

HARDWARE & LUMBER 1996

NOTES TO THE FINANCIAL STATEMENTS

31 December 1996

1. Principal Activities and Related Parties

The company is 58% owned by Pan-Jamaican Investment Trust Limited. The company and its subsidiaries trade in hardware, lumber, agricultural products and boat engines, and provide construction related and janitorial services.

The company, its holding company and subsidiaries are incorporated in Jamaica.

All amounts are stated in Jamaican dollars unless otherwise identified.

2. Significant Accounting Policies

(a) Consolidation

The group financial statements present the results of operations and financial position of the company and its wholly owned subsidiaries, Hole-in-the-Wall Limited, Office Services Limited, H&L Agri & Marine Company Limited, H&L True Value Limited and its partly owned subsidiary (90%) Wherry Wharf Sales Company Limited.

H&L True Value Limited was incorporated on 20 August 1996.

Goodwill arising on acquisition of subsidiaries has been adjusted against capital reserves (note 14).

(b) Fixed assets and depreciation

Fixed assets are stated at cost or valuation. In accordance with group policy, the cost or valuation of fixed assets, other than freehold land, is written off on the straight line method over the expected useful lives of the assets held at the beginning of the year.

The expected useful lives are as follows:

Freehold buildings	50 years;
Furniture and fixtures	10 years;
Vehicles and forklift trucks	5 to 7 years;
Scaffolding	20 years;
Equipment	10 years;
Leasehold improvements	5 & 10 years.

(c) Foreign currency balances

Balances denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Gains or losses arising on translation are reflected in the profit and loss account.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the weighted average cost method.

(e) Work in progress

Work in progress is valued at the actual labour and material costs incurred on construction projects.

3. Turnover

Turnover represents the value of goods sold to third parties, net of returns and General Consumption Tax.

4. Consolidated Profit and Loss Account

(a) Trading profit

Trading profit is arrived at after charging/(crediting) the following items:

	1996 \$'000	1995 \$'000
Directors' emoluments	-	-
Fees		
Other	2,616	2,272
Auditors' remuneration -		
Current year	2,330	2,109
Prior year	(44)	(38)
Depreciation	6,806	7,210
Lease rental - fellow subsidiary	1,205	1,558
Interest paid -		
Debt bonds	18,575	14,165
Bank loans and overdrafts	7,429	11,835
Fellow subsidiaries	17,954	17,606
Holding company	577	-
Other	10,029	3,696
Central office expenses recharged	2,007	1,166
Interest received -		
Bank	(735)	(787)
Fellow subsidiary	(235)	(811)
Deferred expenditure written off	<u>544</u>	<u>1,289</u>

(b) Net Profit

	1996 \$'000	1995 \$'000
Profit dealt with in the financial statements of the holding company was	<u>644</u>	<u>1,976</u>

5. Taxation

(a) Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	1996	1995
	\$'000	\$'000
Income tax at 33 1/3%	3,435	3,216

(b) The current year taxation charge is disproportionate to the reported profit due to the utilisation of available tax losses.

(c) Subject to the agreement with the Commissioner of Income Tax, losses available for offset against future taxable profits amount to approximately \$2,400,000 (1995 - \$12,063,000).

6. Earnings Per Stock Unit

The calculation of earnings per stock unit is based on:

(i) the profit after taxation \$15,629,000 (1995 -\$15,112,000)

(ii) the number of stock units in issue during both years.

7. Fixed Assets

	THE GROUP						
	Freehold Land \$'000	Freehold Buildings \$'000	Furniture & Fixtures \$'000	Leasehold Improve- ments \$'000	Equipment & Scaffolding \$'000	Vehicles & Forklift Trucks \$'000	Total \$'000
At Cost or Valuation -							
1 January 1996	55,351	107,750	16,468	2,140	8,826	10,186	200,721
Additions	-		1,251	-	670	3,533	5,454
Valuation adjustment	20,000	(4,509)	-	-	-	-	15,491
Disposals	(175)	-	(861)	-	(1,231)	(1,452)	(3,719)
31 December 1996	<u>75,176</u>	<u>103,241</u>	<u>16,858</u>	<u>2,140</u>	<u>8,265</u>	<u>12,267</u>	<u>217,947</u>

Depreciation -

1 January 1996	-	5,014	7,435	978	2,622	3,722	19,771
Charge for the year	-	2,155	1,956	338	596	1,761	6,806
Valuation adjustment	-	(7,169)	-	-	-	-	(7,169)
On disposals	-	-	(861)	-	(1,193)	(1,071)	(3,125)
31 December 1996	-	-	8,530	1,316	2,025	4,412	16,283

Net Book Value -							
31 December 1996	75,176	103,241	8,328	824	6,240	7,855	201,664
31 December 1995	55,351	102,736	9,033	1,162	6,204	6,464	180,950

THE COMPANY

	Freehold Land \$'000	Freehold Buildings \$'000	Furniture & Fixtures \$'000	Equipment & Scaffolding \$'000	Vehicles & Forklift Trucks \$'000	Total \$'000
At Cost or Valuation						
1 January 1996	55,351	107,750	10,576	1,086	5,038	179,801
Addition	-	-	1,174	-	3,447	4,621
Valuation adjustment	20,000	(4,509)	-	-	-	15,491
Disposals	(175)	-	-	-	(1,019)	(1,194)
31 December 1996	75,176	103,241	11,750	1,086	7,466	198,719
Depreciation -						
1 January 1996	-	5,014	4,720	-	1,678	11,412
Charge for the year	-	2,155	1,472	109	750	4,486
Valuation adjustment	-	(7,169)	-	-	-	(7,169)
On disposals	-	-	-	-	(812)	(812)
31 December 1996	-	-	6,192	109	1,616	7,917
Net Book Value -						
31 December 1996	75,176	103,241	5,558	977	5,850	190,802

31 December 1995

55,351 102,736 5,856 1,086 3,360 168,389

(a) Freehold land and buildings are stated at fair market value and depreciated replacement cost, respectively, as at 31 December 1996 as appraised by C.D. Alexander Company Realty Limited, real estate brokers and appraisers. The surplus arising on revaluation has been credited to capital reserves (Note 14).

(b) Included in additions are motor vehicles costing \$3,382,000 (the group and the company) which have been lease financed.

8. Long Term Receivables

These comprise National Housing Trust contributions to 31 July 1979 made in compliance with The National Insurance (Amendment) Act 1976 which are recoverable in the years 2001 to 2004.

9. Deferred Expenditure

This represents computer development, store restructuring and share and bond issue costs which are being written off over three to five years.

10. Holding Company and Fellow Subsidiaries

	The Group		The Company	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Due to holding company (net)	(1,044)	(2,452)	(503)	(1,624)
Due to fellow subsidiaries	-	-	(23,532)	(14,153)
	<u>(1,044)</u>	<u>(2,452)</u>	<u>(24,035)</u>	<u>(15,777)</u>
Due from fellow subsidiaries	2,802	4,403	3,024	2,030
Due from subsidiaries	-	-	58,961	46,133
	<u>1,758</u>	<u>1,951</u>	<u>37,950</u>	<u>32,386</u>

11. Current Assets

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Inventories	162,885	218,377	92,160	146,469
Work in progress	3,161	3,428	-	-
Trade receivables, less provision \$9,259,000 (1995 - \$5,251,000)	98,312	107,848	69,356	72,306
Other receivables and prepayments	7,958	7,961	2,182	3,283
Employee loans for share purchases	96	96	96	96
Taxation recoverable	273	466	-	-
Deposits	10,000	-	10,000	-
Cash	7,313	2,392	4,411	809
	<u>289,998</u>	<u>340,568</u>	<u>178,205</u>	<u>222,963</u>

12. Current Liabilities

	The Group		The Company	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Payables and accruals	87,539	136,984	50,778	98,380
Bank loans and overdrafts	67,238	84,106	65,599	58,738
Taxation payable	1,485	1,150	367	400
Current maturities of long term loans (Note 15)	25,312	11,201	24,615	10,681
Current portion of net obligations under finance leases (Note 1)	602	-	602	-
Dividends payable	2,000	2,000	2,000	2,000
	<u>184,176</u>	<u>235,441</u>	<u>143,961</u>	<u>170,199</u>

Included in bank loans and overdrafts are loans totalling approximately \$16,806,000 (1995 - \$36,834,000) from fellow subsidiaries.

The bank loans and overdrafts are secured by a first charge on fixed assets, a second charge on other assets, the assignment of an insurance policy and the guarantee of the holding company, Pan-Jamaican Investment Trust Limited.

Bank loans include foreign currency denominated liabilities of US\$1,592,924 (1995 US\$160,980).

Payables and accruals include foreign currency denominated liabilities in various currencies, the equivalent of J\$46,405,770 (1995 -J\$102,613,000).

13. Share Capital

	1996 \$'000	1995 \$'000
Authorised -		
50,000,000 Ordinary shares of 50 cents each	<u>25,000</u>	<u>25,000</u>
Issued and fully paid -		
40,000,000 Ordinary stock units of 50 cents each	<u>20,000</u>	<u>20,000</u>

14. Capital Reserves

The movement in capital reserves during the year was as follows:

Balance at beginning of year -

	The Group 1996	The Company 1996
Share premium	30,934	30,934
Revaluation surpluses (net)	135,529	135,529
Realised gain on sale of fixed assets	329	329
Goodwill arising on consolidation (Note 2(a))	<u>(11,510)</u>	<u>-</u>

	155,282	166,792
1996 Revaluation of fixed assets		
Surplus	15,491	15,491
Accumulated depreciation written back	<u>7,169</u>	<u>7,169</u>
	22,660	22,660
Current year amortization of revaluation surpluses	<u>(2,409)</u>	<u>(2,409)</u>
Balance at end of year	<u>175,533</u>	<u>187,043</u>

15. Long Term Loans

			The Group		The Company	
			1996	1995	1996	1995
\$'000		<u>Repayable</u>	\$'000	\$'000	\$'000	
Fixed Rate Debt:						
30% Debt Bond	(a)	1994/1998	3,985	6,999	3,985	6,999
Variable Rate Debts:						
"A" Bonds	(b)	1993/1997	1,000	31,750	1,000	31,750
"B" Bonds	(b)	1993/1997	3,750	3,750	3,750	3,750
Debt Bonds	(b)	1996/2001	40,000	-	40,000	-
Bank of Nova Scotia						
Jamaica Limited	(c)	1993/1998	280	520	-	-
First Life Insurance						

Company Limited	(d)	1993/1996	-	950	-	950
Pan Caribbean Merchant Bank Limited	(d)	1994/1996	457	634	-	634
Portfolio Partners Limited	(d)	1994/1998	3,226	4,168	3,226	4,168
First Life Insurance Company Limited	(e)	1994/1997	6,069	10,455	6,069	10,455
Pan Caribbean Merchant Bank Limited	(e)	1994/1997	<u>375</u>	<u>1,386</u>	<u>375</u>	<u>672</u>
			59,142	60,612	58,405	59,378
			<u>(25,312)</u>	<u>(11,201)</u>	<u>(24,615)</u>	
<u>(10,681)</u>						
Current maturities (Note 12)			<u>33,830</u>	<u>49,411</u>	<u>33,790</u>	<u>48,697</u>

(a) The 1994/1998 Debt Bonds are unsecured.

(b) Principal and interest payments on the 1993/1997 and the 1996/2001 Debt Bonds are guaranteed by the holding company, Pan-Jamaican Investment Trust Limited.

(c) The Bank of Nova Scotia Jamaica Limited loan is secured by the company's guarantee and the assignment of insurance policies on fixed assets and inventories.

(d) These other loans are from related parties and are unsecured.

(e) These are related party loans which were used to acquire motor vehicles and are secured by Bills of Sale on the vehicles.

16. Net Obligations Under Finance Leases

During the year, the group and the company entered into finance lease agreements for the purchase of motor vehicles. Obligations under these agreements are as follows:

In the year ending 31 December

\$'000

	1997	1,944
	1998	1,944
	1999	1,815
	2000	196
Minimum lease payments		5,899
Less: Future interest payments		<u>(2,776)</u>
Net obligations under finance leases		3,123
Repayable within one year		<u>(602)</u>
		<u>2,521</u>

Included in net obligations under finance leases is \$1,940,000 which is due to a related party. Of this amount, \$348,000 is repayable within one year.

17. Pension Scheme

The company is one of a number of participating employers in a contributory pension plan administered by First Life Insurance Company Limited. Benefits under the plan are based on career earnings. The latest actuarial valuation, which was carried out as at 31 December 1993, indicated that there was a past service surplus of \$2,267,000. The trustees have decided that this surplus will be utilised to improve the retirement benefit for service prior to 1 January 1991 from 2% career average earnings to 2% of final five years' average earnings. The employees contribute at the rate of 5%. The company contributes at a similar rate.

During the year contributions made by the group were \$1,677,967 (1995 -\$1,414,000) and by the company \$951,890 (1995 - \$616,000).

18. Commitments

Lease commitments at 31 December 1996 for vehicles and equipment amounted to approximately \$301,000 for the group and the company and are scheduled for payment as follows:

	The Group	The Company
	\$'000	\$'000
31 December 1997	<u>301</u>	<u>301</u>

19. Subsequent Event

On 1 January 1997, Hole-in-the Wall Limited's operating assets, liabilities and retail activities were transferred to H & L True Value Limited.
