

Hardware and Lumber Ltd. 1997

Notes to the Financial Statements

1. Principal Activities and Related Parties

The company is 69% 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) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

(b) Consolidation

The group financial statements present the results of operations and financial position of the company and its wholly owned subsidiaries as detailed below:

| | |
|----------------------|--------------|
| Principal Activities | Shareholding |
|----------------------|--------------|

| | | |
|-------------------------------------|---|------|
| H. & L. True Value Limited | Trading | 100% |
| H & L Agri & Marine Company Limited | Trading | 100% |
| Hole-In-The-Wall Limited | Trading | 100% |
| Office Services Limited | Construction and Janitorial Services | 100% |
| Wherry Wharf Sales Company Limited | Trading | 93% |

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

(c) 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 | 10 - 55 years |
| Furniture and office equipment | 10 years |
| Vehicles and forklift trucks | 5 - 7 years |
| Scaffolding | 20 years |
| Equipment | 10 years |
| Leasehold improvements | 5 & 10 years |

Gains and losses on disposal of fixed assets are dealt with in the profit and loss account.

Repair and maintenance expenditure are charged to the profit and loss account.

Improvement expenditure is included in the cost of the related asset or in leasehold improvement as is appropriate.

(d) Foreign currency balances

Balances denominated in foreign currencies are translated at the rates of exchange ruling

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

(e) Inventories

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

(f) Work in progress

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

(g) Investment in subsidiaries

In the company's separate financial statements, investments in subsidiaries are stated at cost.

(h) Finance leases

The present value of minimum lease payments under finance leases is capitalised as fixed assets and a corresponding obligation to the lessor is recorded. Lease payments are treated as consisting of principal repayment and finance charges. The finance charges are recorded so as to give a constant periodic interest rate on the outstanding obligation.

(i) Retirement benefit plan

The group participates in contributory retirement plans. Retirement benefits are actuarially determined based on career earnings. Employers' contributions to fund past service deficiencies and future service liabilities are made monthly and are charged to the profit and loss account.

(j) Deferred expenses

Deferred expenses are being written off over the period of benefit:

(k) Deferred taxation

Deferred taxation is not recognised in these financial statements because the timing differences are not expected to reverse in the foreseeable future.

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:

| | 1997 \$'000 | 1996 \$'000 |
|------------------------------------|----------------|----------------|
| Directors' emoluments - | | |
| Fees | | |
| Other | 3,316 | 2,616 |
| Auditors' remuneration - | | |
| Current year | 2,621 | 2,330 |
| Prior year | - | (44) |
| Depreciation | 8,746 | 6,806 |
| Lease rental - fellow subsidiary | 783 | 1,205 |
| Interest paid - | | |
| Debt bonds at fixed interest rates | 902 | 1,893 |
| Other fixed interest rate debts | 4,431 | 5,581 |
| Bank loans and overdrafts | <u>24,646</u> | <u>47,090</u> |
| | 29,979 | 54,564 |
| Central office expenses recharged | | |
| Interest received - | | |
| Bank | 1,992 | 2,007 |
| Fellow subsidiary | (450) | (735) |
| Deferred expenditure written off | (368) | (235) |
| | <u>2,209</u> | <u>544</u> |

(b) Interest expense includes related party balances as follows:

| | 1997 \$'000 | 1996 \$'000 |
|---------------------|----------------|----------------|
| Fellow subsidiaries | 6,211 | 17,954 |
| Holding company | <u>-</u> | <u>577</u> |

(c) Net Profit

| | 1997 \$'000 | 1996 \$'000 |
|--|----------------|----------------|
| Profit dealt with in the financial statements of the holding company was | <u>498</u> | <u>644</u> |

5. Taxation

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

| | 1997 | 1996 |
|-----------------------------|--------------|----------|
| Income tax at 33 1/3% | 3,468 | 3,435 |
| Prior year's over provision | <u>(122)</u> | <u>-</u> |
| | 3,346 | 3,435 |

(b) The prior year's taxation charge is disproportionate to the reported profit due to the utilization 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 \$951,000 (1996 - \$1,400,000).

6. Earnings Per Stock Unit

- The calculation of earnings per stock unit is based on:
- (i) the profit after taxation of \$6,221,000 (1996 - \$15,629,000)
 - (ii) the number of stock units in issue throughout both years.

7. Fixed Assets

| THE GROUP | | | | | | | |
|------------------------|----------------------------|---------------------------------|--|--|--------------------------------------|--|-----------------|
| | Freehold Land \$'000 | Freehold Buildings \$'000 | Furniture & Office Equipment \$'000 | Leasehold Improve- ments \$'000 | Equipment & Scaffolding \$'000 | Vehicles & Forklift Trucks \$'000 | Total \$'000 |
| At Cost or Valuation - | | | | | | | |
| 1 January 1997 | 75,176 | 103,241 | 16,858 | 2,140 | 8,265 | 12,267 | 217,947 |
| Additions | - | - | 4,237 | 35 | 383 | 688 | 5,343 |
| Disposals | -176 | - | - | - | 336 | 565 | 1,077 |
| 31 December 1997 | 75,000 | 103,241 | 21,095 | 2,175 | 8,312 | 12,390 | 222,213 |
| Depreciation - | | | | | | | |
| 1 January 1997 | - | - | 8,530 | 1,316 | 2,025 | 4,412 | 16,283 |
| Charge for the year | - | 3,507 | 2,070 | 308 | 652 | 2,209 | 8,746 |
| On disposals | - | - | - | - | (147) | (440) | (587) |
| 31 December 1997 | - | 3,507 | 10,600 | 1,624 | 2,530 | 6,181 | 24,442 |
| Net Book Value - | | | | | | | |
| 31 December 1997 | 75,000 | 99,734 | 10,495 | 551 | 5,782 | 6,209 | 197,771 |
| 31 December 1996 | 75,176 | 103,241 | 8,328 | 824 | 6,240 | 7,855 | 201,664 |
| THE COMPANY | | | | | | | |
| | | | | Equip- | Vehicles | | |

| | Freehold Land \$'000 | Freehold Buildings \$'000 | Furniture & Fixtures \$'000 | ment & Scaffolding \$'000 | & Forklift Trucks \$'000 | Total \$'000 |
|----------------------|----------------------------|---------------------------------|-----------------------------------|---------------------------------|--------------------------------|-----------------|
| At cost or Valuation | | | | | | |
| 1 January 1997 | 75,176 | 103,241 | 11,750 | 1,086 | 7,466 | 198,719 |
| Additions | - | - | 2,649 | - | 688 | 3,337 |
| Disposals | (176) | - | - | - | 400 | (576) |
| 31 December 1997 | <u>75,000</u> | <u>103,241</u> | <u>14,399</u> | <u>1,086</u> | <u>7,754</u> | <u>201,480</u> |
| Depreciation - | | | | | | |
| 1 January 1997 | - | - | 6,192 | 109 | 1,616 | 7,917 |
| Charge for the year | - | 3,507 | 1,581 | 109 | 1,439 | 6,636 |
| On disposals | - | - | - | - | (275) | (275) |
| 31 December 1997 | <u>-</u> | <u>3,507</u> | <u>7,773</u> | <u>218</u> | <u>2,780</u> | <u>14,278</u> |
| Net Book Value - | | | | | | |
| 31 December 1997 | 75,000 | 99,734 | 6,626 | 868 | 4,974 | 187,202 |
| 31 December 1996 | 75,176 | 103,241 | 5,558 | 977 | 5,850 | 190,802 |

- (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).

All other fixed assets are stated at cost.

- (b) Included in vehicles and forklift trucks are motor vehicles costing \$3,382,000 (the group and the company) which have been lease financed (Note 16).

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 | |
|------------------------------|---------------------|---------------------|----------------------|----------------------|
| | 1997 | 1996 | 1997 | 1996 |
| | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Due to holding company (net) | (2,818) | (1,044) | (2,492) | (503) |
| Due to subsidiaries | <u>-</u> | <u>-</u> | <u>(20,876)</u> | <u>(23,532)</u> |
| | (2,818) | (1,044) | (23,368) | (24,035) |
| Due from fellow subsidiaries | 5,629 | 2,802 | 2,854 | 3,024 |
| Due from subsidiaries | <u>-</u> | <u>-</u> | <u>63,607</u> | <u>58,961</u> |
| | <u>2,811</u> | <u>1,758</u> | <u>43,093</u> | <u>37,950</u> |

These balances arose from trading and financing arrangements in the normal course of business.

11. Current Assets

| | The Group | | The Company | |
|------------------------------------|-----------|---------|-------------|---------|
| | 1997 | 1996 | 1997 | 1996 |
| | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Inventories | 195,904 | 162,885 | 102,744 | 92,160 |
| Work in progress | 1,577 | 3,161 | | |
| Trade receivables, less provision | | | | |
| \$10,442,000~(1996 - \$9,259,000) | 102,252 | 98,312 | 67,694 | 69,356 |
| Other receivables and prepayments | 8,451 | 7,958 | 3,462 | 2,182 |
| Employee loans for share purchases | - | 96 | - | 96 |

| | | | | |
|--------------------------|----------------|----------------|----------------|----------------|
| Taxation recoverable | 934 | 273 | 37 | |
| Deposits | 1,244 | 10,000 | 737 | 10,000 |
| Cash on hand and in bank | 8,009 | 7,313 | 4,230 | 4,411 |
| | <u>318,371</u> | <u>289,998</u> | <u>178,904</u> | <u>178,205</u> |

12. Current liabilities

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 1997 | 1996 | 1997 | 1996 |
| | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Payables and accruals | 135,274 | 87,539 | 87,759 | 50,778 |
| Bank loans and overdrafts | 16,381 | 67,238 | 9,864 | 65,599 |
| Taxation payable | 2,824 | 1,485 | - | 367 |
| Current maturities of long term loans (Note 15) | 24,675 | 25,312 | 24,675 | 24,615 |
| Current portion of net obligations under finance leases (Note 16) | 1,002 | 602 | 1,002 | 602 |
| Dividends payable | - | 2,000 | - | 2,000 |
| | <u>180,156</u> | <u>184,176</u> | <u>123,300</u> | <u>143,961</u> |

Included in bank loans and overdrafts are loans totalling approximately \$8,033,000 (1996 - \$16,806,000) 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 and overdrafts include foreign currency denominated liabilities of US\$251,569 (1996 - US\$1,592,980).

Payables and accruals include foreign currency denominated liabilities in various currencies, the equivalent of J\$100,325,000 (1996 - J\$46,406,000).

13. Share Capital

1997 1996

| | | |
|--|---------------|---------------|
| | \$'000 | \$'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:

| | The Group 1997 \$'000 | The Company 1997 \$'000 |
|--|--------------------------------|----------------------------------|
| Balance at beginning of year - | | |
| Share premium | 30,934 | 30,934 |
| Revaluation surpluses (net) | 163,696 | 163,696 |
| Purchased goodwill | (2,916) | (2,916) |
| Bonus issue | (5,000) | (5,000) |
| Realised gain on sale of fixed assets | 329 | 329 |
| Goodwill arising on consolidation (Note 2(b)) | (11,510) | - |
| | 175,533 | 187,043 |
| Current year amortisation of revaluation surpluses | (2,843) | (2,843) |
| Balance at end of year | <u>172,690</u> | <u>184,200</u> |

15. Long Term Loans

| | | | The Group | | The Company | |
|---|-----|-----------|---------------|---------------|---------------|---------------|
| Repayable | | | 1997 | 1996 | 1997 | 1996 |
| | | | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Fixed Rate Debt: | | | | | | |
| 30% Debt Bond | (a) | 1994/1998 | - | 3,985 | - | 3,985 |
| Variable Rate Debts: | | | | | | |
| "A" Bonds | (b) | 1997/1999 | 16,000 | 24,000 | 16,000 | 24,000 |
| "B" Bonds | (b) | 2000/2001 | 16,000 | 16,000 | 16,000 | 16,000 |
| "C" Bonds | (b) | 1998/2001 | 25,480 | - | 25,480 | - |
| "D" Bonds | (b) | 1998/2001 | 20,020 | - | 20,020 | - |
| Debt Bonds | | 1993/1997 | - | 4,750 | - | 4,750 |
| Bank of Nova Scotia Jamaica Limited | (c) | 1993/1997 | - | 280 | - | - |
| First Life Insurance Company Limited | (d) | 1997/2000 | 626 | - | 626 | - |
| First Life Insurance Company Limited | (d) | 1997/1999 | 3,876 | - | 3,876 | - |
| Pan Caribbean Merchant Bank Limited | (d) | 1994/1996 | - | 457 | - | - |
| First Life Insurance Company Limited | (d) | 1994/1997 | - | 6,069 | - | 6,069 |
| Pan Caribbean Merchant Bank Limited | (d) | 1994/1997 | - | 375 | - | 375 |
| Pan Caribbean Merchant Bank Limited | (e) | 1994/1998 | <u>1,743</u> | <u>3,226</u> | <u>1,743</u> | <u>3,226</u> |
| | | | 83,745 | 59,142 | 83,745 | 58,405 |
| Current maturities | | | (24,675) | (25,312) | (24,675) | (24,615) |
| (Note 12) | | | <u>59,070</u> | <u>33,830</u> | <u>59,070</u> | <u>33,790</u> |

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

(b) Principal and interest payments on the 1997/1999, 2000/2001, and the 1998/2001 Bonds are guaranteed by the holding company, Pan-Jamaican Investment Trust Limited. Interest rates are as follows:

"A" Bonds - Treasury Bill rate plus 4%
"B" Bonds - Treasury Bill rate plus 4.25%
"C" Bonds - Treasury Bill rate plus 4%
"D" Bonds - Treasury Bill rate plus 4.5%

(c) The Bank of Nova Scotia Jamaica Limited loan was 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. At 31 December 1997, the interest rates on these loans ranged from 30% - 34%.

These are related party loans which were used to acquire motor vehicles and are secured by Bills of Sale on the vehicles. At 31 December 1997, the interest rate was 31%.

16. Net Obligations under Finance Leases

The group and the company entered into finance lease agreements for the purchase of motor vehicles.

Obligations under these agreements are as follows:

| | 1997 \$'000 | 1996 \$'000 |
|--------------------------------------|----------------|----------------|
| In the year ending 31 December | | |
| 1997 | - | 1,944 |
| 1998 | 1,802 | 1,944 |
| 1999 | 1,681 | 1,815 |
| 2000 | 90 | 196 |
| Minimum lease payments | 3,573 | 5,899 |
| Less: Future interest payments | (1,123) | (2,776) |
| Net obligations under finance leases | 2,450 | 3,123 |

| | | |
|---------------------------|--------------|--------------|
| Repayable within one year | (1,002) | (602) |
| | <u>1,448</u> | <u>2,521</u> |

Included in net obligations under finance leases is \$1,536,000 (1996: \$1,940,000) which is due to a related party. Of this amount, \$588,000 (1996 \$348,000) is repayable within one year.

17. Retirement Benefit Plans

The group participates in contributory pension plans administered by First Life Insurance Company Limited.

The company and most of its subsidiaries participate in a plan whose benefits are based on 2% of final five years' average salary for each year of service. The latest actuarial valuation, which was carried out at 31 December 1996, indicated that there was a past service deficiency of \$2,294,000. The trustees have implemented the actuary's recommendation that, effective 1 January 1997, the employer contributes at the rate of 6.2% of members' earnings until the next valuation date which should occur no later than 31 December 1999. The employer's contribution of 6.2% includes a contribution of 3% of members' basic earnings, which is required to eliminate the deficiency over a period of three years. The employees contribute at a rate of 5% of earnings.

One subsidiary, Office Services Limited, participates in a plan whose benefits are based on career earnings. The latest actuarial valuation, which was carried out as at 31 December 1995, indicated that there was a funding surplus of \$157,000.

During the year contributions made by the group were \$2,609,000 (1996 - \$1,678,000) and by the company \$1,443,000 (1996 - \$952,000).

18. Contingency

The Jamaica Public Service Company Limited (JPS) has made a claim for approximately \$4,885,000 against Hardware & Lumber Limited for additional electrical charges in respect of the period 1990-1997. The company's attorneys have advised that the JPS, based on its own Standard Terms and Conditions of Electricity Supply, is restricted from imposing retroactive charges for a period not exceeding three months.

The company has made a provision in respect of the above claim based on three months retroactive charges.

