Berger Paints Jamaica Limited 2000

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2000

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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, principles and standards

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 and these financial statements comply in all material respects with the requirements of applicable statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica.

(b) Investments

(i) 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 5(a)).

(ii) Other investments

These are stated at cost less any provision required for the permanent diminution in the value of the investment.

(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 at fair value 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 into the determination of net profit regardless of when they are recognised for tax purposes. The deferred liability is calculated at current rates.

(g) 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.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and any adjustments that may be necessary would be reflected in the year in which actual results are known.

(i) Financial instruments

Financial instruments include transactions that give rise to both financial assets and financial liabilities. Financial assets include cash and bank deposits, accounts receivable, long-term receivables and all other current assets except inventories and any prepayments.

Financial liabilities include long-term liabilities and current liabilities except accruals and income tax payable.

The particular recognition methods adopted are disclosed in the respective accounting policies associated with each item.

The fair values of the financial instruments are discussed in Note 19.

3 FIXED ASSETS

	Freehold Land	Freehold Buildings	Plant and Machinery	Furniture, Fixtures & Equipment	Motor Vehicles Owned	Motor Vehicles Leased	Totals
	$,000	$,000	$,000	$,000	$,000	$,000	$,000
At cost or valuation							
January 1	27,000	48,591	32,863	12,415	19,122	2,978	142,969
Additions	-	-	3,546	1,461	5,962	-	10,969
Disposals	-	-	-	-	(2,478)	-	(2,478)
December 31	27,000	48,591	36,409	13,876	22,606	2,978	151,460
Classified as follows:							
At cost	-	-	36,409	13,876	22,606	2,978	151,460
At valuation	27,000	48,591	-	-	-	-	-
	27,000	48,591	36,409	13,876	22,606	2,978	151,460
Depreciation							
January 1	-	4,230	16,176	6,547	12,812	1,176	40,941
Charge for year	-	972	3,643	1,705	2,188	954	9,462
On disposals	-	-	-	-	(1,186)	-	(1,186)
December 31	-	5,202	19,819	8,252	13,814	2,130	49,217
Net book value							
December 31, 2000	27,000	43,389	16,590	5,624	8,792	848	102,243
December 31, 1999	27,000	44,361	16,687	5,868	6,310	1,802	102,028

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.

4 LONG-TERM RECEIVABLES

		2000	1999
		$,000	$,000
General Consumption Tax (GCT)	(See (a) below)	1,195	1,138
National Housing Trust	(See (b) below)	91	91
Other	(See (c) below)	1,234	3,532
		2,520	4,761
Less current maturities included in Note 7		2,115	2,130
		405	2,631

(a) GCT paid on purchases of fixed assets is recoverable in twenty-four monthly instalments from the date of purchase.

(b) These represent contributions recoverable in the years 2001 - 2004.

(c) The balance is due from a trade debtor and is secured by a mortgage charge over certain real estate. It is receivable by monthly instalments of $200,000 inclusive of interest at a rate of 2 1 % per annum.

5 INVESTMENTS

(a) Investment in subsidiary

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

	$'000
Assets	
Owed by fellow subsidiary compa	747

Shareholders' equity	
Share capital	1
Capital reserve	254
Revenue reserve	492
	747

(b) Other investments

	2000 $'000	1999 $'000
Unquoted	10	10

6 INVENTORIES

	2000 $'000	1999 $'000
Finished goods	69,408	58,738
Work-in-progress	5,665	3,899
Raw materials and supplies	104,961	90,109
Goods-in-transit	71,002	47,991
	251,036	200,737

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2000 $'000	1999 $'000
Trade receivables	139,977	140,219
Less provision for doubtful debts	29,095	23,289
	110,882	116,930
Other receivables and prepayments	9,731	5,353
Current portion of long-term receivables (Note 4)	2,115	2,130
	122,728	124,413

8 CAPITAL RESERVES

These represent unrealised revaluation surpluses on land and buildings.

9 LONG-TERM LIABILITIES

	2000 $'000	1999 $'000
Loan (See (a) below)	665	2,261
Lease financing obligations (See (b) below)	513	1,665
	1,178	3,926
Less current portion included in accounts payable (Note 11)	1,178	2,747
	-	1,179

(a) The loan from the Bank of Nova Scotia Jamaica Limited is secured by the assignment of adequate insurance covering fixed assets and inventory. Interest is charged at a rate of 8.5% per annum, however, in the event of default the interest rate per annum would be the bank's base rate plus 5%. At the time the loan was granted the bank's base rate was 28.5% per annum. The loan is repayable in twenty-four monthly instalments of $125,000 commencing May 1999 and ending April 2001.

(b) Future minimum payments under these lease obligations as at December 3 1, are as follows:

	2000 $'000	1999 $'000
2000	-	1,527
2001	571	585
	571	2,112
Less future finance charges	58	447
	513	1,665

10 DIVIDENDS - GROSS

	2000 $'000	1999 $'000
Proposed:		
Ordinary dividends of 260 (1999: 220) per stock unit	37149	31433

11 ACCOUNTS PAYABLE AND ACCRUALS

	2000 $'000	1999 $'000
Trade payables	85,176	36,344
Other payables and accruals	44,583	39,696
Current portion of long-term liabilities (Note 9)	1,178	2,747
	130,937	78,782

12 PROFIT FROM OPERATIONS

Profit from operations is stated after taking into account the following:

	2000 $'000	1999 $'000
Cost of sales	482,217	455,397
Distribution costs	91,024	89,202
Administrative expenses	93,806	95,389
Other operating expenses	10,378	10,077
	195,208	194,668
Other operating income	12,583	10,911

13 PROFIT BEFORE TAXATION

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

	2000 $'000	1999 $'000
Directors' emoluments		
Fees	48	48
Management	6,667	6,064
Audit fees	1,200	1,100
Depreciation		
Buildings	972	972
Plant and machinery	3,643	3,504
Other assets	4,847	5,036
Interest - finance leases	375	867
- overdraft	384	821

14 TRANSACTIONS WITH GROUP COMPANIES

Significant transactions were:

	2000 $'000	1999 $'000
Sales	2,559	6,250
Purchases	77,022	94,475
Technical fees payable	10,167	9,434

The transactions were carried out in the normal course of business.

15 TAXATION

	2000 $'000	1999 $'000
The total charge for the year comprises:		
Income tax at 3 3 1/3 %	34,400	29,650
Deferred tax adjustment	-	(3,609)
	34,400	26,041

Adjustment for under provision in

previous years	-	1,124
	34,400	27,165

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 5.7% respectively of pensionable salaries. The plan is valued triennially by independent actuaries. A valuation is currently being done for the year ended December 31, 2000. Retirement and other benefits are determined on a prescribed benefits basis.

The plan was last actuarially valued at December 31, 1997. 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.

18 CAPITAL COMMITMENTS

Capital expenditure authorised but not contracted for at December 31, 2000 amounted to $32.7 million. Capital expenditure authorised and contracted for at December 31, 2000 amounted to $327,000. These expenditures are mainly in respect of the acquisition of equipment.

19 FINANCIAL INSTRUMENTS

a) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognized stock exchange) exists, is the best evidence of the fair value of a financial instrument. Market prices are not available for a number of financial assets and liabilities of the company. Fair values in the

financial statements have therefore been presented using various estimation techniques based on market conditions existing at balance sheet date. Generally, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that the company would realise in a current market exchange.

The following methods and assumptions have been used.

The amounts included in the financial statements for cash and bank deposits, receivables and payables, due to immediate parent company and due from fellow subsidiaries reflect the approximate fair values because of short-term maturity of these instruments.

The carrying amounts of long term loans approximate their fair value as these mature within the next twelve months.

b) Credit risk

Credit risk is the risk of loss from the default by an obligator. The risk is managed primarily by reviews of the financial status of each obligator. Cash and bank deposits are held with substantial financial institutions. The book value of receivables is stated after allowance for likely losses. The primary concentration of the company's credit was to the retail and construction sectors. The company's credit risk exposure is mitigated as amounts due from each customer is not significant.

C) Currency risk

The company incurs foreign currency risks on transactions that are denominated in currencies other than the Jamaican dollar.

Cash and bank deposits and accounts payable at December 31, 2000 include aggregate net foreign currency liabilities as indicated below in respect of transactions arising in the ordinary course of business.

	2000	1999
	$'000	$'000
US$	2,666	1,666

Cdn$	1	-
DM	-	56

d) Interest rate risk

Interest rate risk is the potential that the value of a financial instrument will fluctuate due to changes in market interest rates. Because of the structure of its balance sheet the company is not significantly affected by interest rate risk.

However, any likely risk is managed by the consistent re-evaluation of the yield/cost on given financial instruments.

21 OTHER DISCLOSURES - EMPLOYEES

	2000	1999
(a) Average number of persons employed by the company during the year:		
Production	57	57
Distribution	40	40
Administration	29	29
	126	126

(b) Staff costs incurred during the year in respect of these employees were:

Salaries and wages	120,154	111,304
Other benefits	32,036	27,404
Statutory contributions	9,969	9,282
Pension contributions	4,158	3,860
	166,317	151,850