

# BERGER PAINTS JAMAICA LIMITED 1997

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## Notes to the Financial Statements

Year Ended December 31, 1997

### 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 (Note 6).

(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 cost (first-in, first-out) 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 9). 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 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**

	1997 \$'000	1996 \$'000
Trade receivables	125,232	107,915
Less provision for doubtful debts	<u>12,335</u>	<u>7,900</u>
	112,897	100,015
Other receivables and prepayments	<u>6,691</u>	<u>6,030</u>
	<b><u>119,588</u></b>	<b><u>106,045</u></b>

**4. INVENTORIES**

	1997 \$'000	1996 \$'000
Finished goods	56,341	57,539
Work-in-progress	9,414	17,511
Raw materials and supplies	63,700	67,592

Goods-in-transit	19,967	24,018
	<u>149,422</u>	<u>166,660</u>

**5. ACCOUNTS PAYABLE AND ACCRUALS**

	1997	1996
	\$'000	\$'000
Trade payables	49,738	63,063
Other payables and accruals	27,949	21,089
Current portion of lease obligations (Note 9)	<u>8,643</u>	<u>8,474</u>
	<u>86,330</u>	<u>92,626</u>

**6. INVESTMENTS**

Assets and liabilities of the unconsolidated subsidiary company  
(Note 2 (b)) at December 31, 1988 were:

	\$'000
Assets	
Owed by fellow subsidiary Company	<u>747</u>
Shareholders' equity	
Share capital	1
Capital reserve	254
Revenue reserve	<u>492</u>
	<u>747</u>

**7. LONG-TERM RECEIVABLES**

These represent National Housing Trust contributions recoverable in the years  
2001-2004

**8. 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		) 5,591)	2,286		) )	1,329
Leased machinery		14,000	3,208		14,000	1,808
Plant and machinery		13,323	5,943		11,378	4,613
Other assets		12,122	5,551		10,585	4,057
Other leased assets		<u>13,617</u>	<u>7,019</u>		<u>12,134</u>	<u>3,977</u>
		<b><u>128,653</u></b>	<b><u>24,007</u></b>		<b><u>122,900</u></b>	<b><u>15,784</u></b>
Net Book Value		<b><u>104,646</u></b>			<b><u>107,116</u></b>	

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.

#### 9. LONG-TERM LIABILITY

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

	1997 \$'000	1996 \$'000
Balance outstanding	11,488	18,477
Current portion included in accounts payable		

(Note 5)

<u>(8,643)</u>	<u>(8,474)</u>
<u>2,845</u>	<u>10,003</u>

Future minimum payments under these lease obligations as at December 31, 1997 are as follows:

	\$'000
1998	11,838
1999	2,921
2000	747
	<u>15,506</u>
Less future finance charges	<u>4,018</u>
	<u>11,488</u>

**10. DEFERRED INCOME**

	1997	1996
	\$'000	\$'000
Balance, January 1	2,092	3,306
Less: Amount transferred to profit and loss account	<u>(1,214)</u>	<u>(1,214)</u>
Balance, December 31	<u>878</u>	<u>2,092</u>

**11. CAPITAL RESERVE**

	1997	1996
	\$'000	\$'000
Balance, January 1	56,411	56,411
Less transfer of realised gains on disposal of investment in associate company to profit and loss account	<u>(6,832)</u>	<u>-</u>
Balance, December 31	<u>49,579</u>	<u>56,411</u>

The balance at December 31, 1997 represents unrealised revaluation surpluses of land and buildings.

## 12. TRANSACTIONS WITH GROUP COMPANIES

Significant transactions were:

	1997	1996
	\$'000	\$'000
Sales	3,555	5,252
Purchases	2,931	2,111
Technical fees payable	8,827	6,431

## 13. PROFIT BEFORE TAXATION

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

	1997	1996
	\$'000	\$'000
Directors' emoluments		
Fees	48	33
Management	4,232	3,610
Audit fees	1,200	1,100
Depreciation		
Buildings	957	955
Plant and machinery	2,729	1,990
Other assets	4,588	4,016
Pension contributions	4,568	3,922
Interest - finance leases	6,482	8,842
- overdraft	2,630	5,881

## 14. TAXATION

	1997	1996
	\$'000	\$'000

(a) The total charge for the year comprises:

Income tax at 33 1/3%	18,850	21,698
Less tax credit arising on issue of bonus shares	<u>-</u>	<u>5,330</u>
	18,850	16,368
Deferred tax adjustment	<u>( 450)</u>	<u>311</u>
	<u>18,400</u>	<u>16,679</u>

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

#### 15. DIVIDENDS - GROSS

	1997	1996
	\$'000	\$'000
Proposed:		
Ordinary dividends	<u>24,701</u>	<u>27,489</u>

#### 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.

#### 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 indicated that the assets of the fund at that date were adequate to cover the value of the accrued benefits based upon services up to, and salaries at that date. The actuaries also advised that at that date a contribution of 5.7% of pensionable salaries, by the



company, was sufficient to fund the current plan. A valuation as at December 31, 1997 is currently being carried out.

**18. CAPITAL COMMITMENTS**

Capital expenditure authorised but not contracted for at December 31, 1997 amounted to \$16.7 million. This expenditure is mainly in respect of the acquisition of equipment.

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