Berger Paints Jamaica Limited

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

---

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 which is listed on the Jamaica Stock Exchange, is a 51 % subsidiary of Lewis Berger (Overseas Holdings) Limited, which is incorporated in the United Kingdom. The ultimate holding company is Asian Paints (India) Limited, which is incorporated in India. The registered office of the company is 256 Spanish Town Road, Kingston 11.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The company's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared under the historical cost basis.

These financial statements are expressed in Jamaican dollars.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS 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) Property, plant and equipment

All property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are recorded at historical or deemed cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets other than land, over the estimated useful lives, using the straight-line method, on the following bases:

	Per annum
Freehold buildings	2%
Plant and machinery	8% - 15%
Other fixed assets	12%- 25%

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

(d) Long-term receivables

These recoverable consumption taxes are shown at nominal values.

(e) 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 that have been incurred in bringing inventory to its present location. The cost of work-in-progress comprises direct materials, and an appropriate proportion of labour and overhead expenses in bringing the inventory to its present location. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(f) Accounts receivable

These amounts, which are expected to be settled within a year of inception, are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts where necessary. The allowance for irrecoverable amounts is determined by reference to past default experience.

(g) Cash and bank deposits

For the purposes of the cash flow statement, cash and bank balances comprises cash at bank and in hand, net of bank overdraft. Bank deposits have an original maturity of three months or less.

(h) Retirement benefit costs

The company operates a defined benefits pension plan and provides post retirement medical benefits. The plans are funded by contributions from employees and employer. In respect of the pension plan, the employees contribute at the rate of 5% of pensionable salaries (with the option of contributing an additional 5%). The post retirement medical plan is funded entirely by the company. The company's rate of contribution is determined by independent actuaries.

The cost of providing benefits is determined using the Projected Unit Credit Method with independent actuarial valuations being carried out each balance sheet date. Actuarial gains and losses that exceed 10% of the greater of the present value of the company's obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognized past service costs, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(i) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates currently enacted, which rates are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

(j) Due from (to) group companies

Two parties are considered to be related when:

(a) one party is able to exercise control or significant influence over the other party; or

(b) both parties are subject to common control or significant influence from the same source.

Intergroup transactions are recorded at pre-determined group rates and are settled quarterly.

(k) Dividends payable

These are recognized as a liability in the period in which they are approved by the shareholders in the annual general meeting.

(l) Accounts payable

Trade payables are stated at their nominal value.

(m) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be determined.

(n) Revenue recognition

Sale of goods is recognized where goods are delivered and title has passed and is recorded at the fair value of the consideration receivable net of discount, rebates and consumption taxes.

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

(o) Foreign currencies

Transactions in currencies other than the Jamaican dollar are initially recorded at the rates of exchange prevailing at the dates of those transactions. Monetary assets and liabilities denominated in such currencies are re-translated to Jamaican dollars at exchange rates current at balance sheet date. All resulting gains and losses are credited to, or charged against, net profit or loss for the year.

(p) Borrowing costs

Borrowing costs are recognised in the net profit or loss in the period in which they are incurred.

(q) Financial instruments

Financial instruments include transactions that give rise to both financial assets and financial liabilities.

Financial assets and liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

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 22.

(r) Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(s) Comparative information

Where necessary, comparative figures have been reclassified and/or restated to conform to changes in the current year.

3. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Freehold Buildings	Plant and Machinery	Furniture, Fixtures & Equipment	Motor Vehicles	Totals
	$'000	$'000	$'000	$'000	$'000	$'000
At cost						
January 1	27,000	52,470	45,829	20,999	29,677	175,975
Additions	-	-	5,880	2,409	3,177	11,466
Transfers	-	(688)	688	-	-	-
Disposals	-	-	-	-	(423)	(423)
December 31	27,000	51,782	52,397	23,408	32,431	187,018
Depreciation						
January 1	-	8,219	32,353	13,437	19,437	73,446

Charge for year	-	1,035	5,261	2,035	5,431	13,762
Transfers	-	(84)	84	-	-	-
On disposals	-	-	-	-	(423)	(423)
December 31	-	9,170	37,698	15,472	24,445	86,785
Net book value						
31/12/2004	27,000	42,612	14,699	7,936	7,986	100,233
31/12/2003	27,000	44,251	13,476	7,562	10,240	102,529

Freehold land and buildings were revalued in 1995 and the revaluation surplus of $49.579 million was credited to revaluation reserves. The revalued amounts of $27 millon for land and $47.529 million for buildings have been designated the deemed cost of these assets, as permitted under the provisions of IFRS 1.

4. LONG-TERM RECEIVABLES

	2004	2003
	$'000	$'000
General Consumption Tax (GCT) (See below)	626	694
Less current maturities included in Note 7	526	421
	100	273

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

5. POST EMPLOYMENT BENEFITS

The company operates a defined benefits pension plan and provides medical benefits to its pensioners. The plans are funded by contributions from the employees and the company. The company contributes to the plans at rates determined periodically by independent actuaries (currently 5.7% of pensionable salaries in respect of the pension plan and the full cost in respect of the medical plan). In respect of the pension plan the employees contribute a rate of 5% of pensionable salaries (with the option of contributing an additional 5%) and pension benefits are determined on a prescribed benefits basis and are payable at a rate of 1 2/3% of the employee's average earnings over the three years prior to retirement times the employee's number of years membership in the plan.

The disclosures below are based on the independent actuarial valuation as at December 31, 2004

(a) Prior year adjustment

During 2003, a decision was taken to discontinue the provision of the medical benefits to pensioners as of December 31, 2003. However, during 2004, the decision was not effected as the directors believe, based on further investigation and the information available to them, that such a position could not be sustained. As a result, the actuarial valuation as at December 31, 2003 was restated and reflected a liability, in respect of this plan, of $36.281 million as at that date. In restating the results for 2003, the charge, for the provision of this benefit, to profit from operations, increased by $6.130 million and was partially offset by a deferred tax asset adjustment of $2.044 million and increased by a current tax charge of $0.5 million respectively. The remaining charge amounting to $30.151 million relating to 2002 and before has been charged against revenue reserve at the beginning of 2003 (partially offset by a deferred tax asset adjustment of $ 10.050 million).

(b) Amounts recognized in income in respect of the plans are as follows:

	Defined Benefits Plan		Retiree Medical Plan	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Current service cost	2,444	5,209	1,247	1,948
Interest costs	15,515	15,986	5,398	5,499
Expected return on plan assets	(28,234)	(19,366)	-	-
Change in unrecognized asset	(33,976)	-	-	-
Total included in staff costs	(44,251)	1,829	6,645	7,447
Actual return on plan assets	74,876	38,445	-	-

(c) Amounts included in the balance sheet in respect of these plans are as follows:

Defined Benefits Plan   Retiree Medical Plan

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Present value of obligation	(168,984)	(109,865)	(49,477)	(36,281)
Fair value of plan assets	273,903	196,589	-	-
Assets not recognized due to limitation resulting from uncertainty of obtaining economic benefits	(49,307)	(83,283)	-	-
(Unrecognized) recognized actuarial (gain) loss	(2,022)	-	8,339	-
Net asset (liability) in balance sheet	53,590	3,441	(41,138)	(36,281)

(d) Movements in the net asset (liability) in the year were as follows:

	Defined Benefits Plan		Retiree Medical Plan	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Balance January 1	3,441	-	(36,281)	(30,151)
Amounts written back (charged to) to income	44,251	(1,829)	(6,645)	(7,447)
Contributions	5,898	5,270	1,788	1,317
	53,590	3,441	(41,138)	(36,281)

(e) Key assumptions used:

	2004	2003
Gross discount rate	12.5%	15.0%
Expected return on assets	12.5%	12.5%
Expected rate of salary increases	10.0%	10.0%
Future pension increases	2.5%	2.5%
Medical claims	10.5%	11.0%

6. INVENTORIES

	2004	2003

	$'000	$'000
Finished goods	65,102	96,531
Work-in-progress	11,562	7,879
Raw materials and supplies	111,681	79,621
Goods-in-transit	50,680	61,820
	239,025	245,851

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2004	2003
	$'000	$'000
Trade receivables (net of rebates)	224,436	200,878
Less allowance for irrecoverable debts	36,369	34,821
	188,067	166,057
Other receivables and prepayments	20,758	18,271
Current portion of long-term receivables (Note 4)	526	421
	209,351	184,749

The average credit period taken on sale of goods is 62 days (2003: 60 days).

8. CASH AND BANK DEPOSITS

Bank deposits include interest bearing accounts totalling $40,085 (2003: $77,694) including foreign currency deposits amounting to $4,786 (2003: $56,611). Interest on foreign currency deposits are at rates of 2.2% and 2.875% per annum (2003: 2.75%) and local currency deposits are at a rate of 9.75% (2003: 10.25%).

9. SHARE CAPITAL

	2004	2003
	$'000	$'000
Share capital		
Authorized, issued and fully paid 214,322,393 (2003: 214,322,393) ordinary shares of 50 cents each	107,161	107,161

10. REVALUATION RESERVES

	Properties Revaluation Reserve $'000
Balance at January 1, 2003	40,866
Adjustments to deferred tax liability in respect of revalued buildings	200
Balance at January 1, 2004	41,066
Adjustments to deferred tax liability in respect of revalued buildings (Note 12)	200
Balance at December 31, 2004	41,266

11. DIVIDENDS

(a) A dividend of 20cents (2003: 20.9c) per share totalling $43.162 million (2003: $44.820 million) was approved at the company's Annual General Meeting and paid to shareholders on the company's register of members at the close of business on May 13, 2004 (2003: May 21, 2003).

(b) In respect of the current year

(i) An interim dividend of 10c per share totalling $21.432 million was paid to shareholders on the company's register of members at the close of business on November 19, 2004.

(ii) The directors per resolution dated December 14, 2004, propose that a further interim dividend of 10c per share totalling $21.432 million is to be paid in January 2005 to shareholders on the company's register of members at the close of business on December 31, 2004.

The directors further propose that a final dividend of 6cents (2003: 20cents) per share totalling $12.859 million be paid to shareholders.

The dividends are subject to approval by the shareholders at the Annual General Meeting. The total estimated dividend to be paid is $34.291 million (2003: $43.162 million).

12. DEFERRED TAX LIABILITIES (ASSETS)

This comprises:

	2004	2003
	$'000	$'000
Deferred tax liabilities	28,565	10,051
Deferred tax assets	(17,137)	(14,482)
	11,428	(4,431)

The movement during the year in the company's deferred tax position was as follows:

	2004	2003
	$'000	$'000
Balance, January 1	(4,431)	(4,401)
Charge to income for the year (Note 19)	16,059	170
Credit to equity for the year (Note 10)	(200)	(200)
Balance, December 31	11,428	(4,431)

The following are the main deferred tax liabilities and assets recognised by the company and movements thereon during the period:

Deferred tax liabilities

	Revaluation of Properties $'000	Post-employment benefit asset $'000	Unrealised foreign exchange gains $'000	Excess value over tax allowances on motor vehicles $'000	Total $'000
Balance, January 1, 2004	8,513	1,147	391	-	10,051
Charge (credit) to income for the year	-	16,716	(122)	2,120	18,714
Credit to equity for the year	(200)	-	-	-	(200)
Balance, December 31, 2004	8,313	17,863	269	2,120	28,565

Deferred tax assets

	Post-employment benefit obligation $'000	Depreciation charges in excess of capital allowances $'000	Legal Fees Provision $'000	Total $'000
Balance, January 1, 2004	12,094	1,021	1,367	14,482
Credit to income for the year	1,619	770	266	2,655
Balance, December 31, 2004	13,713	1,791	1,633	17,137

13. PROVISIONS

	$'000
Balance, January 1, 2004	4,100
Additional provision for year	800
Current maturity included in Note 14	(4,900)
Balance, December 31, 2004	-

This provision is in respect of a personal injury claim which is expected to be settled in 2005

14. ACCOUNTS PAYABLE AND ACCRUALS

	2004 $'000	2003 $'000
Trade payables	110,413	75,527
Other payables and accruals	63,138	60,571
Current portion of provisions (Note 13)	4,900	-
	178,451	136,098

The average credit period taken for trade purchases is 69 days (2003: 65 days).

15. SALES (NET OF DISCOUNTS AND REBATES)

An analysis of the company's sales is as follows:	2004 $'000	2003 $'000
Decorative/architectural products	1,023,341	943,285
Industrial products	30,548	30,628
Vehicle refinish	53,516	42,411
	1,107,405	1,016,324

16. PROFIT FROM OPERATIONS

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

	2004 $'000	2003 $'000
Operating expenses		
Raw materials and consumables used	556,792	499,847
Changes in inventories of finished goods and work in progress	27,746	11,883
Manufacturing expenses	52,717	41,680
Depreciation	13,762	12,655
Staff costs	183,397	205,357

Other operating expenses	182,106	134,426
Total	1,016,520	905,848
Other operating income		
Rebates received	5,677	5,220
Profit on disposal of property, plant and equipment	69	952
Miscellaneous	6,999	1,977
Total	12,745	8,149

Other operating expenses include charges in respect of inventory obsolescence of $13.182 million (2003: $0.378 million).

17. PROFIT BEFORE TAXATION

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

	2004 $'000	2003 $'000
Income		
Interest - bank deposits	1,796	6,383
Net foreign exchange gains	3,584	5,876
Expenses		
Directors' emoluments		
Fees	267	100
Management	8,922	7,881
Audit fees	1,890	1,680
Depreciation (Note 3)	13,762	12,655
Interest - overdraft	50	66
Allowance for irrecoverable debt on sale of goods net of recoveries of $1,906,000 (2003: $4,524,000)	1,548	900

18. TRANSACTIONS WITH GROUP COMPANIES

The company carried out transactions in the ordinary course of business during the year with its parent company, Lewis Berger (Overseas Holding) Limited and its affiliates as follows:

	2004 $'000	2003 $'000
Sales	9,975	2,401
Purchases	7,450	186,573
Technical fees	33,166	24,861

19. TAXATION

	2004 $'000	2003 $'000
(a) The total charge for the year comprises:		
Current tax	22,300	43,900
Deferred tax adjustment (Note 12)	16,059	170
Adjustment in respect of prior year over provisions	-	(900)
	38,359	43,170

Income tax is calculated at 33 1/3% of the estimated assessable profit for the year.

The charge for the year is reconciled to the profit as per the profit and loss account as follows.

	2004 $'000	%	2003 $'000	%
Profit before tax	105,376		124,942	
Tax at the domestic income tax rate of 33 1/3%	35,125	33.3	41,647	33.3
Tax effect of expenses that are not deductible in determining taxable profit	5,245	5.0	7,467	5.9

Tax effect of expenses that are deductible for tax purposes only	(18,162)	(17.2)	(5,242)	(4.1)
Net increase in deferred tax liabilities	16,059	15.2	170	0.1
Effect of adjustment for prior year over provisions	-	-	(900)	(0.7)
Other	92	-	28	-
Tax expense and effective tax rate for the year	38,359	36.3	43,170	34.5

In addition to the amount charged to the profit and loss account, deferred tax relating to the revaluation of the company's properties amounting to approximately $200,000 (2003: $200,000) has been credited directly to equity (See Note 12).

20. EARNINGS PER STOCK UNIT

The calculation of earnings per stock unit is based on the profit after taxation of $67.017 million (2003 $81.772 million) and the number of stock units in issue during the year of 214,322,393 units.

21. CAPITAL COMMITMENTS

Capital expenditure authorised but not contracted for at December 31, 2004 amounted to $36.431 million. These expenditures are mainly in respect of the acquisition of equipment and building alterations.

22. 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 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/to fellow subsidiaries reflect the approximate fair values because of short-term maturity of these instruments.

23. RISK MANAGEMENT

(a) 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 estimated by the company's management based on prior experience and their assessment of the current economic environment. 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.

(b) 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, 2004 include aggregate net foreign currency liabilities as indicated below in respect of transactions arising in the ordinary course of business.

	2004 '000	2003 '000
US$	944	558
Pound	228	297

(c) 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. Some bank deposits are subject to fixed interest rates which may be varied by appropriate notice by the respective financial institution. 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.

(d) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The company has no exposure to market risk as there are no traded securities.