HARDWARE & LUMBER LTD 2000

Notes to the Financial Statements

31 December 2000

1. Principal Activities and Related Parties

   The company is 87% 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.

   During the year, the company acquired all the ordinary shares of Scott's Preserves Limited from its parent company, Pan-Jamaican Investment Trust Limited.

   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 requires 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%
Scott's Preserves Limited	Trading	100%
Scott's of Jamaica Limited	Trading (Dormant)	100%

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

(e) Fair value of financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, accounts receivable, accounts payable, group balances and accrued liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The fair values of the group's and the company's financial instruments are discussed in Note 23.

(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 are charged to the profit and loss account.

Improvement expenditure is included in the cost of the related asset or in leasehold improvement as 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 arc stated at the lower of cost and net realisablc 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 arc 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 arc 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 bencfit.

(n) Deferred taxation

Deferrcd taxation is not rccognised 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	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Depreciation	17,943	10,176	9,748	6,900
Profit on disposal of fixed assets	(1,067)	(595)	(265)	(245)
Directors' emoluments -				
Management remuneration	8,802	2,840	4,134	2,398
Directors' fees	-	-	-	-
Auditors remuneration	3,130	2,730	1,480	1,340
Staff costs (Note 5)	135,663	106,269	49,637	30,928
Central office expenses recharged	2,364	2,000	-	600
Deferrcd expenditure	438	533	360	533
Provision for bad and doubtful debts - net	9,469	3,838	5,301	1,648

5. Staff Costs

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Wages and salaries	100,936	89,339	36,042	22,532
Statutory contributions	9,759	8,221	3,845	3,036
Pension costs	4,241	2,834	2,171	1,251
Staff welfare	20,727	5,323	7,579	4,109
Termination costs	-	552	-	-

	135,663	106,269	49,637	30,928
Average number of employees				
Regular	176	197	49	47
Contract	275	225	28	14
	451	422	77	61

6. Finance Costs - net

	The Group		The Company	
	2000 $'000	1999 $'000	2000 $'000	1999 $'000
Interest expense	18,990	19,355	16,196	17,990
Interest income	(415)	(4,343)	(7,697)	(15,451)
	18,575	15,012	8,499	2,539
Foreign exchange loss	8,181	205	7,431	84
	26,756	15,217	15,930	2,623

7. Taxation

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

	The Group		The Company	
	2000 $'000	1999 $'000	2000 $'000	1999 $'000
Income tax at 33 1/3%	17,998	11,193	9,954	-
Tax credit on issue of bonus shares	(1,795)	(1,984)	-	-
Contractor's levy	26	-	-	-
	16,229	9,209	9,954	-

(b) The contractors' levy relates to taxes withheld from payments made to sub - contractors.

(c) The group and the company have available tax losses of $115,823,000 (1999- $1,429,000) and Nil (1999 - $40,000) respectively for set off against future taxable profits. The set off against future taxable profits of these tax losses is subject to agreement with the Commissioner of Income Tax.

8. Extraordinary Item

Extraordinary item represented expenses incurred in respect of the closure of the partitioning department of Office Services Limited in the prior year, and comprised:

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Inventory written off	-	1,285	-	-
	-	1,285	-	-

9. Net Profit and Retained Earnings

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

	2000	1999
	$'000	$'000
Parent company	15,018	(842)
Subsidiaries	27,601	32,743
	42,619	31,901

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

	2000	1999
	$'000	$'000
Parent company	54,091	43,732
Subsidiaries	104,368	79,767
	158,459	123,499

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 $42,619,000 (1999 - $33,186,000) and the profit after extraordinary items of $42,619,000 (1999 - $31,901,000

(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	Equip-ment & Scaffolding $'000	Vehicles & Forklift Trucks $'000	Total $'000
At Cost or Valuation							
1 January 2000	77,230	134,448	46,785	25,596	8,838	9,842	302,739
Additions	-	-	9,474	3,124	4,257	1,036	17,891
Disposals	-	-	(237)	-	(703)	(4,238)	(5,178)
31 December 2000	77,230	134,448	56,022	28,720	12,392	6,640	315,452
Depreciation -							
1 January 2000	-	-	13,603	2,306	3,347	4,741	23,997
Charge for the year		5,468	5,309	4,816	633	1,717	17,943
On disposals		-	(237)	-	(198)	(3,575)	(4,010)
31 December 2000		5,468	18,675	7,122	3,782	2,883	37,930
Net Book Value -							
31 December 2000	**77,230**	**128,980**	**37,347**	**21,598**	**8,610**	**3,757**	**277,522**
31 December 1999	**77,230**	**134,448**	**33,182**	**23,290**	**5,491**	**5,101**	**278,742**

THE COMPANY

	Freehold Land $'000	Freehold Buildings $'000	Furniture & Fixtures $'000	Vehicles & Forklift Trucks $'000	Total $'000
At Cost or Valuation					
1 January 2000	77,230	134,448	23,571	8,447	243,696
Additions	-	-	5,828	736	6,564
Disposals	-	-	(237)	(3,076)	(3,313)
31 December 2000	77,230	134,448	29,162	6,107	246,947
Depreciation -					
1 January 2000	-	-	11,046	3,418	14,464
Charge for the year	-	5,468	2,750	1,530	9,748
On disposals	-	-	(237)	(2,613)	(2,850)
31 December 2000	-	5,468	13,559	2,335	21,362
Net Book Value -					
31 December 2000	**77,230**	**128,980**	**15,603**	**3,772**	**225,585**
31 December 1999	**77,230**	**134,448**	**12,525**	**5,029**	**229,232**

(a) Freehold land and buildings are stated at fair markct value and deprcciated replacement cost, respectively, appraised by C.D. Alexander Company Realty Limited, real estate brokcrs and appraisers in December 1999.

All other fixed assets are stated at cost.

(b) Included in vehicIcs 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 arc recoverable in the years 2001 to 2004.

13. Deferred Expenditure

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

14. Holding Company and Fellow Subsidiaries

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Due to holding company (net)	(2,253)	(7,582)	(2,253)	(1,763)
Due to subsidiaries	-	-	(55,952)	(20,479)
	(2,253)	(7,582)	(58,205)	(22,242)
Due from fellow subsidiaries	1,953	4,542	-	9,689
Due from Subsidiaries	-	-	114,670	77,332
	(300)	(3,040)	56,465	64,779

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

See Note 21 for related party transactions.

15. Current Assets

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Inventories	343,279	309,951	122,768	96,416
Work in progress	-	85	-	-
Trade receivables, less provision $14,805,000 (1999 - $10,749,000)	116,578	103,254	81,881	65,955
Other receivables and prepayments	10,305	6,400	3,634	4,714
Taxation recoverable	4,372	1,176	-	977
Bank deposits	3,510	5,473	1,510	2,776

Cash on hand and in bank	9,655	28,593	7,474	24,036
	487,699	454,932	217,267	194,874

16. Current Liabilities

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Payables and accruals	233,930	266,219	107,925	138,868
Bank loans and overdrafts	86,106	49,204	76,070	45,727
Taxation payable	7,246	8,392	9,839	-
Dividend proposed	7,200	-	7,200	
Short term loans	27,322	-	24,972	-
Current maturities of long term loans (Note18)	6,684	13,872	926	13,872
Current portion of net obligations under finance leases (Note 20)	251	64	251	64
	368,739	337,751	227,183	198,531

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$1,671,000 (1999 - US$1,123,000).

Payables and accruals include foreign currency denominated liabilities in various currencies, the equivalent of J$118,397,000 (1999 - J$118,795,000).

17. Share Capital

	2000	1999
	$'000	$'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 1998	40,000	20,000	25,934	45,934
At 31 December 1999	40,000	20,000	25,934	45,934
At 31 December 2000	40,000	20,000	25,934	45,934

18. Long Term Loans

		The Company		The Company	
		2000 $'000	1999 $'000	2000 $'000	1999 $'000
Variable Rate Debts:					
"B" Bonds		-	16,000	-	16,000
"C" Bonds			10,920		10,920
"D" Bonds			8,580		8,580
First Life Insurance Company Limited	(a)		163		163
First Life Insurance Company Limited	(b)	372	632	372	632

First Life Insurance Company Limited	(b)	267	453	267	453
First Life Insurance Company Limited	(b)	588	852	588	852
Pan Caribbean Merchant Bank Limited	(c)	7,809	-	-	-
		9,036	37,600	1,227	37,600
Current maturities (Note 16)		(6,684)	(13,872)	(926)	(13,872)
		2,352	**23,728**	**301**	**23,728**

(a) These loans are from related parties and arc unsecured. At 31 December 2000, the interest rates on these loans ranged from 23% - 28% per annum. The loans are repayable between 1997/2000.

(b) These are related party loans that were used to acquire motor vehicles and are secured by Bills of Sale on the vehicles. At 31 December 2000, the interest rate was 28% per annum. The loans are repayable between 1998/2002.

(c) This loan is due to a related party and is unsecured. The loan, which is denominated in United States dollars, attracts interest at 15% per annum. The loan is repayable between 1998/2002.

19. Borrowings

The interest rate exposure of the borrowings are as follows:

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
Total borrowings:				
At fixed rates	1,727	2,100	1,727	2,100
At floating rates	122,464	84,704	102,269	81,227
	%	%	%	%

Weighted average effective interest rates:				
Bank overdrafts	25	26	25	26
Related company	30	31	30	31
Other	26	27	26	27

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	
	2000	1999
	$'000	$'000
In the year ending 31 December		
2000	-	66
2001	251	-
2002	634	
2003	634	
2004	634	
2005	528	-
Minimum lease payments	2,681	66
Less: Future interest payments	(954)	(2)
Net obligations under finance leases	1,727	64
Repayable within one year	(251)	(64)
	1,476	-

21. Related Party Transactions

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

	2000	1999
	$'000	$'000

Rental charges -		
Related company	30	39
Sales -		
Fellow subsidiaries	15,000	14,392
Management fees -		
Parent company	2,160	4,083
Purchases -		
Related company	694	5,288
Fellow subsidiaries	-	6,191
Interest expense		
Fellow subsidiaries	998	12,781
Interest income		
Fellow subsidiarv	986	4,343

See Note 14 for related party balances at year-end.

22. Dividend

	The Group and The Company	
	2000	1999
	$'000	$'000
Dividend in respect of 2000		
Interim - 3.625 cents per ordinary stock unit	1,450	-
Final - 18 cents per ordinary stock unit	7,200	-
	8,650	-

The dividend is subject to withholding tax.

23. Financial Instruments

(a) Currency risk
The net foreign currency exposures as at 31 December 2000 arc as follows, asset/(Liability):

	The Group		The Company	
	2000	1999	2000	1999
	$'000	$'000	$'000	$'000
United States ($):				
Cash	18	27	17	27
Other Balances	(5,173)	(5,518)	(3,791)	(3,842)
	(5,155)	(5,491)	(3,774)	(3,815)
Pound Sterling (£)	(6)	-	(8)	-

(b) Credit risk

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

(c) Fair Value

The amounts included in the financial statements for cash and bank balances, receivables, inter-company balances, other liabilities and payables reflect their approximate fair values because of the short-term maturity of these instruments.

The estimated fair values of other financial instruments are as follows:

	The Group			
	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Finance leases	1,476	1,476	-	-
Long term loan	**2,352**	**2,352**	**23,728**	**23,728**

The Company

	2000		1999	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Finance leases	1,476	1,476	-	-
Long term loans	301	301	23,728	23,728

The fair value of long term liabilities is based upon projected cash flows discounted at an estimated current market rate of interest. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented above are not necessarily indicative of the amounts that the company would realise in a current market exchange.

24. 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 earnings. The latest actuarial valuation, which was carried out as at 31 December 1998, indicated that the scheme was adequately funded.

During the year, contributions made by the group and the company were $4,241,000 (1999 - $2,834,000) and $2,171,000 (1999 - $1,251,000) respectively.

25. Lease Commitments

At 31 December 2000, the group had lease commitments in respect of certain properties. Lease payments are estimated at $30,236,000 for the year 2001, and are expected to continue at that level for the foreseeable future.

26. Contingent Liability

The Commissioner of Income Tax has assessed Scott's of Jamaica Limited, on an estimated basis, for income taxes totalling $1,534,813 in respect of the years of assessmcnt 1987 - 1989.

The company has objected to the assessment. Accordingly, no provision for liability has been made in these statements with respect to this matter.