

Courts (Jamaica) Limited

Notes to the Financial Statements

31 March 2002

1 Turnover and Cost of Sales

(a) Turnover represents the total retail price of goods sold, less discounts allowed. It includes hire purchase charges and excludes General Consumption Tax.

(b) Cost of sales comprises the cost of goods sold, selling expenses (including bad debt provisions, debt collection expenses and advertising), branch operating expenses (including insurance, depreciation and occupancy) and the amortisation of goodwill.

2 Operating Profit

This is stated after charging/(crediting):

	2002 \$'000	2001 \$'000
Bad debts written off and increase in provision for doubtful accounts	162,082	301,042
Depreciation	40,440	37,348
Directors' emoluments -		
Fees as directors	768	718
Executive remuneration (included in staff cost)	36,348	45,246
Auditors' remuneration	1,650	1,550
Gain on disposal of fixed assets	(2,185)	(335)
Staff costs (Note 3)	390,970	421,650
	=====	=====

3 Staff Costs

(a) Staff costs comprise:

	2002	2001
	\$'000	\$'000
Wages and salaries	318,395	336,327
Statutory contributions	31,845	38,953
Pension costs	9,323	15,147
Other	31,407	31,223
	<u>390,970</u>	<u>421,650</u>
	=====	=====

(b) The average number of employees in 2002 was 879 (2001-740), of whom 132 (2001-82) were employed part-time.

4 Finance Costs

	2002	2001
	\$'000	\$'000
Foreign exchange loss	-	(3,540)
Interest expense -		
Related companies	(2,322)	(6,533)
On loans and overdraft	<u>(69,590)</u>	<u>(241,006)</u>
	<u>(71,912)</u>	<u>(251,079)</u>
Foreign exchange gain	3,278	-
Interest income	<u>25,203</u>	<u>4,215</u>
	28,481	4,215
	<u>(43,431)</u>	<u>(246,864)</u>
	=====	=====

5 Taxation

The taxation charge for the year is based on the reported profit adjusted for tax purposes and comprises:

	2002	2001
	\$'000	\$'000
Income tax at 33 1/3%	363,295	258,249
Adjustment to prior year provision	(472)	640

Tax credit on bonus issue of shares	(29,964)	(59,928)
	<u>332,859</u>	<u>198,961</u>
	=====	=====

6 Dividends

	2002 \$'000	2001 \$'000
Ordinary, out of unfranked income, gross -		
Interim declared - 0.75 cents per share (2001 -0.65 cents	8,990	6,232
Final proposed -1.20 cents per share (2001 - 1.50 cents	<u>19,177</u>	<u>17,978</u>
	28,167	24,210

7 Earnings per Stock Unit

The calculation of earnings per ordinary 50 cents stock unit is based on the net profit for the year of \$770,476,000 (2001 - \$576,917,000) and 1,198,561,000 ordinary stock units in issue at the end of the year. The comparative figure for the previous year has been adjusted to reflect the issue of 239,712,000 bonus shares during the year (Note 17(a)).

8 Fixed Assets

	Freehold Land and Buildings \$'000	Equipment, Fixtures and Fittings \$'000	Motor Vehicles \$'000	Total \$'000
Cost or Valuation -				
1 April 2001	907,676	226,244	32,056	1,165,976
Additions	5,301	45,539	6,880	57,720
Disposals	-	-	(7,039)	(7,039)
31 March 2002	<u>912,977</u>	<u>271,783</u>	<u>31,897</u>	<u>1,216,657</u>
Depreciation -				
1 April 2001	6,762	105,159	19,986	131,907
Charge for the year	6,914	28,407	5,119	40,440
On disposals	-	-	(5,974)	(5,974)
31 March 2002	<u>13,676</u>	<u>133,566</u>	<u>19,131</u>	<u>166,373</u>
Net Book Value -				
31 March 2002	899,301	138,217	12,766	1,050,284
	=====	=====	=====	=====
31 March 2001	900,914	121,085	12,070	1,034,069
	=====	=====	=====	=====

(a) Freehold land and buildings includes \$273,600,000 in respect of land.

(b) During the year ended 31 March 2000, freehold land and buildings were revalued on the basis of market valuation by Langford and Brown, valuers and real estate agents. The deficit arising from these valuations was written off against profit and loss or capital reserve (Note 18). Subsequent additions are included at cost.

9 Goodwill

This represents goodwill arising on the acquisition of an established furniture retailing business, and is being amortised over 20 years commencing 1999.

	2002	2001
	\$'000	\$'000
Cost	15,000	15,000
Less: Amortisation	<u>(3,000)</u>	<u>(2,250)</u>
	12,000	12,750
	=====	=====

10 Long Term Receivable

This represents National Housing Trust contributions recoverable in years 2003-2004. The current portion recoverable up to 2002 has been included in other receivables.

11 Long Term Hire Purchase Receivables

	2002	2001
	\$'000	\$'000
Hire purchase receivables	2,963,947	4,048,745
Less: Deferred profit	<u>(1,296,329)</u>	<u>(1,814,720)</u>
	1,667,618	2,234,025
Less: Provision for doubtful accounts	<u>(177,155)</u>	<u>(266,504)</u>
	1,490,463	1,967,521
Less: Current portion (Note 12)	<u>(968,087)</u>	<u>(1,242,059)</u>
	522,376	725,462
	=====	=====

12 Receivables

2002	2001
\$'000	\$'000

Current portion of hire purchase receivables (Note 11)	968,087	1,242,059
Other receivables	<u>79,338</u>	<u>52,048</u>
	<u>1,047,425</u>	<u>1,294,107</u>
	=====	=====

13 Inventories

	2002	2001
	\$'000	\$'000
Merchandise for resale	598,722	614,965
Gifts	39,308	62,731
Goods in transit	<u>65,348</u>	<u>42,044</u>
	<u>703,378</u>	<u>719,740</u>
	=====	=====

14 Cash and Short Term Deposits

	2002	2001
	\$'000	\$'000
Cash at bank and in hand	39,113	31,275
Short term deposits	<u>505,454</u>	<u>127,791</u>
	<u>544,567</u>	<u>159,066</u>
	=====	=====

The weighted average effective interest rate on short term deposits was 14.7% (2001 - 16.5%), and these deposits have been placed on call or overnight deposit.

15 Payables

	2002	2001
	\$'000	\$'000
Trade payables	90,087	78,261
Warranty provisions	36,889	34,362
Accruals and other payables	<u>88,980</u>	<u>94,510</u>
	<u>215,956</u>	<u>207,133</u>
	=====	=====

16 Bank and Short Term Loans

2002	2001
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	\$ '000	\$ '000
Bank loans - secured	-	100,000
Other loan - secured	-	428,455
Other loan - unsecured	-	437,396
	<u>-</u>	<u>965,851</u>
	=====	=====

(a) These amounts represented working capital loans which were repaid during the year. The loans repayable in Jamaican dollars attracted interest at rates ranging between 18% and 24% per annum, and those repayable in United States dollars attracted interest at the rate of 10% per annum. The secured loans were evidenced by a stand-by letter of credit from a commercial bank based in the United Kingdom.

(b) The company has an unsecured overdraft facility of \$230,000,000 with The Bank of Nova Scotia Jamaica Limited and \$135,000,000 with National Commercial Bank.

17 Share Capital

	2002 \$ '000	2001 \$ '000
Authorised, 1,200,000,000 (2001 - 960,000,000)		
Ordinary shares of 50 cents each	600,000	480,000
	=====	=====
Issued and fully paid, 1, 198,561,000 (2001 - 958,849,000)		
Ordinary stock units of 50 cents each	599,281	479,425
	=====	=====

(a) During the year, the authorised share capital of the company was increased by \$120,000,000 by the creation of 240,000,000 ordinary shares of 50 cents each. A total of 239,712,370 shares were then issued at par as fully paid up bonus shares by the capitalisation of \$119,856,185 of retained earnings. The shares so issued were then converted to stock units.

(b) Share options

The Share Option Trust has purchased shares from which future share options are exercisable. At the year end, there were outstanding share options exercisable as follows:

- (i) Exercisable by 3 Executive Directors, 2 of whom are to acquire 50,000 shares each and the other 66,667 shares. These options are exercisable on or after 17 January 2005 at a price of \$2.83 per share.
- (ii) Exercisable by an Executive Director to acquire 50,000 shares. This option is exercisable on or after 17 January 2005 at a price of \$5.55 per share.
- (iii) Exercisable by 5 Senior Managers to acquire 10,000 shares each. These options are exercisable on or after 17 January 2005 at a price of \$2.83 per share.
- (iv) Exercisable by a Senior Manager to acquire 10,000 shares. This option is exercisable on or after 17 January 2005 at a price of \$5.55 per share.
- (v) Exercisable by a Senior Manager to acquire 20,000 shares. This option is exercisable on or after 15 June 2006 at a price of \$2.35 per share.

The option agreement provides for a proportionate increase in the number of shares available under the option, in respect of bonus shares issued by way of capitalisation of profits or reserves.

18 Capital Reserve

	2002	2002
	\$'000	\$'000
Realised capital gains	1,969	1,969
Unrealised surplus on revaluation of fixed assets	615,934	615,934
	<u>617,903</u>	<u>617,903</u>
	=====	=====

19 Related Party Transactions

During the year, the company entered into transactions with related parties as follows:

	2002	2001
	\$'000	\$'000
Interest income	(160)	(61)
Interest expense	2,322	6,533
Management fees	6,554	7,234
Computer charges	21,069	19,391

Other charges	8,219	10,468
Purchases and expenses	1,010,469	1,057,238
	=====	=====

20 Commitments

- (a) Capital expenditure approved at 31 March 2002 amounted to approximately \$122,000,000 (2001 - \$124,000,000) and relates to the continued expansion of the company's operations.
- (b) Commitments under operating leases are scheduled for payment as follows:

	2002 \$ '000	2001 \$ '000
In the year ending 31 March 2002	-	8,058
2003	6,974	2,471
2004	9,842	1,206
2005	10,810	-
2006	11,231	-
2007	5,183	-
	44,040	11,735
	=====	=====

21 Financial Instruments

- (a) Currency risk
- The company incurs foreign currency risk on transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to this risk are the United States dollar, British pound and Eastern Caribbean dollar.

	2002			2001		
	US\$ '000	£ '000	EC\$ '000	US\$ '000	£ '000	EC\$ '000
Assets						
Cash and short term deposits	133	-	-	162	-	-
Due from affiliates	-	-	58	-	-	-
	<u>133</u>	<u>-</u>	<u>58</u>	<u>162</u>	<u>-</u>	<u>-</u>
Liabilities						
Payables	(84)	-	-	(663)	-	-
Holding company	-	(87)	-	-	(733)	-
Due to affiliates	(1,064)	-	-	-	-	(6)
Bank and short term loans (Note 16)	-	-	-	(500)	-	-
	<u>(1,148)</u>	<u>(87)</u>	<u>58</u>	<u>(1,163)</u>	<u>(733)</u>	<u>(6)</u>
Net Assets/(Liabilities)	<u>(1,015)</u>	<u>(87)</u>	<u>58</u>	<u>(1,001)</u>	<u>(733)</u>	<u>(6)</u>
	=====			=====		

(b) Interest risk

The company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summaries the company's exposure to interest rate risks. Included in the table are the company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Floating	Fixed rate	Non rate	Total	Weighted average period for which rate is fixed	Weighted average interest rate	Weighted average period until maturity
	rate		sensitive		is fixed		
	\$ '000	\$ '000	\$ '000	\$ '000	years	%	years
Assets							
Long term hire-purchase							
receivables	-	522,376	-	522,376	1.7	20	1.7
Receivables	-	968,087	79,338	1,047,425	1	20	1
Cash and short term							
deposits	511,771	-	32,796	544,567	-	14.7	overnight
	<u>511,771</u>	<u>1,490,463</u>	<u>112,134</u>	<u>2,114,368</u>			
Liabilities							

Payables	-	-	(215,359)	(215,359)	-	-	0.25
Holding company		(5,830)	-	(5,830)	1	12	1
Due to affiliates	-	-	(49,289)	(49,289)	-	-	-
	-	(5,830)	(264,648)	(270,478)			
Net Assets/(Liabilities)	511,771	1,484,633	(152,514)	1,843,890			
	=====						

(C)Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company has no significant concentration of credit risk attaching to hire purchase receivables as the company has a large and diverse customer base, with no significant balances arising from any single economic or business sector, or any single entity or group of entities. The company has policies in place to ensure that sales are made to customers with an appropriate credit history. Hire purchase receivables balances are shown net of provision for doubtful debts.

(d)Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the management of the company aims at maintaining flexibility in funding by keeping committed lines of credit available.

(e)Fair values

The amounts included in the financial statements for cash and bank balances, current hire purchase and other trade receivables, trade payables, holding company balances and amounts due from subsidiaries reflect their approximate fair values because of the short-term maturity of these instruments.

The long term hire purchase receivables are originated loans. The carrying amount approximates the amortised cost of these loans, after making suitable allowance for doubtful debts.

22 Pension Scheme

All permanent employees are eligible to join the contributory pension scheme. Retirement benefits are based on the highest salary in the last three years prior to retirement. The scheme was actuarially valued as of 31

March 1999 and the results indicated an unfunded past service liability of approximately \$296,000. The actuaries have recommended that the company contribute to the fund at the rate of 5% of annual salaries in order to eliminate the deficit. The company as at 31 March 2002 contributes at the rate of 5% of pensionable salaries.

23 Contingent Liabilities

- (a) The company has received from the Commissioner of Inland Revenue notices of reassessment in respect of its corporate tax liabilities for the years ended 31 March 1992 - 1994 and 1996 - 1997 which, if successful, would result in demands for increased taxation for those periods totalling \$53,701,000. The reassessment against which the Company has already lodged a formal objection, results from the bringing into account for tax purposes, profits deferred by the company in its accounts.

At the date of these financial statements, these matters remain under discussion, however it is the opinion of the Board of Directors, that they will be favourably resolved.

- (b) The company has been assessed by the Customs Department for increased duties and General Consumption Tax of approximately \$61 million in respect of merchandise imported during the period January 1997 to August 2000. The additional charge is based on the Customs Department's contention that amounts paid to Courts Worldwide Purchasing should have been included in the valuation of the imported merchandise.

The Board of Directors is contesting the matter, on the grounds that these payments are part of a cost-recovery charge by Courts Worldwide Purchasing and, as such, no provision has been made in these financial statements.
