Lascelles de Mercado & Co. Ltd. 1998

Notes to the Financial Statements

September 30, 1998

1. The company

   The company is incorporated under the laws of Jamaica, and these financial statements are presented in Jamaica dollars.

   The principal activities of the company are the provision of management services to its subsidiaries (as listed in note 20) and the holding of investments.

2. Significant accounting policies

   (a) Accounting convention:

   The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation.

   (b) Basis of consolidation:

   The consolidated financial statements comprise the financial results of the company and its subsidiaries prepared to September 30, 1998. The subsidiary companies are listed in note 20, and are referred to as "subsidiaries" or "subsidiary" in the text of these financial statements. The company and its subsidiaries are collectively referred to as "the group".

   Interests in associated companies (as listed in note 6) are accounted for on the equity basis, based on the results disclosed in their latest available audited financial statements adjusted for significant events occurring between the last audited balance sheet date and September 30, 1998.

   All significant inter-company transactions are eliminated.

Goodwill arising on the acquisition of subsidiaries is written off to capital reserves at the time of acquisition.

(c) Depreciation:

Depreciation is computed on a straight line basis at annual rates estimated to write off the fixed assets over their expected useful lives.

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

The annual depreciation rate applied to freehold buildings is 2 1/2%. The rates for machinery, equipment and vehicles vary between 5% and 33 1/3%. Computers and related software are depreciated 100% in the year of acquisition.

(d) Inventories

Rum and other liquors, estate supplies, raw and packaging materials, and motor vehicles and spare parts are valued at the lower of cost, determined principally on a first-in first-out basis, and net realisable value.

Future crop expenditure represents cultivation expenses which will be written off against the proceeds of the crop to which they relate.

Finished goods and work in progress include the cost of materials and labour with appropriate additions for overhead expenses.

(e) Foreign currencies:

(i) Foreign currency balances at the balance sheet date have been translated at rates of exchange ruling on that date. Transactions in foreign currencies have been converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates have been included in the profit and loss account.

(ii) The reporting currencies of the foreign subsidiaries (see note 20) are also their functional currencies, i.e. currencies in which economic decisions are formulated. For the purpose of these financial statements, revenues, expenses, gains and losses have been translated at the average exchange rates prevailing during the year under review; assets and liabilities have been converted at exchange rates ruling at the balance sheet date and shareholders' equity has been converted at historical exchange rates.

Unrealised gains and losses arising on translation of net stockholders' equity in the foreign subsidiaries have been taken to capital reserve.

(f) Underwriting results:

These are accounted for, in compliance with the recommendations and practices of the insurance industry, under the Insurance Act 1971.

3. Inventories

	The Group	
	1998	1997
	$000s	$000s
Rum and other liquors:		
In-bond	1,089,318	994,646
Duty-paid	398,782	329,988
Future crop expenditure	103,375	113,956
Estate supplies	116,111	114,219
Raw and packaging materials	40,708	39,792
Finished goods held for sale	97,947	89,760
Work in progress	3,983	4,210
Motor vehicles and spare parts	259,782	221,499
	2,110,006	**1,908,070**

4. Unsecured loans

These include loans from related parties aggregating $33,106,000 (1997: $48,332,000) for the company and $160,606,000 (1997: 233,241,000) for the group contracted strictly at arms length in the ordinary course of business.

5. Investments

	The Company		The Group	
	1998	1997	1998	1997
	$'000s	$'000s	$'000s	$'000s
Quoted, at cost	8,734	8,734	258,036	233,868
Unquoted, at cost less amounts written off	11,096	127	147,404	183,095
Life assurance policy, at cash surrender value	-	57	-	57
Government of Jamaica securities	-	-	242,875	177,423
	19,830	**8,918**	**648,315**	**594,443**
Market value of quoted investments	**1,243,566**	**1,186,946**	**1,621,578**	**1,539,316***

*Reclassified to conform with 1998 presentation.

6. Interests in associated companies

	The Group	
	1998	1997
	$000s	$000s
Shares, at cost	96,094	63,417
Group's share of reserves	44,932	65,454
Loan accounts	1,555	1,555
	142,581	**130,426**

Certain subsidiaries held equity capital in the following enterprises:

Company	Holding	Main activity	Latest audited results
Jamaica Joint Venture Investment Company Limited	33.30%	Investment	December 31, 1997
West Indies Glass Company Limited	39.70% (1997: 49.7%)	Manufacture of glass bottles	December 31, 1997
West Indies Metal Products Limited	33.30%	Manufacture of metal caps and seals	September 30, 1997
Royal and Sun Alliance Insurance (Jamaica)	21.20%	General insurance underwriters	December 31, 1997

Limited

(a) During the year, the group entered into successive arrangements whereby West Indies Glass Company Limited (WIG) became, initially, a 99.1% subsidiary and, subsequently, on recapitalisation and restructuring, a 39.7% associated company. As part of the arrangements, the group invested a further $89.5 million as cash injection and acquired all of the shareholding in Plastic Containers Limited, formerly a wholly owned subsidiary of WIG.

(b) In the prior year, the group's investment in Fish Importers Limited was written down to nil consequent on losses discovered by the directors of that company.

7. Long term loan

This represents a receivable from a related party and is contracted, strictly at arms length, in the ordinary course of business. The loan is guaranteed by the Agricultural Credit Bank, is interest free, and is scheduled to be repaid in four equal annual instalments. The first instalment is due on September 30, 1999.

8. Fixed assets

(a) The Company:

	Freehold land $000s	Freehold buildings $000s	Machinery, equipment and vehicles $000s	Total $000s
At cost or valuation				
September 30, 1997	4,213	1,690	5,648	11,551
Disposals	-	-	(750)	(750)
September 30, 1998	4,213	1,690	4,898	10,801

	Freehold land $000s	Freehold buildings $000s	Machinery, equipment and vehicles $000s	Total $000s
Depreciation:				
September 30, 1997	-	1,041	3,699	4,740

Charge for the year	-	63	1,013	1,076
Eliminated on disposal	-	-	(600)	(600)
September 30, 1998	-	1,104	4,112	5,216
Net book values:				
September 30, 1998	**4,213**	**586**	**786**	**5,585**
September 30, 1997	**4,213**	**649**	**1,949**	**6,811**

A portion of the freehold buildings is stated at valuation of $1,654,000 (1997: $1,654,000). All other assets are stated at cost.

(b) The Group

	Freehold land	Freehold buildings	Machinery, equipment and vehicles	Construction in progress	Total
	$000s	$000s	$000s	$000s	$000s
At cost or valuation:					
September 30, 1997	124,976	332,877	926,556	115,822	1,500,231
Additions	-	100,620	375,557	27,607	503,784
Transfers and reclassifications	-	14,548	103,143	117,691	-
Disposals	-	(3,802)	(21,715)	(7,735)	(33,252)
September 30, 1998	124,976	444,243	1,383,541	18,003	1,970,763
At cost	93,039	328,139	1,383,541	18,003	1,822,722
At valuation	31,937	116,104	-	-	148,041
	124,976	444,243	1,383,541	18,003	1,970,763
Depreciation:					
September 30, 1997	-	55,233	375,224	-	430,457
Charge for the year	-	17,704	99,344	-	117,048
Eliminated on disposals	-	(3,258)	(14,612)	-	(17,870)
September 30, 1998	-	69,679	459,956	-	529,635
Net book values:					
September 30, 1998	**124,976**	**374,564**	**923,585**	**18,003**	**1,441,128**
September 30, 1997	**124,976**	**277,644**	**551,332**	**115,822**	**1,069,774**

(c) With the exception of certain freehold land and buildings, all assets of the company and the group are stated at cost. The last major valuation, of certain freehold land and buildings, was performed in 1984. The surplus arising on revaluations is included in capital reserves.

9. Share capital

	The Company	
	1998	1997
	$000s	$000s
Authorized in shares, issued and fully paid in stock units:		
96,000,000 Ordinary units of 20¢ each	19,200	19,200
10,000 6% Cumulative preference units of $20 each	200	200
50,000 15% Cumulative preference units of $20 each	1,000	1,000
	20,400	**20,400**

Stockholders are entitled to one vote for every 1,600 ordinary units, and one vote for each preference unit. The ordinary and preference units are listed on the Jamaica Stock Exchange.

10. Reserves

	The Company		The Group	
	1998	1997	1998	1997
	$000s	$000s	$000s	$000s
Capital:				
At beginning of year	**101,305**	**80,252**	**847,926**	**687,037**
Group's share of pre-acquisition reserves of associated company	-	-	-	29,396
Transfer from/(to) profit and loss account				
Capital profits and incentive dividends received	9,553	22,973	10,063	41,750
Capitalised on bonus shares issued in subsidiaries	-	-	48,900	74,000
Acquisition/(disposal) of subsidiary	-	-	8,562	(3,126)
Gain on disposal of investments	38	-	-	-
Gain on disposal of fixed assets	69	-	13,067	-
Writedown of investment in associate	-	-	-	(2,020)
Dividends and distributions paid	(1,920)	(1,920)	(1,920)	(1,920)
	7,740	21,053	78,672	108,684

Translation adjustment arising on consolidation of foreign subsidiaries	-	-	18,068	22,809
At end of year	109,045	101,305	944,666	847,926
Revenue:				
Retained profits [see note 15(b)]	180,714	146,357	2,193,571	2,288,773
	289,759	**247,662**	**3,138,237**	**3,136,699**

11. Insurance funds

	The Group	
	1998	1997
	$000s	$000s
Outstanding claims	161,157	118,675
Unearned premiums	46,168	50,201
Technical reserves	48,225	56,242
	255,550	225,118

(a) Outstanding claims relate to incidents occurring prior to the balance sheet date, but not settled at that date.

(b) Unearned premiums are accounted for in periods for which risks have been underwritten.

(c) Technical reserves represent unexpired risks and claims equalisation provisions and are shown net of $18,008,000 (1997: Nil) transferred to the profit and loss account during the year to reduce exceptional fluctuations in the amounts charged to revenue in respect of claims under insurance contracts.

12. Long term liabilities

	The Group 1998 $000s	1997 $000s
(a) Bank loans - 1990/2002	7,564	5,979
(b) Foreign currency denominated loans [US$11.5 million (1997: US$1.3 million)]	421,620	48,663
(c) Government of Jamaica loans 1998/2002	92,560	-
(d) Loan from a related party	105,000	105,000*
(e) Other	510,000	226,000*
	1,136,744	385,642*
Less: Current maturities	(52,956)	(19,955)
	$1,083,788	**365,687**

The long term liabilities are, in the main, unsecured and repayable in Jamaica dollars unless otherwise disclosed. They bore interest at rates which, during the year, ranged from 3-28 1/2% (1997: 12 1/2 - 38%). The liabilities are subject to the following repayment terms:

(a) The bank loans form part of facilities offered by banks to subsidiaries and are repayable in quarterly or semi-annual instalments.

(b) The US$ denominated loans are repayable in 2001.

(c) The Government of Jamaica loans are part of a programme of support for the sugar industry. These are repayable over three crop years, after a moratorium of one crop year, out of future sugar cane sales by the group's estates.

(d) This loan is repayable in full on October 20, 2000.

(e) These loans are repayable in full on or before November 1, 1999.

*Reclassified to conform with 1998 presentation.

13. Turnover

This represents the price of goods and services sold to external customers, after deducting returns and discounts, and includes consumption taxes aggregating $701,424,000 (1997:$574,367,000).

14. Disclosure of (income)/expenses

Operating profit for the year is stated after (crediting)/charging:

	The Group	
	1998	1997
	$000s	$000s
Investment income	(127,303)	(125,524)
Gains on disposals of fixed assets	(14,999)	(4,759)
Loss/(gain) on realisation of investments	87,008	(13,504)
Depreciation	117,048	91,666
Directors' emoluments:		
Fees	1	1
Management remuneration	4,855	4,669
Auditors' remuneration	18,219	18,283
Interest:		
Long term liabilities	158,659	8,358
Related parties	49,664	42,854
Other	171,312	280,802
Redundancy payments	**12,708**	**59,855**

15. Taxation

(a) Taxation is based on the profit for the year adjusted for tax purposes and is computed as follows:

	The Group	
	1998	1997
Income tax @ 33 1/3%	66,345	103,422
Adjustments related to prior year	-	(843)
Share of associated companies' tax expense	3,353	-
Tax credits in respect of bonus shares issued in subsidiaries	(12,250)	(18,500)
	57,448	84,079

(b) The farming operations of certain subsidiaries have been approved under Sections 5(6) and 36(d) of the Income Tax Act, with consequent relief from taxation. No profits were so relieved in the years ended September 30, 1998 and 1997. At September 30, 1998, profits relieved and available for distribution free of tax aggregated $87,851,000 (1997: $87,851,000).

(c) At September 30, 1998, taxation losses of subsidiaries, subject to agreement by the Commissioner of Income Tax, available for offset against future profits, amounted to approximately $810 million (1997: $304 million). Of this amount, $184 million (1997: $10 million) of investment allowances can only be utilised in respect of future profits arising from farming and sugar manufacturing activities.

These losses can be carried forward indefinitely.

16. Extraordinary item

This represents the aggregate loss of $85,905,000 arising on disposal, to the Government of Jamaica, of the group's 17% interest in The Sugar Company of Jamaica Limited.

17. (Loss)/profit attributable to members

This is dealt with in the financial statements of:

	The Group	
	1998	1997
	$000s	$000s
The company	44,179	57,165
Subsidiaries	(46,667)	212,930
Associated companies	(20,522)	(13,438)
	(23,010)	**256,657**

18. Dividends and distributions

(a) Dividends and distributions, gross, are as follows:

	The Company 1998 $000s	1997 $000s
Ordinary stock units of 2¢ per stock unit	1,920	1,920
6% cumulative preference stock units	12	12
15% cumulative preference stock units	150	150
	2,082	2,082

(b) The distribution to ordinary stockholders was declared payable out of agricultural profits, relieved of taxation, to stockholders who on the record date, as per the company's register of members, had Jamaican addresses, and, by way of capital distribution out of realised capital gains, less transfer tax, to stockholders who on the record date, as per the company's register of members, had non-Jamaican addresses.

(c) The preference dividends are treated as a charge before taxation in accordance with the Income Tax Act.

19. (Loss)/earnings per ordinary stock unit

The calculation of (loss)/earnings per ordinary stock unit is based on the (loss)/profit attributable to members less fixed preference dividends, and the 96,000,000 fully paid ordinary stock units of 20¢ each in issue.

20. Subsidiaries

(a) The principal operating subsidiaries, in which the company holds equity capital, are:

Company	Holding	Main activities
John Crook Limited, and its wholly-owned subsidiaries: John Crook (Montego Bay) Limited Sun Tours Car Hire Limited	100%	Distribution of motor vehicles and spares; servicing, repair and rental of motor vehicles.
Lascelles Merchandise Limited	100%	Distribution of food, liquor and other consumer supplies.
Ajas Limited	100%	Handling of passenger and cargo operations for international airlines.
Transportation Agencies Limited	100%	General sales agents of international airlines.
C. P. Stephenson Limited	100%	Holding of investments.
Tradewell Limited	100%	Holding of investments.
Globe Insurance Company of the West Indies Limited, and its wholly-owned subsidiary, GWI Insurance Services Limited	100%	General insurance underwriters; operation of an insurance agency; holding of investments.
Turks Islands Importers Limited and its wholly-owned subsidiary, Timco Limited	100%	Wholesale and retail merchandising of provisions and household goods; holding of investments.

Federated Pharmaceutical Company Limited, and its wholly-owned subsidiary, Lascelles Laboratories Limited	84.3%	Manufacture and distribution of pharmaceutical preparations and other personal care products, and agricultural chemicals.
Wray & Nephew Group Limited and its wholly-owned subsidiaries	100%	See note 20 (b)

(b) The main activities of the Wray & Nephew Group of companies are the cultivation of sugar cane and fruit crops; manufacture of sugar; distillation, blending, bottling, distribution and export of alcohol, rum, wines and other liquor based products; tours in the hospitality industry; distribution of motor vehicles and spares; servicing and repair of motor vehicles, and the manufacture of plastic consumables.

The principal wholly-owned operating subsidiaries of Wray & Nephew Group Limited are:

Company	Company
J. Wray & Nephew Limited	The Rum Company (Jamaica) Limited
Daniel Finzi & Co. (Suc) Limited	Plastic Containers Limited
New Yarmouth Limited	CICO Limited
Newton Cane Farms Limited	J. Wray & Nephew (International) Limited
Jamaica Estate Tours Limited	The Rum Company (International) Limited
Henriques Brothers Limited	Wray & Nephew (Canada) Limited
John Crook Automobiles Limited	J. Wray & Nephew (U.K.) Limited
Kingston Industrial Garage Limited	Rum Company (New Zealand) Limited
Cars & Commercials Limited	
Estate Industries Limited	
Edwin Charley (Jamaica) Limited	

(c) All subsidiaries are wholly-owned and, except as noted hereunder, are incorporated in Jamaica.

Company	Country of Incorporation
Turks Islands Importers Limited	Turks and Caicos Islands
Timco Limited	Turks and Caicos Islands
CICO Limited	The Bahamas
J. Wray & Nephew (U.K.) Limited	England
Rum Company (New Zealand) Limited	New Zealand

J. Wray & Nephew (International) Limited	Cayman Islands
The Rum Company (International) Limited	Cayman Islands
Wray & Nephew (Canada) Limited	Canada

21. Commitments and contingencies

(a) Lease commitments:

There are unexpired lease commitments by the group in respect of:

(i) Motor vehicles, under operating leases, terminating between 1998 and 2001 with amounts payable totalling $199,530,000 (1997: $121,136,000) of which $88,952,000 (1997: $68,200,000) is payable within one year. Of these lease commitments, amounts aggregating $101,083,000 (1997: $94,793,000) are in respect of leases extended by a related party.

(ii) Office buildings, over fifteen-year periods terminating in 2000 and 2012, at an aggregate annual sum of $14,780,000 (1997: $1,244,000) payable to a related party.

(iii) A tourist attraction complex, over a fifteen year period, terminating in 2003, at an annual sum of $1,037,000 payable to a related party.

(b) Capital commitments:

At September 30, 1998, approximately $177,117,000 (1997: $159,090,000) had been committed by the group for capital expenditure, for which no provision has been made in these financial statements. Contractual commitments were as follows:

	1998	1997
Authorised but not contracted	38,000	57,840
Authorised and contracted	139,117	101,250
	$177,117	159,090

(c) Year 2000:

The millenium or year 2000 issue arises because many computerised systems use two digits rather than four to identify a year. Such date-sensitive systems may recognise the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the ability of certain subsidiaries to conduct normal business operations. Whilst the directors and management of the subsidiaries believe that they have made every effort to ensure that the full implications of the year 2000 issue have been appropriately scoped and addressed, it is not possible to be certain that all aspects of the year 2000 issue affecting the subsidiaries, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

22. Pension schemes

The group operates trusteed contributory pension schemes; benefit-based for salaried supervisory and clerical employees and cost-based for non-clerical employees. The schemes are open to employees who have satisfied certain minimum service requirements. In addition to normal retirement benefits, the schemes provide for disability and death benefits. The most recent actuarial valuations, performed at September 30, 1996, in respect of the benefit-based schemes, indicated that these schemes are adequately funded.

Certain subsidiaries also operate contributory cost-based pension schemes for various categories of employees not covered by group schemes. These schemes are, in the main administered by trust organizations.

The group's contributions to pension schemes for the year aggregated $26,791,000 (1997: $22,668,000).