>\$'000</b>  | <b>\$'000</b>  |
| Wages and salaries                       | 98,234         | 142,418        |
| Statutory contributions                  | 6,575          | 11,224         |
| Other                                    | 1,556          | 600            |
|  | <u>106,365</u> | <u>154,242</u> |
| Directors' emoluments –                  |                |                |
| Fees                                     | 5,713          | 9,834          |
| Medical insurance premiums               | 7,487          | 15,056         |
| Management remuneration (included above) | <u>49,800</u>  | <u>59,950</u>  |

#### (c) Advances and loans

At 31 December 2012, profit share advances to key management amounted to \$11,543,000 (2011 – \$23,478,000).

Loans to other related parties are disclosed in Note 17. Interest earned on these loans during the year amounted to US\$691,000 (2011 – US\$1,356,000).

Advances due from an affiliate are disclosed in Note 21. Interest earned on these advances during the year amount to \$10,235,000 and US\$202,000 (2011 - Nil).

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## Notes to the Financial Statements

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### 30. Contingencies and Commitments

- (a) 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.
- (b) At 31 December 2012, management had approved approximately \$330 million (2011 – \$91 million) for capital expenditure in respect of certain subsidiaries.

### 31. Litigation, Claims and Assessments

#### Litigation and Claims

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.

As at 31 December 2012, provisions in respect of such claims amounted to \$29,050,000. This was in relation to a judgment handed down against a subsidiary. An amount of \$5,098,000 was paid on the claim during the year, resulting in a balance of \$23,952,000, of which \$8,214,000 was paid subsequent to the year end. Management is of the opinion that the interest assessed in respect of the claim is excessive and will be filing an appeal to have the amount reduced.

#### Tax Assessment

In 2012, one of the company's subsidiaries received from the Taxpayer Audit & Assessment Department (TAAD), a Notice of Assessment in respect of its 2009 income tax filing. This would result in demands for additional payments for taxation for the year totalling \$8,749,000.

The assessment, against which the subsidiary is planning to lodge a formal objection, resulted from the TAAD disallowing several expenses including group overhead charges, export marketing expenses and inventory provision.

The subsidiary believes that the amounts disallowed should have been accepted as allowable based on the nature of these expenses and expects that the additional assessment will be reversed. At the date of these financial statements the formal objection has not been submitted and as such a provision has been recognised in the financial statements for the amount.

### 32. Subsequent Events

- (a) In February 2013, the company repurchased 59,480 of its own shares at a cost of \$892,200. These shares are considered treasury shares and can be reissued at a later date.
- (b) In February 2013, the company sold 248,212 of its preference shares in one of its subsidiaries for a price of US\$248,212 to Quadrille Holdings Limited. As a part of the agreement, the subsidiary will issue new ordinary shares totaling 5,571 or 11.02% of its ordinary shares for a price of US\$1,755,000 to Quadrille Holdings Limited.

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### 32. Subsequent Events (Continued)

- (c) In September 2012, one of the company's subsidiaries was approved for a loan facility of US\$10,000,000 from the National Commercial Bank Jamaica Limited. This is broken down into two tranches.
- i) Tranche A amounts to US\$4,200,000 and is repayable by 28 quarterly principal payments of US\$105,000 and a balloon payment of US\$1,260,000 at maturity. Interest will be payable quarterly at a rate of 6.50% per annum.
  - ii) Tranche B amounts to US\$5,800,000 and is repayable by 28 quarterly principal payments of US\$145,000 and a balloon payment of US\$1,740,000 at maturity. Interest will be payable quarterly at a rate of 6.25% per annum.

The funds were disbursed in March 2013.

- (d) In February 2013, the Group participated in the National Debt Exchange (NDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments with lower coupon interest rates.

The key features of the NDX are as follows:

- Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the "Old Notes") were invited to exchange those Old Notes for new, longer-dated debt instruments (collectively referred to as the "New Notes"). Participation in the NDX was voluntary.
- The New Notes offered have a variety of payment terms, including but not limited to fixed and variable rates in J\$, CPI-indexed in J\$, and fixed rates in USD.
- Eligible investors had the option to choose New Notes based on the type and maturity of the Old Notes which are offered for exchange based on certain election options. The election options only allow investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
- Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 22 February 2013 (the Settlement Date).

The NDX has had a significant impact on the expected future cash flows from the Group's investment portfolio. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

|  | Pre NDX           | Post NDX          |
|--|-------------------|-------------------|
| Jamaican dollar denominated instruments: |                   |                   |
| Total face value exchanged               |                   | J\$354,387,000    |
| Weighted average coupon rate             | 8.075%            | 4.850%            |
| Weighted average tenor to maturity       | <u>2,368 days</u> | <u>3,993 days</u> |

Following the NDX, 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 post employment 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.