BERGER PAINTS JAMAICA LIMITED 1996

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1996

1. IDENTIFICATION

The main activity of the company, which is incorporated in Jamaica, is the manufacture and distribution of industrial and decorative paints and paint-related processed materials.

The company is a 51% subsidiary of Lewis Berger (Overseas Holdings) Limited, which is incorporated in the United Kingdom. The ultimate holding company is Ariza Limited, which is incorporated in the British Virgin Islands.

These financial statements are expressed in Jamaican dollars.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting convention and principles

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets. The accounting principles followed by the company are those generally accepted in Jamaica.

(b) Investment in subsidiary company

This is accounted for at cost. Consolidated financial statements have not been prepared as the subsidiary company, West Indies Resin Products Limited, ceased trading on December 31, 1988 and the directors consider that no useful purpose would be served by consolidation. Assets and liabilities of the subsidiary company at December 31, 1988 were:

	$'000
Assets	
Owed by fellow subsidiary company	747
Shareholders' equity	
Share capital	1
Capital reserve	254
Revenue reserve	492
	747

(c) Foreign currencies

Transactions in foreign currencies have been converted to Jamaican dollars at the rates of exchange ruling at the dates of those transactions. Assets and liabilities denominated in foreign currencies are translated to Jamaican dollars at exchange rates current at balance sheet date.

All foreign exchange gains and losses are credited to or charged against income of the year in which exchange rate changes occur.

(d) Inventories

These are stated at the lower of (first-in, first-out) cost and net realisable value.

The cost of finished goods comprises direct materials and labour plus an appropriate proportion of overhead expenses. The cost of work-in-progress comprises direct materials, and an appropriate proportion of labour and overhead expenses.

(e) Fixed assets and depreciation

Assets leased by the company from third parties are capitalised and the lease obligation net of unexpired interest is shown as a long-term liability (Note 8). Lease instalments are allocated between interest and principal when paid.

Depreciation is calculated on the straight-line basis on cost or revalued amounts over the estimated useful lives of depreciable assets. Annual depreciation rates are:

		Per annum		
Freehold buildings	-	2%		
Plant and machinery	-	8%	-	15%
Other fixed assets	-	12%	-	25%

No depreciation is provided on land.

(f) Deferred taxation

The company provides for the deferred tax effects of transactions in the same year that such transactions enter into the determination of net profit regardless of when they are recognised for tax purposes. The deferred liability is calculated at current rates.

(g) Deferred income

Gains on sale of fixed assets which are leased back under finance leases are deferred and amortised over the lease term.

(h) Pension costs

Pension costs are generally recognised by current funding and accruals. Such costs are actuarially determined and include amounts to fund past and future benefits.

3. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	1996	1995

	$'000	$'000
Trade receivables	107,915	104,977
Less provision for doubtful debts	7,900	5,821
	100,015	99,156
Other receivables and prepayments	6,030	11,231
Current portion of long-term receivables	-	25,047
	106,045	135,434

4. INVENTORIES

	1996 $'000	1995 $'000
Finished goods	57,539	50,055
Work-in-progress	17,511	10,136
Raw materials and supplies	67,592	62,159
Goods-in-transit	24,018	14,582
	166,660	136,932

5 ACCOUNTS PAYABLE AND ACCRUALS

	1996 $'000	1995 $'000
Trade payables	63,063	63,516
Other payables and accruals	21,089	20,478
Current portion of lease obligations (note 8)	8,474	5,451
	92,626	89,445

6 LONG-TERM RECEIVABLES

	1996 $'000	1995 $'000

(a) National Housing Trust Recoverable in the years 2001 - 2004	91	91
(b) Lewis Berger (Overseas Holdings) Limited (US$626,000) - Recoverable in three years with interest at a rate of two percentage points above the prime rate as quoted by Citiban-New York	-	25,047
Less current portion (note 3)	-	(25,047)
	91	91

7. FIXED ASSETS

	1996			1995		
	(V)	Cost or Valuation	Accumulated depreciation	(V)	Cost or Valuation	Accumulated depreciation
Freehold land	(V)	27,000	-	(V)	27,000	-
Freehold buildings	(V)	43,000)		(V)	43,000)	
		)			)	
Freehold buildings		)	1,329		)	373
	(C)	4,803)		(C)	4,530)	
Leased machinery		14,000	1,808		14,000	525
Plant and machinery		11,378	4,613		10,916	3,521
Other assets		10,585	4,057		9,447	2,811
Other leased assets		12,134	3,977		7,191	1,610

	122,900	15,784	116,084	8,840
Net Book Value	107,116		107,244	
107,244				

Freehold land and buildings were independently valued in July 1995 by Allison Pitter and Co., Chartered Surveyors, on an open market existing use basis. Subsequent additions are included at cost. Unrealised surpluses on valuation are credited to capital reserve.

8. LONG-TERM LIABILITY

This represents obligations under finance leases at add on interest rates of 26% to 57% per annum.

	1996 $'000	1995 $'000
Balance outstanding	18,477	19,171
Current portion included in accounts payable (Note 5)	8,474	5,451
	10,003	13,720

Future minimum payments under these lease obligations as at December 31, 1996 are as follows:

	$'000
1997	14,572
1998	11,023
1999	2,107
	27,702
Less future finance charges	9,225
	18,477

9 DEFERRED INCOME

	1996	1995

	$'000	$'000
Balance, January 1	3,306	-
Gains from sale of assets under sale and lease back agreements	-	3,642
Less: Amount transferred to profit and loss acount	(1,214)	(336)
Balance, December 31	2,092	3,306

10 SHARE CAPITAL

	1996 $'000	1995 $'000
Authorised - 107,161,198 shares (1995-56,400,631) of 50c each	**53,580**	**28,200**
Issued and fully paid Ordinary stock units of 50C each	**53,580**	**28,200**

By an ordinary resolution of the shareholders dated November 29, 1996:

a) The authorised share capital of the company was increased to $53,580,599 by the creation of an additional 50,760,567 ordinary shares with a nominal value of 50¢ each to rank pari passu with the existing shares.

b) The sum of $25,380,283, being part of the company's profits for the year, was capitalised and applied at par to the issue of bonus shares amounting to 50,760,567 ordinary shares to members on record at December 13, 1996 in the ratio of nine bonus shares for every ten shares held.

11 CAPITAL RESERVE

	1996 $'000	1995 $'000
Balance, January 1	56,411	33,457
Surplus on revaluation of fixed assets	-	22,954
Balance, December 31	**56,411**	**56,411**

12 TRANSACTIONS WITH HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

Significant transactions were:

	1996 $'000	1995 $'000
Sales	5,252	9,272
Purchases	2,111	6,845
Technical fees payable	6,431	6,897

13 PROFIT BEFORE TAXATION

The profit before taxation is stated after taking into account the following:

	1996 $'000	1995 $'000
Expenses		
Directors' emoluments		
Fees	33	33
Management	3,610	2,903
Audit fees	1,100	950
Depreciation		
Buildings	955	836
Plant and machinery	1,990	1,299
Other assets	4,016	2,834
Pension contributions	3,922	2,750

14 TAXATION

	1996 $'000	1995 $'000

(a) The total charge for the year comprises:

Income tax at 33 1/3%	21,698	20,571
Less tax credit arising on issue of bonus shares	5,330	-
	16,368	20,571
Deferred tax adjustment	311	111
	16,679	**20,682**

(b) The deferred income tax liability relates to capital allowances in excess of depreciation.

15 DIVIDENDS - GROSS

	1996 $'000	1995 $'000
Proposed:		
Ordinary dividends	**27,489**	**25,380**

16 EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit is based on the profit after taxation and the number of stock units in issue during the year. Consequent on the issue of bonus shares the earnings per stock unit for 1995 has been adjusted accordingly.

17 PENSION PLAN

The company operates a pension plan. The plan is funded by contributions from employees and employer. The employees and the company contribute at the rates of 5% and 8% respectively of pensionable salaries. The plan is valued every three years by independent actuaries. Retirement and other benefits are determined on a prescribed benefits basis.

The plan was last actuarially valued at December 31, 1994. The actuaries have indicated that the assets of the fund at that date are adequate to cover the value of the accrued benefits based upon services up to, and salaries at that date. The actuaries have also advised that a contribution of 5.7% of pensionable salaries, by the company, would be sufficient to fund the current plan.

18 CAPITAL COMMITMENTS

Capital expenditure authorised but not contracted for at December 31, 1996 amounted to $17.7 million. This expenditure is mainly in respect of the acquisition of equipment.