Berger Paints Jamaica Limited

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

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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 Holding Company 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

Fixed assets are stated at cost except for land and certain buildings, which are carried at valuation. Valuation is based on the fair market valuation on the basis of their existing use at the date of valuation, less any subsequent accumulated depreciation.

Any revaluation increase arising on the revaluation of such land and buildings is credited to capital reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in the carrying amount arising on revaluation of such land and buildings is charged as an expense to the extent it exceeds the balance, if any, held in capital reserves relating to a previous revaluation of that asset.

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.

Depreciation on revalued buildings is charged to the profit and loss account. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in capital reserves is transferred directly to revenue reserve.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and carrying amount of the asset, and is recognized in the profit and loss account.

(d) 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.

(e) 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.

(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) 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.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

(h) 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.

(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 other current assets except inventories and any prepayments.

Financial liabilities include 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 $'000	Freehold Building $'000	Plant and Machinery $'000	Furniture, Fixtures & Equipment $'000	Motor Vehicles $'000	Totals $'000
t cost or valuation						
At Cost or valuation						
January 1	27,000	48,591	40,116	14,739	31,320	161,766
Additions	-	3,710	2,597	2,194	5,605	14,106
Disposals	-	-	-	-	(5,637)	(5,637)
December 31	27,000	52,301	42,713	16,933	31,288	170,235
Classified as follows:						
At cost	-	3,710	42,713	16,933	31,288	94,644
At valuation	27,000	48,591	-	-	-	75,591

	27,000	52,301	42,713	16,933	31,288	170,235
Depreciation						
January 1	-	6,174	23,802	10,034	18,072	58,082
Charge for year	-	996	4,026	1,752	4,928	11,702
On disposals	-	-	-	-	(5,047)	(5,047)
December 31	-	7,170	27,828	11,786	17,953	64,737
Net book value						
December 31, 2002	27,000	45,131	14,885	5,147	13,335	105,498
December 31, 2001	27,000	42,417	16,314	4,705	13,248	103,684

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

	2002 $'000	2001 $'000
General Consumption Tax (GCT) (See (a) below)	484	1,266
National Housing Trust (See (b) below)	4	91
	488	1,357
Less current maturities included in Note 7	450	946
	38	411

(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

The unconsolidated subsidiary company had not traded since December 31, 1988. At that date that company's balance sheet was as follows:

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

The company was wound up during the year.

(b) Other investments

	2002 $'000	2001 $'000
Unquoted	-	10
	===	===

These investments were sold during the year.

6 **INVENTORIES**

	2002 $'000	2001 $'000
Finished goods	105,508	70,282
Work-in-progress	7,713	10,435
Raw materials and supplies	75,289	62,768
Goods-in-transit	32,566	22,505
	221,076	165,990
	=======	=======

7 **ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	2002	2001
	$'000	$'000
Trade receivables	191,332	172,233
Less provision for doubtful debts	33,921	30,281
	157,411	141,952
Other receivables and prepayments	14,766	8,241
Current portion of long-term receivables	450	946
	172,627	151,139
	=======	=======

8 **SHARE CAPITAL**

	2002	2001
	$'000	$'000
Share capital Authorized, issued and fully paid 214,322,393 (2001:142,881,595) ordinary shares of 50 cents	107,161	71,441
	=======	=======

By an ordinary resolution of the shareholders dated December 6, 2002:

(a) The authorised share capital of the company was increased to $107,161,198 by the creation of an additional 71,440,798 ordinary shares with a nominal value of 50c each to rank *pari passu* with the existing shares.

(b) The sum of $35,720,399, being part of the company's profits for the year, was capitalised and applied at par to the issue of bonus shares amounting to 71,440,798 ordinary shares to members on record at December 23, 2002 in the ratio of one bonus share for every two shares held.

9 **CAPITAL RESERVES**

These represent unrealised revaluation surpluses on land and buildings.

10 **PROPOSED DIVIDENDS**
2002 2001

	2002	2001
	$'000	$'000
Proposed:		
Ordinary dividends of 21c (2001: 27.5c) per stock unit	44,820	39,292
	======	======

11 **ACCOUNTS PAYABLE AND ACCRUALS**

	2002	2001
	$'000	$'000
Trade payables	52,477	30,452
Other payables and accruals	71,474	52,422
	123,951	82,874
	=======	=======

12 **PROFIT FROM OPERATIONS**

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

	2002	2001
	$'000	$'000
Cost of sales (Note 12(b))	564,908	500,916
	=======	=======
Distribution costs	115,645	102,240
Administrative expenses	111,714	98,837

Other operating expenses	11,200	10,633
	238,559	211,710
Other operating income	14,525	7,858

Included in the above are amounts totalling $7.5 million in respect of provisions for vacation leave not taken.

(b) Cost of sales include the following:

	2002 $'000	2001 $'000
Changes in inventories of finished goods and work in progress	(32,504)	(5,644)
Raw materials and consumables used	459,673	414,194
	427,169	408,550

13 PROFIT BEFORE TAXATION

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

	2002 $'000	2001 $'000
Directors' emoluments		
Fees	100	48
Management	7,795	7,508
Audit fees	1,402	1,300
Depreciation (Note 3)	11,702	10,645
Interest - finance leases	-	72
- overdraft	193	174

14 TRANSACTIONS WITH GROUP COMPANIES

Significant transactions were:

	2002	2001
	$'000	$'000
Sales	5,179	8,225
Purchases	108,822	103,989
Technical fees payable	10,981	9,988

The transactions were carried out in the normal course of business at pre-determined group rates.

15 TAXATION

	2002	2001
	$'000	$'000
The total charge for the year comprises:		
Income tax at 33 1/3%	41,630	37,000
Less: Tax credit arising on issue of bonus shares	8,930	-
	32,700	37,000
	======	======

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. Consequent on the issue of bonus shares the earnings per stock unit for 2001 has been adjusted accordingly.

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. Retirement benefits are payable at a rate of 1 2/3% of average earnings over the three years prior to retirement times the number of years membership in the plan.

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, 2002 amounted to $25.4 million. These expenditures are mainly in respect of the acquisition of equipment and building alterations.

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 some of the 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 folowing 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/to 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, 2002 include aggregate net foreign currency liabilities as indicated below in respect of transactions arising in the ordinary course of business.

	2002	2001
	$'000	$'000
US$	1,320	506
£	89	-

(d) Interest rate risk

Interest rate risk is the potential that the value of a financial instrument will fluctuate due to changes in market interet 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**

	2002	2001

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

Production	57	57
Distribution	39	40
Administration	29	29
	125	126
	===	===

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

	2002	2001
	$'000	$'000
Salaries and wages	139,440	130,494
Other benefits	32,918	34,869
Statutory contributions	8,444	7,405
Pension contributions	4,867	4,775
	185,669	177,543
	=======	=======