Berger Paints Jamaica Limited

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

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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 5 1 % 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) 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.

(c) 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 10). 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 annurn
Freehold buildings	-	2%
Plant and machinery	-	8% - 15%
Other fixed assets	-	12%- 25%

No depreciation is provided on land.

(d) 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.

(e) Inventories

These are stated at the lower of cost (first-in, first-out) and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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.

(f) 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.

(g) 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.

(h) Revenue

Sale of goods is recognized where goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(i) 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.

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 other current assets except inventories and any prepayments.

Financial liabilities include long-ten-n 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	36,409	13,876	22,606	2,978	151,460
Additions	-	-	3,707	863	7,800	-	12,370
Disposals	-	-	-	-	(692)	(1,372)	(2,064)
December 31	27,000	48,591	40,116	14,739	29,714	1,606	161,766
Classified as follows:							
At cost	-	-	40,116	14,739	29,714	1,606	86,175
At valuation	27,000	48,591	-	-	-	-	75,591
	27,000	48,591	40,116	14,739	29,714	1,606	161,766
Depreciation							
January 1	-	5,202	19,819	8,252	13,814	2,130	49,217
Charge for year	-	972	3,983	1,782	3,368	540	10,645

On disposals	-	-	-	-	(408)	(1,372)	(1,780)
December 31	-	6,174	23,802	10,034	16,774	1,298	58,082
Net book value							
December 31, 2001	27,000	42,417	16,314	4,705	12,940	308	103,684
	=======	======	======	======	======	====	=======
December 31, 2000	27,000	43,389	16,590	5,624	8,792	848	102,243
	=======	======	======	======	======	====	=======

Freehold land and buildings were independently valued in July 1995 by Allison Pitter and Co., Chartered Surveyors, on an open market existing use basis. Unrealised surpluses on valuation are credited to capital reserve. Subsequent additions are included at cost.

4 LONG-TERM RECEIVABLES

	2001	2000
	$'000	$'000
General Consumption Tax (GCT) (See (a) b	1,266	1,195
Nati(See (b) below)	91	91
Other	-	1,234
	1,357	2,520
Less current maturities included in Note	946	2,115
	411	405
	====	====

(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 up to 2004.

5 INVESTMENTS

(a) Investment in subsidiary

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

	$'000
Assets	
Owed by fellow subsidiary company	747
	====
Shareholders' equity	
Share capital	1
Capital reserve	254
Revenue reserve	492
	747
	====

(b) Other investments

	2001	2000
	$'000	$'000
Unquoted	10	10
	===	===

6 INVENTORIES

	2001	2000
	$'000	$'000
Finished goods	70,282	69,408
Work-in-progress	10,435	5,665
Raw materials and supplies	62,768	104,961
Goods-in-transit	22,505	71,002
	165,990	251,036
	=======	=======

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2001	2000
	$'000	$'000
Trade receivables	172,233	139,977
Less provision for doubtful debts	30,281	29,095
	141,952	110,882

Other receivables and prepayments	8,241	9,731
Current portion of long-term receivables	946	2,115
	151,139	122,728
	=======	=======

8 CAPITAL RESERVES

These represent unrealised revaluation surpluses on land and buildings.

9 PROPOSED DIVIDENDS

	2001	2000
	$'000	$'000
Proposed:		
Ordinary dividends of 27.5c (2000: 26c) per stock unit	39,292	37,149
	======	======

10 LONG-TERM LIABILITIES

	2001	2000
	$'000	$'000
Loan (See (a) below)	-	665
Lease financing obligations (See (b) below)	-	513
	-	1,178
Less current portion included in accounts payable (Note 11)	-	1,178
	-	-
	=====	=====

(a) The loan, from the Bank of Nova Scotia Jamaica Limited, was fully repaid during the year.

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

2001	2000
$'000	$'000

2001	-	571
	-	571
Less future finance charges	-	58
	-	513

11 ACCOUNTS PAYABLE AND ACCRUALS

	2001 $'000	2000 $'000
Trade payables	30,452	85,176
Other payables and accruals	52,422	44,583
Current portion of long-term liabilities	-	1,178
	82,874	130,937

12 PROFIT FROM OPERATIONS

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

	2001 $'000	2000 $'000
Cost of sales	500,916	432,217
Distribution costs	102,240	91,024
Administrative expenses	98,837	93,806
Other operating expenses	10,633	10,378
	211,710	195,208
Other operating income	7,858	12,583

13 PROFIT BEFORE TAXATION

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

	2001 $'000	2000 $'000
Directors' emoluments		
Fees	48	48
Management	7,508	6,667
Audit fees	1,300	1,200
Depreciation		
Buildings	972	972
Plant and machinery	3,983	3,643
Other assets	5,690	4,847
Interest - finance leases	72	375
- overdraft	174	384

14 TRANSACTIONS WITH GROUP COMPANIES

Significant transactions were:

	2001 $'000	2000 $'000
Sales	8,225	2,559
Purchases	103,989	77,022
Technical fees payable	9,988	10,167

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

15 TAXATION

	2001 $'000	2000 $'000
The total charge for the year comprises:		
Income tax at 33 1/3%	37,000	34,400
	======	======

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 defined benefits 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. Retirement and other benefits are determined on a prescribed benefits basis.

The plan was last actuarially valued at December 31, 2000. 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, 2001 amounted to $25.5 million. These expenditures are mainly in respect of the acquisition of equipment and warehouse expansion.

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.

(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 the amount 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, 2001 include aggregate net foreign currency liabilities as indicated below in respect of transactions arising in the ordinary course of business.

	2001	2000
	$'000	$'000
US$	506	2,666
Cdn$	-	1

(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.

20 OTHER DISCLOSURES - EMPLOYEES

(a) Average number of persons employed by the company during the year:

	2001	2000
Production	57	57
Distribution	40	40
Administration	29	29
	126	126
	===	===

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

	2001 $'000	2000 $'000
Salaries and wages	130,494	120,154
Other benefits	34,869	32,036
Statutory contributions	7,405	9,969
Pension contributions	4,775	4,158
	177,543	166,317
	=======	=======

(c) Cost of sales include the following:

	2001 $'000	2000 $'000
Changes in inventories of finished goods and work in progress	5,644	12,436
Raw materials and consumables used	414,194	392,218
	419,838	404,654
	=======	=======