HARDWARE & LUMBER LTD 1999

Notes to the Financial Statements

31 Dccember 1999

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, household items, 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 indicated.

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 and in accordance with Jamaican generally accepted accounting principles and therefore include all required material disclosures.

   (b) Comparative information

   Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

   (c) Use of estimates
   The preparation of financial statements in conformity with Jamaican generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and

expenses during the reporting period. Actual results could differ from those estimates.

(d) Consolidation

The consolidated 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 (Dormant)	100%
Office Services Limited	Construction and Janitorial Services	100%
Wherry Wharf Sales Company Limited	Trading (Dormant)	93%

Goodwill arising on acquisition of subsidiaries has been adjusted against capital reserves

(e) Fair value of financial instruments

The amounts included in the financial statements for accounts receivable, accounts payable and accrued liabilities reflect their approximate fair values because of the short-term nature of these instruments. For long term receivables, investments and medium and long term loans, the carrying value approximate the fair market value. (Note 22)

(f) 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 arc charged to the profit and loss account.

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

(g) 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 converted at the rates of exchange ruling on the transaction dates. Gains or losses arising on translation and conversion are reflected in the profit and loss account.

(h) Inventories

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

(i) Work in progress

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

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

(k) 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.

(l) 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.

(m) Deferred expenses

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

(n) Deferred taxation

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

(o) Revenue

Revenue is recognised upon delivery of products and customer acceptance or performance of services, if any, net of general consumption tax and discounts and after eliminating sales within the Group.

3. Turnover

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

4. Operating Profit

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

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Depreciation	10,176	7,317	6,900	5,635
Profit on disposal of fixed assets	(595)	(2,170)	(245)	(902)
Directors' emoluments -				
Management remuneration	2,840	2,785	2,398	2,185
Directors' fees	-	-	-	-
Auditors remuneration -				
Current year	2,730	2,439	1,340	1,280
Prior year	-	-	-	(23)
Staff costs (Note 5)	106,269	76,950	30,928	28,486
Central office expenses recharged	2,000	2,000	600	888
Deferred expenditure	533	1,778	533	1,778
Provision for bad and doubtful debts-net	3,838	18,409	1,648	10,411
Foreign exchange loss/(gain)	205	(643)	84	(335)

5. Staff costs

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Wages and salaries	89,339	58,343	22,532	20,825
Statutory contributions	8,221	6,169	3,036	2,875
Pension costs	2,834	2,638	1,251	1,173
Staff welfare	5,323	9,800	4,109	3,613
Termination costs	552	-	-	-
	106,269	76,950	30,928	28,486
Termination costs - extraordinary item	-	3,417	-	-
	106,269	80,367	30,928	28,486
Average number of employees				
Regular	197	174	47	45
Contract	225	153	14	6
	422	327	61	51

6. Finance costs - net

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Interest expense	(19,355)	(33,505)	(17,990)	(26,572)
Interest income	4,343	1,253	15,451	6,635
	(15,012)	(32,252)	(2,539)	(19,937)

7. Taxation

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

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Income tax at 33 1/3%	11,193	6,444	-	1,646
Tax credit on issue of bonus shares	(1,984)	(1,395)	-	-
Contractor's levy	-	300	-	-
	9,209	5,349	-	1,646

(b) The group and the company have available tax losses of $1,429,000 (1998-$4,542,000) and $40,000 (1998 - $Nil) respectively for set off against future taxable profits. Tax losses of the subsidiaries amount to $1,389,000 ($1998 - $4,841,000) and are available for set off against future taxable profits. The set off against future taxable profits of these tax losses are subject to agreement with the Commissioner of Income Tax.

8. Extraordinary Items

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

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Redundancy costs	-	3,417	-	-
Inventory written off	1,285	2,319	-	-
	1,285	5,736	-	-

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

9. Net Profit and Retained Earnings

i) The net profit/(loss) is dealt with in the financial statements as follows:

	1999	1998
	$'000	$'000
Parent company	(842)	2,944
Subsidiaries	32,743	9,508
	31,901	12,452

ii) The retained earnings is reflected in the financial statements as follows:

	1999	1998
	$'000	$'000
Parent company	43,732	41,732
Subsidiaries	79,767	55,624
	123,499	97,356

10. Earnings Per Stock Unit

The calculations of earnings per stock unit are based on:

(i) the profit after taxation and before extraordinary items of $33,186,000 (1998 - $18,188,000) and the profit after extraordinary items of $31,901,000 (1998 - $12,452,000).

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

11. 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 1999	75,000	103,329	29,769	2,374	8,443	8,012	7,086	234,013
Additions	-	-	18,084	18,834	715	3,048	-	40,681
Disposals	-	-	(3,371)	(395)	(320)	(1,218)	-	(5,304)
Transfers	-	-	2,303	4,783	-	-	(7,086)	-
Revaluation adjustment	2,230	31,119	-	-	-	-	-	33,349
31 December 1999	77,230	134,448	46,785	25,596	8,838	9,842	-	302,739
Depreciation -								
1 January 1999	-	7,013	11,764	1,651	3,126	4,477	-	28,031
Charge for the year	-	3,505	4,010	1,050	244	1,367	-	10,176
On disposals	-	-	(2,171)	(395)	(23)	1,103	-	3,692
Revaluation adjustment	-	(10,518)	-	-	-	-	-	10,518
31 December 1999	-	-	13,603	2,306	3,347	4,741	-	23,997
Net Book Value -								
31 December 1999	77,230	134,448	33,182	23,290	5,491	5,101	-	278,742
31 December 1998	75,000	96,316	18,005	723	5,317	3,535	7,086	205,982

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 1999	75,000	103,329	18,089	1,086	6,044	203,548
Additions	-	-	4,396	-	3,048	7,444
Disposals	-	-	-	-	(645)	(645)
Revaluation adjustment	2,230	31,119	-	-	-	33,349
31 December 1999	77,230	134,448	22,485	1,086	8,447	243,696
Depreciation -						
1 January 1999	-	7,103	8,406	326	2,982	18,727
Charge for the year	-	3,505	2,205	109	1,081	6,900
On disposals	-	-	-	-	(645)	(645)
Revaluation adjustment	-	(10,518)	-	-	-	(10,518)
31 December 1999	-	-	10,611	435	3,418	14,464
Net Book Value -						
31 December 1999	77,230	134,448	11,874	651	5,029	229,232
31 December 1998	75,000	96,316	9,683	760	3,062	184,821

(a) Freehold land and buildings are stated at fair market value and depreciated replacement cost, respectively, as at 31 December 1999 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.

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 20).

12. 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.

13. Deferred Expenditure

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

14 . Holding Company and Fellow Subsidiaries

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Due to holding company (net)	(7,582)	(2,659)	(1,763)	(1,543)
Due to subsidiaries	-	-	(20,479)	(20,529)
	7,582	2,659	22,242	22,072
Due from fellow subsidiaries	4,542	3,928	9,689	2,097
Due from subsidiaries	-	-	77,332	53,628
	3,040	**1,269**	**64,779**	**33,653**

These balance arose from trading and financing arrangements in the normal course of business.
The balance due to the holding company includes $1,175,000 (1998: $2,175,000) representing handling fees charged on certain imported inventory items.

See note 21 for related party transactions

15. Current Assets

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Inventories	309,951	194,622	96,416	68,585
Work in progress	85	-	-	-
Trade receivables, less provision $10,749,000 (1998 - $20,112,000)	103,254	76,088	65,955	49,507
Other receivables and prepayments	6,400	12,642	4,714	4,272
Taxation recoverable	1,176	137	977	-
Bank deposits	5,473	18,477	2,776	3,074
Cash on hand and in bank	28,593	22,747	24,036	13,577
	454,932	324,713	194,874	139,015

16. Current Liabilities

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Payables and accruals	266,219	157,917	138,868	54,110

Bank loans and overdrafts	49,204	16,498	45,727	16,330
Taxation payable	8,392	2,327	-	1,268
Current maturities of long term loans (Note 18)	13,872	23,891	13,872	23,891
Current portion of net obligations under finance leases (Note 20)	64	1,136	64	1,136
	337,751	201,769	198,531	96,735

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 approximately US$1,123,000 (1998 - US$439,000).

Payables and accruals include foreign currency denominated liabilities in various currencies, the equivalent of J$118,795,000 (1998 - J$96,575,000).

17. Share Capital

	1999 $'000	1998 $'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

	Number of Stock Units (thousands)	Ordinary Stock Units $'000	Share Premium $'000	Total $'000
At 31 December 1997	40,000	20,000	25,934	45,934
At 31 December 1998	40,000	20,000	25,934	45,934
At 31 December 1999	40,000	20,000	25,934	45,934

18. Long Term Loans

The Group and

		Repayable	The Company 1999 $'000	1998 $'000
Variable Rate Debts:				
"A" Bonds	(a)	1997/1999	-	8,000
"B" Bonds	(a)	2000/2001	16,000	16,000
"C" Bonds	(a)	1998/2001	10,920	18,200
"D" Bonds	(a)	1998/2001	8,580	14,300
First Life Insurance Company Limited	(b)	1997/2000	163	427
First Life Insurance Company Limited	(b)	1997/1999	-	2,128
First Life Insurance Company Limited	(c)	1998/2002	632	824
First Life Insurance Company Limited	(c)	1998/2002	453	590
First Life Insurance Company Limited	(c)	1998/2002	852	1,044
			37,600	61,513
Current maturities (Note 16)			(13,872)	(23,891)
			23,728	**37,622**

(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 loans are from related parties and are unsecured. At 31 December 1999, the interest rates on these loans ranged from 23% - 28% per annum.

(c These arc related party loans which were used to acquire motor vehicles and are secured by Bills of Sale on the vehicles. At 31 December 1999, the interest rate was 28% per annum.

The fair values of these instruments approximate their carrying amounts.

19. Borrowings

The interest rate exposure of the borrowings are as follows:

	The Group 1999	The Group 1998	The Company 1999	The Company 1998
	$'000	$'000	$'000	$'000
Total borrowings:				
At fixed rates	2,100	5,013	2,100	5,013
At floating rates	84,704	72,998	81,227	72,830
	%	%	%	%
Weighted average effective interest rates:				
Bank overdrafts	26	30	26	30
Related company	31	31	31	31
Other	27	30	27	30

20. 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:

		The Group and The Company 1999	The Group and The Company 1998
		$'000	$'000
In the year ending 31 December			
	1999	-	1,399
	2000	66	66
Minimum lease payments		66	1,465
Less: Future interest payments		(2)	(265)
Net obligations under finance leases		64	1,200
Repayable within one year		(64)	(1,136)
		-	64

Included in net obligations under finance leases is $64,000 (1998 $699,000) which is due to a related party. Of this amount, $64,000 (1998 - $635,000) is repayable within one year.

21. Related Party Transactions

The following related party transactions arose in the ordinary course of business

	1999	1998
	$'000	$'000
Rental charges -		
Related company	39	7
Sales -		
Fellow subsidiaries	14,392	16,075
Management fees -		
Parent company	4,083	518
Purchases -		
Related company	5,288	4,188
Fellow subsidiaries	6,191	4,682
Interest expense		
Fellow subsidiaries	12,781	30,999
Interest income		
Fellow subsidiary	4,343	1,253

See note 14 for related party balances at year-ended.

22. Financial Instruments

Credit Risk

The group and company have no significant concentrations of credit risk. Cash and short-term deposits are placed with substantial financial institutions.

23. 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 as 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. This valuation has not been completed. 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 average 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 and the company were $2,834,000 (1998 $2,748,000) and $1,251,000 (1998 - $1,173,000) respectively.

24. Lease Commitments

At 31 December 1999, the group had lease commitments in respect of certain properties. Lease payments are estimated at $30,236,000 for the year 2000, and are expected to continue at that level for the foreseeable future.

25. Net Foreign Currency Exposures

The net foreign currency exposures as at 31 December 1999 are as follows, asset/(liability):

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
United States				
Cash	1,118	240	1,123	251
Other Balances	(3,766)	(942)	(3,842)	(1,150)
	(2,648)	(702)	(2,719)	(899)
Pound Sterling (£)	-	(15)	-	-

26. Subsequent Event

The company and Facey Commodity Company Limited, signed an Assets Purchase Agreement under which the company acquired selected accounts receivable, accounts payable and inventories of the hardware division of Facey Commodity Company Limited. The effective date of the acquisition was 3 March 2000.