Hardware and Lumber 1998

Notes to the Financial Statements

31 December 1998

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	Shareholdings
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 16).

(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
Computer equipment	5 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 forseeable future.

3. Turnover

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

4. Trading Profit

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

	1998	1997
	$'000	$'000

Directors' emoluments -		
Other	2,785	3.316
Auditors' remuneration -		
Current year	2,439	2,621
Prior year	(27)	-
Depreciation	7,317	8,746
Interest paid -		
Debt bonds at fixed interest rates	-	902
Debt bonds at variable interest rates	21,299	18,575
Other loans and bank overdrafts	5,896	10,502
	27,195	29,077
Central office expenses recharged	2,000	1,992
Provision for bad and doubtful debts (net of recoveries)	18,409	
Interest earned -		
Bank	(492)	(450)
Fellow subsidiary	(761)	(368)
Deferred expenditure written off	**1,778**	**2,209**
Interest paid includes amounts paid to related parties as follows	**1,707**	**6,211**

5. Taxation

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

	1998	1997
	$'000	$'000
Income tax at 33 1/3%	6,444	3,468
Tax credit on issue of bonus shares	(1,395)	-
Contractor's levy	300	-
Prior year's overprovision	-	(122)
	5,349	3,346

(b) Subject to the agreement with the Commissioner of Income Tax, losses available for offset against future taxable profits amounting to approximately $4,542,000 (1997 - $951,000).

6. Extraordinary Items

Extraordinary items represent expenses incurred in respect of the closure of the partitioning department of Office Services Limited, and comprise:

	1998
	$'000
Redundancy costs	3,417
Inventory written off	2,319
	5,736

Of the redundancy costs, $1,394,000 relates to redundancy payments to a former executive.

7. Net Profit

	1998	1997
	$'000	$'000
Profit dealt with in the financial statements of the holding company was	**2,944**	**498**

8. Earnings Per Stock Unit

The calculations of earnings per stock unit are based on:

(i) the profit after taxation and before extraordinary items of $18,188,000 (1997 - 6,221,000) and the profit after extraordinary items of $12,452,000 (1997 - $6,221,000).

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

9. 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	Construction Work in Progress $'000	Total $'000
At Cost or Valuation								
1 January 1998	75,000	103,241	21,095	2,175	8,312	12,390	-	222,213
Additions	-	88	8,744	199	426	-	7,086	16,543
Disposals	-	-	-70	-	-295	-4,378	-	-4,743
31 December 1998	75,000	103,329	29,769	2,374	8,443	8,012	7,086	234,013

Depreciation -

1 January 1998	-	3,507	10,600	1,624	2,530	6,181	-	24,442
Charge for the year	-	3,506	1,191	27	628	1,965	-	7,317
On disposals	-	-	-27	-	-32	-3,669	-	-3,728
31 December 1998	-	7,013	11,764	1,651	3,126	4,477	-	28,031
Net Book Value -								7,086
31 December 1998	75,000	96,316	18,005	723	5,317	3,535	7,086	205,982
31 December 1997	75,000	99,734	10,495	551	5,782	6,209	-	197,771

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 1998	75,000	103,241	14,399	1,086	7,754	201,480
Additions	-	88	3,690	-	-	3,778
Disposals	-	-	-	-	1,710	1,710
31 December 1998	75,000	103,329	18,089	1,086	6,044	203,548
Depreciation						
1 January 1998	-	3,507	7,773	218	2,780	14,278
Charge for the year	-	3,506	633	108	1,388	5,635
On disposals	-	-	-	-	1,186	1,186
31 December 1998	-	7,013	8,406	326	2,982	18,727
Net Book Value -						
31 December 1998	75,000	96,316	9,683	760	3,062	184,821
31 December 1997	75,000	99,734	6,626	868	4,974	187,202

(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 16).

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 18).

10. 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.

11. Deferred Expenditure

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

12. Holding Company and Fellow Subsidiaries

	The Group		The Company	
	1998	1997	1998	1997
	$'000	$'000	$'000	$'000
Due to holding company (net)	(2,659)	(2,818)	(1,543)	(2,492)
Due to subsidiaries	-	-	(20,529)	(20,876)
	(2,659)	(2,818)	(22,072)	(23,368)
Due from fellow subsidiaries	3,928	5,629	2,097	2,854
Due from subsidiaries	-	-	53,628	63,607
	1,269	**2,811**	**33,653**	**43,093**

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

The balance due to the holding company includes $2,175,000 representing handling fees charged on certain imported inventory items.

13. Current Assets

	The Group		The Company	
	1998	1997	1998	1997
	$'000	$'000	$'000	$'000
Inventories	194,622	195,904	68,585	102,744
Work in progress	-	1,577	-	-
Trade receivables, less provision $20,112,000 (1997- $10,422,000	76,088	102,252	49,507	67,694

Other receivables and prepayments	12,642	8,451	4,272	3,462
Taxation recoverable	137	934	-	37
Bank Deposits	18,477	1,244	3,074	737
Cash on hand and in bank	22,747	8,009	13,577	4,230
	324,713	**318,371**	**139,015**	**178,904**

These balances include amounts held with related parties as follows:

	1998 $'000	1997 $'000
Trade receivables	2,387	-
Bank Deposits	17,411	507

14. Current liabilities

	The Group		The Company	
	1998 $'000	1997 $'000	1998 $'000	1997 $'000
Payables and accruals	157,917	135,274	54,110	87,759
Bank loans and overdrafts	16,498	16,381	16,330	9,864
Taxation payable	2,327	2,824	1,268	-
Current maturities of long term loans (Note 17)	23,891	24,675	23,891	24,675
Current portion of net obligations under finance leases (Note 18)	1,136	1,002	1,136	1,002
	201,769	**180,156**	**96,735**	**123,300**

Included in bank loans and overdrafts are loans totalling approximately $Nil (1997 $8,033,000) 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$439,450 (1997 - US$251,589).

Payables and accruals include foreign currency denominated liabilities in various currencies, the equivalent of J$96,575,000 (1997 - J$100,325,000).

15. Share Capital

	1998 $'000	1997 $'000
Authorised -		
50,000,000 Ordinary shares of 50 cents each	**25,000**	**25,000**
Issued and fully paid -		
40,000,000 Ordinary stock units of 50 cents each	**20,000**	**20,000**

16. Capital Reserves

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

	The Group 1998 $'000	The Company 1997 $'000
Balance at beginning of year -		
Share premium	30,934	30,934
Revaluation surpluses (net)	160,853	160,853
Purchased goodwill	(2,916)	(2,916)
Bonus issue	(5,000)	(5,000)
Realised gain on sale of fixed assets	329	
Goodwill arising on consolidation (Note 2(b))	(11,510)	-
	172,690	184,200
Retained earnings capitalised	7,200	-
Current year amortization of revaluation surpluses	(2,842)	(2,842)
Balance at end of year	**177,048**	**181,358**

17. Long Term loans

	The Group		The Company	
Repayable	1998 $'000	1997 $'000	1998 $'000	1997 $'000
Variable Rate Debts:				

"A" Bonds	(a)	1997/1999	8,000	16,000	8,000	16,000
"B" Bonds	(a)	2000/2001	16,000	16,000	16,000	16,000
"C" Bonds	(a)	1998/2001	18,200	25,480	18,200	25,480
"D" Bonds	(a)	1998/2001	14,300	20,020	14,300	20,020
First Life Insurance Company Limited	(b)	1997/2000	427	626	427	626
First Life Insurance Company Limbed	(b)	1997/1999	2,128	3,876	2,128	3,876
First Life Insurance Company Limited	(c)	1998/2002	824	-	824	-
First Life Insurance Company Limited	(c)	1998/2002	590	-	590	-
First Life Insurance Company Limited	(c)	1998/2002	1,044	-	1,044	-
Pan Caribbean Merchant Bank	(c)	1994/1998	-	1,743	-	1,743
			61,513	83,745	61,513	83,745
Current maturities (Note 14)			(23,891)	(24,675)	(23,891)	(24,675)
			37,622	59,070	37,622	59,070

(a) 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%

(b) These other loans are from related parties and are unsecured. At 31 December 1998, the interest rates on these loans ranged from 30% - 32%.

(c) 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 1998, the interest rate was 32%.

18. 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:

	1998 $'000	1997 $'000
In the year ending 31 December		
1998	-	1,802
1999	1,399	1,681
2000	66	90
Minimum lease payments	1,465	3,573
Less: Future interest payments	(265)	(1,123)
Net obligations under finance leases	1,200	2,450
Repayable within one year	(1,136)	(1,002)
	64	**1,448**

Included in net obligations under finance leases is $699,000 (1997 - $1,536,000) which is due to a related party. Of this amount, $635,000 (1997 - $588,000) is repayable within one year.

19. 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 $2,748,000 (1997 - $2,609,000) and by the company $1,173,000 (1997 - $1,443,000).