

Seprod Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, biological assets at fair value through profit and loss and investments classified as fair value through profit and loss.

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 authorisation 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 the following are relevant to its operations.

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See note 20 for the impact on the financial statements.
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.
- IFRS 10, 'Consolidated financial statements' 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 of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This did not impact on the financial statements as all subsidiaries are controlled.

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2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards effective during the year (continued)

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.
- IFRS 13, 'Fair value measurement', 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, which are largely aligned between IFRSs and US GAAP, 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 within IFRSs.

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.

- IFRS 9, 'Financial instruments', 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.

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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)

- (c) IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

(b) Basis of consolidation

Consolidation of subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated 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.

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2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

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.

(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 eliminating 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.

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2. Significant Accounting Policies (Continued)

(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.

(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.

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2. Significant Accounting Policies (Continued)

(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.

(i) Financial Assets

Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables', long term receivables and 'cash and cash equivalents'.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss in the statement of comprehensive income within 'Other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(i) Financial Assets (continued)

Recognition and measurement (continued)

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as 'Gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

(j) Impairment of Financial Assets

(a) Assets carried at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

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2. Significant Accounting Policies (Continued)

(j) Impairment of Financial Assets (continued)

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in statement of comprehensive income. Impairment losses recognised in the arriving at profit or loss on equity instruments are not reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in arriving at profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

(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.

(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 amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(n) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(o) Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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2. Significant Accounting Policies (Continued)

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(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.

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Notes to the Financial Statements

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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 amount recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality Government of Jamaica bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

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 healthcare benefits to their retirees. The entitlement to these benefits is usually conditional 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 the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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.

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2. Significant Accounting Policies (Continued)

(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

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(v) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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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.

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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 2013.

In February 2013, the Group participated in the National Debt Exchange (NDX) transaction under which the Group exchanged their holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available under the election options contained in the agreement. The NDX transaction resulted in a reduction in yields and an increase in the tenor of locally issued Government of Jamaica securities. The NDX did not have a significant impact on financial risks on entities which hold such instruments.

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.

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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	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
30 – 60 days	63,229	26,840	-	-
60 – 90 days	56,403	34,905	-	-
greater than 90 days	558,699	454,763	-	-
	<u>678,331</u>	<u>516,508</u>	<u>-</u>	<u>-</u>

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

Trade receivables of \$116,065,000 (2012 – \$113,100,000) for the Group and \$3,619,000 (2012 – \$3,619,000) 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.

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	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
At start of year	113,100	107,643	3,619	3,383
Amounts recovered during the year	(13,225)	(16,869)	-	-
Provided during the year	22,918	22,326	-	236
Written off during the year	(6,728)	-	-	-
At end of year	<u>116,065</u>	<u>113,100</u>	<u>3,619</u>	<u>3,619</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.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Supermarket chains	80,474	57,022	-	-
Retailers & Wholesalers	637,015	909,459	-	-
Distributors	129,848	278,563	-	-
Manufacturers	58,545	40,063	-	-
Others	55,922	95,124	3,619	3,619
	961,804	1,380,231	3,619	3,619
Less: Provision for impairment	(116,065)	(113,100)	(3,619)	(3,619)
	845,739	1,267,131	-	-

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. None of the loans to related parties is past due but not impaired.

(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.

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Undiscounted contractual cash flows of financial liabilities

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

	The Group				
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
	2013				
Long term liabilities	608,130	41,430	820,439	1,082,275	2,552,274
Trade payables	1,246,285	-	-	-	1,250,858
Other payables	316,412	532	4,041	-	320,985
Bank overdraft	118,914	-	-	-	118,914
	2,294,314	41,962	824,480	1,082,275	4,243,031
	2012				
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	100,151	-	-	-	100,151
	1,597,986	19,808	890,283	547,846	3,055,923
	The Company				
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
	2013				
Long term liabilities	597,341	-	432,780	-	1,030,121
Bank overdraft	118,914	-	-	-	118,914
Other payables	84,390	-	-	-	84,390
	800,645	-	432,780	-	1,233,425
	2012 Restated				
Long term liabilities	-	19,808	650,986	472,408	1,143,202
Bank overdraft	82,614	-	-	-	82,614
Other payables	87,488	-	-	-	87,488
	170,102	19,808	650,986	472,408	1,313,304

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

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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 15% devaluation/1% revaluation (2012 - 1% revaluation/10% 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	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Effect on profit before taxation -				
US\$				
15% devaluation (2012 - 10%)	230,421	157,679	533,283	289,374
1% revaluation (2012 - 1%)	(15,361)	(15,768)	(35,552)	(28,937)
Other currencies				
15% devaluation (2012 - 10%)	35,676	19,832	34,002	20,406
1% revaluation (2012 - 1%)	(2,378)	(1,983)	(2,267)	(2,041)

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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\$ J\$'000	US\$ J\$'000	Other J\$'000	Total J\$'000
	2013			
Financial Assets				
Available-for-sale investments	345,428	2,097,505	218,974	2,661,907
Fair value through profit and loss	535,695	-	-	535,695
Long term receivables	-	313,504	-	313,504
Trade and other receivables	973,404	1,121,469	29,750	2,124,623
Short term deposits	-	82,850	-	82,850
Cash and bank	256,496	97,736	7,703	361,935
	2,111,023	3,713,064	256,427	6,080,514
Financial Liabilities				
Long term liabilities	999,088	1,266,475	-	2,265,563
Bank overdraft	118,914	-	-	118,914
Trade and other payables	642,804	910,451	18,588	1,571,843
	1,760,806	2,176,926	18,588	3,956,320
Net financial position	350,217	1,536,138	237,839	2,124,194
	2012 Restated			
Financial Assets				
Available-for-sale investments	384,823	1,829,140	195,703	2,409,666
Long term receivables	-	587,773	-	587,773
Trade and other receivables	1,474,234	511,038	-	1,985,272
Cash and bank	211,567	55,979	8,359	275,905
	2,070,624	2,983,930	204,062	5,258,616
Financial Liabilities				
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
	1,497,948	1,407,145	5,745	2,910,838
Net financial position	570,079	1,576,785	198,317	2,347,778

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

	The Company			
	Jamaican\$ J\$'000	US\$ J\$'000	Other J\$'000	Total J\$'000
	2013			
Financial Assets				
Available-for-sale investments	345,428	2,097,505	218,974	2,661,907
Long term receivables	-	313,504	-	313,504
Trade and other receivables	-	1,054,330	-	1,054,330
Due from subsidiaries	3,237,237	-	-	3,237,237
Cash and bank	25,321	89,884	7,703	122,908
	<u>3,607,986</u>	<u>3,555,223</u>	<u>226,677</u>	<u>7,389,886</u>
Financial Liabilities				
Long term liabilities	999,088	-	-	999,088
Bank overdraft	118,914	-	-	118,914
Other payables	84,390	-	-	84,390
	<u>1,202,392</u>	<u>-</u>	<u>-</u>	<u>1,202,392</u>
Net financial position	<u>2,405,594</u>	<u>3,555,223</u>	<u>226,677</u>	<u>6,187,494</u>
	2012 Restated			
Financial Assets				
Available-for-sale investments	384,823	1,829,140	195,703	2,409,666
Long term receivables	-	587,773	-	587,773
Other receivables	104,629	420,843	-	525,472
Due from subsidiaries	2,920,103	-	-	2,920,103
Cash and bank	13,203	55,979	8,359	77,541
	<u>3,422,758</u>	<u>2,893,735</u>	<u>204,062</u>	<u>6,520,555</u>
Financial Liabilities				
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>
Net financial position	<u>2,256,593</u>	<u>2,893,735</u>	<u>204,062</u>	<u>5,354,390</u>

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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 (2012 – 0.5% increase/decrease) and increase/(decrease) of 2.5%/(0.5%) for United States dollar denominated instruments (2012 – 0.5% increase/decrease), with all other variables held constant, on profit before taxation and other components of equity.

Change in basis points	Effect on Profit before Taxation	Effect on Other Components of Equity	Change in basis points	Effect on Profit before Taxation	Effect on Other Components of Equity
2013 JMD / USD	2013 \$'000	2013 \$'000	2012 JMD / USD	2012 \$'000	2012 \$'000
The Group					
+250/+200	5,733	24,084	+400/+250	2,716	(7,365)
-100/-50	869	(7,316)	-100/-50	(641)	5,657
The Company					
+250/+200	26,075	24,084	+400/+250	1,960	(7,365)
-100/-50	(3,716)	(7,316)	-100/-50	(490)	5,657

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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 \$'000
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non- Interest \$'000	
	2013						
Financial assets							
Available-for-sale investments	40,565	120,006	231,985	250,159	475,096	1,544,096	2,661,907
Fair value through profit	-	-	-	-	-	535,695	535,695
Long term receivables	-	-	-	66,274	247,230	-	313,504
Trade and other receivables	-	1,054,330	133,223	-	-	937,070	2,124,623
Short term deposits	-	82,850	-	-	-	-	82,850
Cash and bank	122,908	-	-	-	-	239,027	361,935
	163,473	1,257,186	365,208	316,433	722,326	3,255,888	6,080,514
Financial liabilities							
Long term liabilities	609,877	26,595	735,713	893,378	-	-	2,265,563
Bank overdraft	118,914	-	-	-	-	-	118,914
Trade and other payables	-	-	-	-	-	1,571,843	1,571,843
	728,791	26,595	735,713	893,378	-	1,571,843	3,956,320
Total interest repricing gap	(565,318)	1,230,591	(370,505)	(576,945)	722,326	1,684,045	2,124,194

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Group						Total \$'000
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non- Interest \$'000	
2012 Restated							
Financial assets							
Available-for-sale investments	-	109,910	-	547,831	378,704	1,373,221	2,409,666
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>522,069</u>	<u>2,871,124</u>	<u>5,258,616</u>
Financial liabilities							
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>
Total interest repricing gap	<u>237,647</u>	<u>8,369</u>	<u>(491,927)</u>	<u>680,503</u>	<u>522,069</u>	<u>1,391,087</u>	<u>2,347,778</u>

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Company						Total \$'000
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non- Interest Bearing \$'000	
	2013						
Financial assets							
Available-for-sale investments	40,565	120,006	231,985	250,159	475,096	1,544,096	2,661,907
Trade and other receivables	-	1,054,330	-	-	-	-	1,054,330
Due from subsidiaries	-	-	-	-	-	3,237,237	3,237,237
Long term receivables	-	-	-	66,274	247,230	-	313,504
Cash and bank	122,908	-	-	-	-	-	122,908
	163,473	1,174,336	231,985	316,433	722,326	4,781,333	7,389,886
Financial liabilities							
Long term liabilities	599,088	-	400,000	-	-	-	999,088
Bank overdraft	118,914	-	-	-	-	-	118,914
Other payables	-	-	-	-	-	84,390	84,390
	718,002	-	400,000	-	-	84,390	1,202,392
Total interest repricing gap	(554,529)	1,174,336	(168,015)	316,433	722,326	4,696,943	6,187,494
2012 Restated							
Financial assets							
Available-for-sale investments	-	109,910	-	547,831	378,704	1,373,221	2,409,666
Trade and other receivables	-	420,843	-	-	-	104,629	525,472
Due from subsidiaries	-	-	-	-	-	2,920,103	2,920,103
Long term receivables	96,792	190,064	24,880	132,672	143,365	-	587,773
Cash and bank	77,541	-	-	-	-	-	77,541
	174,333	720,817	24,880	680,503	522,069	4,397,953	6,520,553
Financial liabilities							
Long term liabilities	-	596,063	400,000	-	-	-	996,063
Bank overdraft	82,614	-	-	-	-	-	82,614
Other payables	-	-	-	-	-	87,488	87,488
	82,614	596,063	400,000	-	-	87,488	1,166,165
Total interest repricing gap	91,719	124,754	(375,120)	680,503	522,069	4,310,465	5,354,388

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The group and company are exposed to equity price risk because of investments held by the group and company classified on the respective statements of financial position either as available-for-sale or at fair value through profit or loss. The group manages its price risk by trading these instruments when appropriate to reduce the impact of any adverse price fluctuations.

The impact on total stockholders' equity (before tax) of a 10% increase/decrease in equity prices is an increase/decrease of \$53,570,000 for the group and nil for the company (2012 – \$5,730,000) for the group and company respectively.

(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).

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3. Financial Risk Management (Continued)

(e) Fair values of financial instruments (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2013				
Available-for-sale investments –				
Unquoted equities	-	-	1,544,096	1,544,096
Issued by the Government of Jamaica	-	1,117,811	-	1,117,811
	-	1,117,811	1,544,096	2,661,907
2012 Restated				
Available-for-sale investments –				
Quoted equities	57,305	-	-	57,305
Unquoted equities	-	-	1,315,916	1,315,916
Issued by the Government of Jamaica	-	1,036,445	-	1,036,445
	57,305	1,036,445	1,315,916	2,409,666

There were no transfers between levels during the year.

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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:

	2013	Restated 2012
	\$'000	\$'000
At start of year	1,315,916	-
Additions	-	1,223,469
Fair value gains	34,444	18,581
Foreign exchange gains	193,736	73,866
At end of year	<u>1,544,096</u>	<u>1,315,916</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 \$316,686,000 (2012 – \$608,785,000). This was derived by discounting the contractual cash flows using the market rate of interest. The carrying value of these receivables is \$313,504,000 (2012 – \$587,773,000).
- (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.

Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were originally recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Retirement benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part 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 10.91% 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%/10% with all other variables constant, the fair value would increase/decrease from US\$7,296,000 to US\$4,700,000/US\$7,300,000.

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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.

	2013			Group
	Manufacturing	Distribution	Eliminations	
	\$'000	\$'000	\$'000	\$'000
External revenue	8,625,583	5,296,176	-	13,921,759
Inter-segment revenue	3,743,667	-	(3,743,667)	-
Total revenue	12,369,250	5,296,176	(3,743,667)	13,921,759
Segment result	674,384	94,566	-	768,950
Unallocated corporate income				650,368
Operating profit				1,419,318
Segment assets	8,190,637	1,124,489	-	9,315,126
Unallocated corporate assets				4,504,454
Total consolidated assets				13,819,580
Segment liabilities	3,484,875	337,085	-	3,821,960
Unallocated corporate liabilities				800,853
Total consolidated liabilities				4,622,813
Other segment items –				
Capital expenditure	381,223	414	-	381,637
Unallocated capital expenditure				18,526
Total capital expenditure				400,163
Depreciation	389,266	4,089	-	393,355
Unallocated depreciation				17,858
Total depreciation				411,213

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5. Business Segments (Continued)

	2012 Restated			Group
	Manufacturing	Distribution	Eliminations	
	\$'000	\$'000	\$'000	\$'000
External revenue	8,142,046	4,581,532	-	12,723,578
Inter-segment revenue	3,613,491	-	(3,613,491)	-
Total revenue	11,755,537	4,581,532	(3,613,491)	12,723,578
Segment result	1,310,019	162,955	-	1,472,974
Unallocated corporate income				(167,646)
Operating profit				1,305,328
Segment assets	7,503,911	919,618	-	8,423,529
Unallocated corporate assets				3,841,589
Total consolidated assets				12,265,118
Segment liabilities	1,955,720	268,134	-	2,223,854
Unallocated corporate liabilities				1,506,983
Total consolidated liabilities				3,730,837
Other segment items –				
Capital expenditure	664,176	10,675	-	674,851
Unallocated capital expenditure				23,415
Total capital expenditure				698,266
Depreciation	358,343	2,626	-	360,969
Unallocated depreciation				20,037
Total depreciation				381,006

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

The result of its revenue from external customers in Jamaica is \$13,164,325,000 (2012 - \$12,049,966,000), and the total of revenue from external customers from other countries is \$757,434,000 (2012 - \$673,612,000).

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6. Finance and Other Operating Income

	The Group		The Company	
	2013	Restated 2012	2013	Restated 2012
	\$'000	\$'000	\$'000	\$'000
Interest income from subsidiaries	-	-	125,629	131,986
Other interest income	223,966	208,060	207,513	198,411
Dividend income from subsidiaries	-	-	664,392	1,949,711
Other dividend income on available for sale financial assets	1,026	4,604	1,026	4,604
Other dividend income on financial assets at fair value through profit or loss	14,305	-	-	-
Net foreign exchange gains	289,540	109,003	284,045	127,975
Gain on sale of available-for-sale investments	24,557	6,420	25,344	6,420
(Loss)/gain on disposal of property, plant and equipment	(1,231)	(294)	-	95
Fair value gains on financial assets at fair value through profit or loss	68,466	-	-	-
Throw up fees and contribution	25,003	21,070	-	-
Income from sale of mangoes	16,086	-	-	-
Rental income	17,177	13,932	-	-
Recoveries from managed farms	26,735	45,542	-	-
Other	161,738	82,060	56,034	16,888
	<u>867,368</u>	<u>490,547</u>	<u>1,363,983</u>	<u>2,436,090</u>

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7. Expenses by Nature

Total direct, selling, administration and other operating expenses:

	The Group		The Company	
	2013	Restated 2012	2013	Restated 2012
	\$'000	\$'000	\$'000	\$'000
Advertising and promotion	88,561	118,966	11,062	10,760
Amortisation of intangible assets	7,341	7,341	-	-
Auditors' remuneration	19,026	16,776	5,098	4,535
Bad debt expense, net of recoveries	15,678	5,299	-	461
Cost of inventories recognised as an expense	7,951,031	7,288,333	-	-
Depreciation	412,119	381,006	17,858	20,037
Insurance	199,988	157,461	17,827	12,062
Professional services	64,006	44,448	37,237	32,761
Provision for legal claim	-	29,050	-	-
Provision for tax assessment	-	8,749	-	-
Repairs and maintenance	503,267	395,936	13,358	18,404
Security	110,297	106,847	15,583	14,644
Staff costs (Note 8)	1,621,338	1,656,130	340,755	346,177
Utilities	879,318	805,840	25,232	23,282
Other	1,497,839	886,615	51,950	38,916
	<u>13,369,809</u>	<u>11,908,797</u>	<u>535,960</u>	<u>522,039</u>

8. Staff Costs

	The Group		The Company	
	2013	Restated 2012	2013	Restated 2012
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	1,276,830	1,334,520	229,292	233,326
Statutory contributions	106,610	100,714	20,976	20,038
Pension – defined benefit (Note 20)	17,200	20,600	17,200	20,600
Pension - defined contribution (Note 20)	24,220	19,688	9,204	9,780
Other retirement benefits (Note 20)	13,100	16,600	13,100	16,600
Redundancy cost	7,519	-	3,248	5,056
Other	175,859	164,008	47,735	40,777
	<u>1,621,338</u>	<u>1,656,130</u>	<u>340,755</u>	<u>346,177</u>

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9. Finance Costs

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Foreign exchange losses	127,163	-	-	-
Interest expense –				
Long term loans	143,689	95,186	86,403	83,387
Other	24,488	10,510	1,389	565
Amortisation of deferred financing fees	5,584	-	-	-
	<u>300,924</u>	<u>105,696</u>	<u>87,792</u>	<u>83,952</u>

10. Taxation Expense

Taxation is based on the profit for the year adjusted for tax purposes and comprises income tax at 28¾% (2012 - 33⅓%):

	The Group		The Company	
	2013	Restated 2012	2013	Restated 2012
	\$'000	\$'000	\$'000	\$'000
Current taxation	349,705	449,098	71,425	84,722
Adjustment to prior year provision	132	(1,651)	1,521	(1,420)
	<u>349,837</u>	<u>447,447</u>	<u>72,946</u>	<u>83,302</u>
Deferred taxation (Note 30)	679	(81,842)	(2,219)	(4,186)
	<u>350,516</u>	<u>365,605</u>	<u>70,727</u>	<u>79,116</u>

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10. Taxation Expense (Continued)

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

	The Group		The Company	
	2013	Restated 2012	2013	Restated 2012
	\$'000	\$'000	\$'000	\$'000
Profit before taxation	1,118,394	1,199,632	1,226,968	2,307,269
Tax calculated at a tax rate of 28 ¾ % (2012 - 33 ⅓%)	321,538	399,877	352,753	769,090
Adjusted for the effect of:				
Investment income not subject to tax	(118,321)	(4,946)	(284,588)	(659,078)
Adjustment to prior year provision	132	(1,651)	1,521	(1,420)
Profit of subsidiaries not subject to tax	(20,914)	(18,445)	-	-
Effect of change in tax rate (Note 30)	-	(87,760)	-	(15,793)
Tax losses of subsidiaries for which no deferred tax assets have been created (Note 30)	152,172	75,286	-	-
Other charges and credits	15,909	3,244	1,041	(13,683)
	350,516	365,605	70,727	79,116

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 \$72,744,000 (2012 - \$55,335,000) were not subject to tax.

Tax (charge)/credit relating to components of other comprehensive income are as follows:

	The Group & The Company		
	2013		
	Before Tax	Tax Effect	After Tax
	\$'000	\$'000	\$'000
Fair value gains -Available-for-sale financial assets	170,702	-	170,702
Remeasurements of post-employment benefit liabilities	(17,100)	4,275	(12,825)
Other comprehensive income	153,602	4,275	157,877

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10. Taxation Expense (Continued)

	The Group & The Company		
	2012		
	Before Tax	Tax Effect	After Tax
	\$'000	\$'000	\$'000
Fair value gains - Available-for-sale financial assets	68,585	-	68,585
Remeasurements of post-employment benefit liabilities	29,500	(7,375)	22,125
Other comprehensive income	98,085	(7,375)	90,710

11. Net Profit Attributable to Stockholders of the Company

Dealt with as follows in the financial statements:

	2013	Restated
	\$'000	\$'000
The company	1,156,241	2,228,153
Dividend income from subsidiaries	(664,393)	(1,949,711)
	491,848	278,442
Subsidiaries	413,905	600,319
	905,753	878,761

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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.

	2013	2012
Net profit attributable to stockholders (\$'000)	905,753	878,761
Weighted average number of ordinary stock units ('000)	516,333	516,398
Basic earnings per stock unit (\$)	<u>1.75</u>	<u>1.70</u>

The company has no dilutive potential ordinary shares.

13. Dividends

	2013 \$'000	2012 \$'000
Interim dividends -		
53 cents per stock unit – 8 July 2013	273,660	-
30 cents per stock unit – 15 November 2013	154,901	-
53 cents per stock unit – 7 August 2012	-	273,691
30 cents per stock unit – 9 November 2012	-	154,920
	<u>428,561</u>	<u>428,611</u>

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14. Property, Plant and Equipment

	The Group					Total \$'000
	Freehold Land & Site Improvements \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Work in Progress \$'000	
	2013					
Cost -						
At 1 January 2013	564,865	1,209,278	4,062,915	338,794	249,197	6,425,049
Adjustments	-	(30)	55	5,084	-	5,109
Additions	53,642	17,083	135,687	3,684	190,067	400,163
Disposals	-	(15,269)	(201,988)	(5,009)	-	(222,266)
Write-offs	-	-	-	-	(4,938)	(4,938)
Transfers	-	18,541	207,361	8,436	(234,338)	-
At 31 December 2013	618,507	1,229,603	4,204,030	350,989	199,988	6,603,117
Accumulated Depreciation -						
At 1 January 2013	-	563,592	1,867,243	187,107	-	2,617,942
Adjustments	-	118	(84)	5,075	-	5,109
Charge for the year	-	25,983	329,119	57,017	-	412,119
On disposals	-	(15,269)	(199,864)	(4,093)	-	(219,226)
At 31 December 2013	-	574,424	1,996,414	245,106	-	2,815,944
Net Book Value -						
At 31 December 2013	618,507	655,179	2,207,616	105,883	199,988	3,787,173
	2012					
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 2011	564,865	645,686	2,195,672	151,687	249,197	3,807,107

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14. Property, Plant and Equipment (Continued)

	The Company					
	Freehold Land & Site Improvements \$'000	Buildings \$'000	Plant, Equipment & Furniture \$'000	Motor Vehicles \$'000	Work in Progress \$'000	Total \$'000
	2013					
Cost -						
At 1 January 2013	66,289	348,087	186,633	39,839	2,819	643,667
Additions	-	7,416	10,057	-	1,053	18,526
Disposals	-	(15,269)	(71,138)	-	-	(86,407)
Write-off	-	-	-	-	(2,017)	(2,017)
Transfers	-	1,372	-	-	(1,372)	-
At 31 December 2013	66,289	341,606	125,552	39,839	483	573,769
Accumulated Depreciation -						
At 1 January 2013	-	246,339	172,868	28,527	-	447,734
Charge for the year	-	5,917	5,435	6,506	-	17,858
Relieved on disposals	-	(15,269)	(71,138)	-	-	(86,407)
At 31 December 2013	-	236,987	107,165	35,033	-	379,185
Net Book Value -						
At 31 December 2013	66,289	104,619	18,387	4,806	483	194,584
	2012					
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

Certain of the group's property, plant and equipment have been pledged as security for its borrowings (Note 29).

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15. Financial Instruments

	The Group			
	Assets at fair value through profit and loss			Total
	Loans and receivables	Available for Sale	Total	
	\$'000	\$'000	\$'000	\$'000
	2013			
Assets as per statement of financial position				
Available-for-sale financial assets (Note 17)	-	-	2,661,916	2,661,916
Trade and other receivables (Note 23)	2,798,176	-	-	2,798,176
Financial assets as fair value through profit and loss (Note 24)	-	535,695	-	535,695
Long term receivables (Note 19)	313,504	-	-	313,504
Short deposits	82,850	-	-	82,850
Cash and cash equivalents (Note 25)	361,935	-	-	361,935
Total	3,556,465	535,695	2,661,916	6,754,076
			Other financial liabilities at amortised cost	Total
			\$'000	\$'000
Liabilities as per statement of financial position				
Long term liabilities (Note 29)			2,236,387	2,236,387
Bank overdraft (Note 25)			118,914	118,914
Trade and other payables excluding non-financial liabilities (Note 26)			1,686,766	1,686,766
Total			4,042,067	4,042,067

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15. Financial Instruments (Continued)

	The Group		
	Loans and receivables \$'000	Available for Sale \$'000	Total \$'000
Assets as per statement of financial position			
Available-for-sale financial assets (Note 17)	-	2,409,666	2,409,666
Trade and other receivables (Note 23)	2,103,746	-	2,103,746
Long term receivables (Note 19)	587,773	-	587,773
Cash and cash equivalents (Note 25)	275,905	-	275,905
Total	2,967,424	2,409,666	5,377,090
		Other financial liabilities at amortised cost \$'000	Total \$'000
Liabilities as per statement of financial position			
Long term liabilities (Note 29)		1,298,403	1,298,403
Bank overdraft (Note 25)		82,614	82,614
Trade and other payables excluding non-financial liabilities (Note 26)		1,820,119	1,820,119
Total		3,201,136	3,201,136

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15. Financial Instruments (Continued)

	The Company		
	Loans and receivables	Available for Sale	Total
	\$'000	\$'000	\$'000
	2013		
Assets as per statement of financial position			
Available-for-sale financial assets (Note 17)	-	2,661,907	2,661,907
Trade and other receivables including due from subsidiaries	4,374,338	-	4,374,338
Long term receivables (Note 19)	313,504	-	313,504
Cash and cash equivalents (Note 25)	122,908	-	122,908
Total	4,810,750	2,661,907	7,472,657
		Other financial liabilities at amortised cost	Total
		\$'000	\$'000
Liabilities as per statement of financial position			
Long term liabilities (Note 29)		999,088	999,088
Bank overdraft (Note 25)		118,914	118,914
Trade and other payables excluding non-financial liabilities (Note 26)		152,826	152,826
Total		1,270,828	1,270,828

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15. Financial Instruments (Continued)

	The Company		
	Loans and receivables \$'000	Available for Sale \$'000	Total \$'000
Assets as per statement of financial position			
Available-for-sale financial assets (Note 17)	-	2,409,666	2,409,666
Trade and other receivables including due from subsidiaries	3,457,808	-	3,457,808
Long term receivables (Note 19)	587,773	-	587,773
Cash and cash equivalents (Note 25)	77,541	-	77,541
Total	4,123,122	2,409,666	6,532,788
		Other financial liabilities at amortised cost \$'000	Total \$'000
Liabilities as per statement of financial position			
Long term liabilities (Note 29)		996,063	996,063
Bank overdraft (Note 25)		82,614	82,614
Trade and other payables excluding non-financial liabilities (Note 26)		164,677	164,677
Total		1,243,354	1,243,354

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16. Intangible Assets

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

	The Group	
	2013	2012
	\$'000	\$'000
Fair value of brands acquired	73,407	73,407
Less: Accumulated amortisation	(58,091)	(50,750)
	<u>15,316</u>	<u>22,657</u>

17. Available-for-Sale Investments

	The Group & The Company	
	2013	2012
	\$'000	\$'000
Quoted equities	-	57,305
Unquoted equities	1,544,096	1,315,916
Government of Jamaica securities	1,117,811	1,036,445
	<u>2,661,907</u>	<u>2,409,666</u>
Less: Securities maturing within 12 months	(232,206)	(16,021)
	<u>2,429,701</u>	<u>2,393,645</u>

Government of Jamaica securities and corporate bonds include interest receivable of \$13,232,000 (2012 – \$16,021,000). The weighted average effective interest rate on these securities was 8.48% (2012 – 9.96%).

In 2012, 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 10.91%.

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

	The Group & The Company	
	2013	Restated 2012
	\$'000	\$'000
Balance at start of year	2,409,666	1,320,040
Additions	9,050	1,236,385
Disposals	(54,974)	(240,996)
Net fair value gains/(losses)	138,977	(5,282)
Effect of changes in foreign exchange rates	159,188	99,519
Balance at end of year	<u>2,661,907</u>	<u>2,409,666</u>