BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

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 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting period beginning on January 1, 2005.

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the company's accounting policies nor the amounts reported for the current or prior years, although additional disclosures have resulted in some instances.

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 6	Exploration for and Evaluation of Mineral Reserves
IFRS 7	Financial Instruments: Disclosure
IFRIC 4	Determining whether an Arrangement contains a lease
IFRIC 5	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste, Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-Inflationary Economies
IFRIC 8	Scope of IFRS 2

The directors anticipate that the adoption of these Standards and Interpretations in the future periods will have no material impact on the financial statements.

…/2

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **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.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(d) Long-term receivables

These recoverable consumption taxes are shown at nominal values.

(e) Inventories

These are stated at the lower of cost 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 and condition. 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 and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

.../3

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(f) Accounts receivable

Trade receivables are measured at initial recognition at their fair values. Interest is not charged on outstanding balances and these are not generally discounted as they are usually settled within a short period during which market interest rates do not normally move significantly. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(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) Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

(i) Employee benefits

Pension obligations
The company operates a defined benefit pensions plan. The plan is funded by contributions from employees and employer. The employees contribute at the rate of 5% of pensionable salaries (with the option of contributing an additional 5%). 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.

...../4

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(i) Employee benefits (Cont'd)

Pension obligations (Cont'd)
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.

Termination obligations
Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

Other post-retirement obligations

The company also provides health benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for the defined benefits pension plans.

(j) 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.

…/5

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(j) Taxation (Cont'd)

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 profits 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.

(k) Related party identification

A party is considered to be related if:

(i) directly or indirectly, through one or more intermediaries, one party is able to exercise control or significant influence over the other party;

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

(iii) the party is a member of key management personnel of the entity or its parent.

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

(l) Dividends payable

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

…/6

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(m) Accounts payable

Trade payables are initially measured at their fair values. No interest is charged on outstanding balances and these are not generally discounted as they are usually settled within a short period during which interest rates do not normally move significantly.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

(o) 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 liabilities and equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its 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 25.

…/7

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(p) Impairment of tangible and intangible assets

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 higher of fair value less costs to sell 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.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates and consumption taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(r) Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the company operates (its functional currency).

…/8

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

(r) Foreign currencies (Cont'd)

In preparing the financial statements of the company, transactions in currencies other than the company's functional currency, the Jamaican dollar, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in profit or loss for the period.

(s) Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease.

(t) Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

(u) Borrowing costs

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

(v) Comparative information

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

.../9

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

4 **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the company's accounting policies, which are described in Note 3, management has made the following judgements and estimates that have the most significant effect on the amounts recognized in the financial statements and could cause material adjustments to the carrying amounts of assets and liabilities.

As disclosed in Note 7, the company operates a defined benefit pension plan and provides post retirement medical benefits. The amounts shown in the balance sheet of an asset of approximately $78 million in respect of the defined benefits plan and a liability of approximately $48 million in respect of post retirement medical liabilities are subject to estimates in respect of periodic costs which costs would be dependent on returns on assets, future discount rates, rates of salary increases and inflation rate in respect of the pension plan, and rates of increases in medical costs for the post retirement medical plan.

The estimated return on pension assets assumption is determined by considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The company estimates the appropriate discount rate annually which rate is used to determine the present value of estimated cash outflows expected to be required to settle the pension and post-retirement benefit obligation.

To determine the appropriate discount rate in the absence of high quality corporate bonds, the interest rate on government bonds that have maturities approximating the related pension liabilities were considered.

The expected increase in medical costs was determined by comparing the historical relationship of actual medical cost increases with the local rate of inflation. Current market conditions also impact the assumptions outlined above.

…/10

BERGER PAINTS JAMAICA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

5 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, 2004	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)
January 1, 2005	27,000	51,782	52,397	23,408	32,431	187,018
Additions	-	1,906	14,091	10,341	2,976	29,314
Disposals	-	-	-	-	(1,326)	(1,326)
December 31, 2005	27,000	53,688	66,488	33,749	34,081	215,006
Accumulated depreciation						
January 1, 2004	-	8,219	32,353	13,437	19,437	73,446
Depreciation charge for the year	-	1,035	5,261	2,035	5,431	13,762
Transfers	-	(84)	84	-	-	-
On disposals	-	-	-	-	(423)	(423)
January 1, 2005	-	9,170	37,698	15,472	24,445	86,785
Depreciation charge for the year	-	1,036	5,002	3,045	4,155	13,238
On disposals	-	-	-	-	(1,326)	(1,326)
December 31, 2005	-	10,206	42,700	18,517	27,274	98,697
Carrying amounts						
December 31, 2005	27,000	43,482	23,788	15,232	6,807	116,309
December 31, 2004	27,000	42,612	14,699	7,936	7,986	100,233

The following rates are used for depreciation of property, plant and equipment:

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

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

5 **PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

Following the revisions to IAS 16, Property, Plant and Equipment in 2003, that are effective for the current accounting period, the company has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the revised standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually in the future.

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 million 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.

6 **LONG-TERM RECEIVABLES**

	2004 $'000	2003 $'000
General Consumption Tax (GCT) (See below)	2,188	626
Less current maturities included in Note 9	1,341	526
	847	100

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

7 **POST EMPLOYMENT BENEFITS**

The company operates a defined benefits pension plan and provides post retirement medical benefits to its pensioners.

Defined benefit pension plan

This plan is funded by contributions from the employees and the company. The company contributes to the plan at rates determined periodically by independent actuaries (currently 5.7% of pensionable salaries) and the employees contribute at a rate of 5% of pensionable salaries (with the option of contributing an additional 5%). Pension benefits are determined on a prescribed benefits basis and are payable at a rate of 1⅔% of the employee's average earnings over the three years prior to retirement times the employee's number of years membership in the plan.

.../12

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

7 **POST EMPLOYMENT BENEFITS (Cont'd)**

Retiree Medical Plan
The company bears the full cost of health care of employees after retirement.

The most recent actuarial valuations of plan assets and the present values of the defined benefit obligations were carried out at December 31, 2005 by Rambarran & Associates Limited (Consulting Actuaries). The present value of the defined benefit obligation and the related current service costs and past service cost, were measured using the projected unit credit method.

(a) Key assumptions used:

	2005	2004
Gross discount rate	12.5%	12.5%
Expected return on assets	12.5%	12.5%
Expected rate of salary increases	10.0%	10.0%
Future pension increases	4.0%	2.5%
Medical claims	10.5%	10.5%

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

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Present value of obligation	(228,286)	(168,984)	(47,578)	(49,477)
Fair value of plan assets	325,427	273,903	-	-
	97,141	104,919	(47,578)	(49,477)
Assets not recognized due to limitation resulting from uncertainty of obtaining economic benefits	(38,805)	(49,307)	-	-
Unrecognized actuarial loss (gain)	20,391	(2,022)	(496)	8,339
Net asset (liability) in balance sheet	78,727	53,590	(48,074)	(41,138)

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

7 **POST EMPLOYMENT BENEFITS (Cont'd)**

(c) Amounts recognized in the profit and loss account in respect of the plans are as follows:

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Current service cost	5,839	2,444	2,136	1,247
Interest costs	19,985	15,515	6,093	5,398
Expected return on plan assets	(33,933)	(28,234)	-	-
Change in unrecognized asset	(10,502)	(33,976)	-	-
Recognised actuarial loss	-	-	212	-
Total included in employee benefits expense	(18,611)	(44,251)	8,441	6,645
Actual return on plan assets	38,138	74,876	-	-

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

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Balance, January 1	53,590	3,441	(41,138)	(36,281)
Amounts written back (charged to) to income	18,611	44,251	(8,441)	(6,645)
Contributions by employer	6,526	5,898	1,505	1,788
	78,727	53,590	(48,074)	(41,138)

(e) Changes in the present value of the defined benefit obligation were as follows:

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Opening defined benefit obligation	168,984	109,865	49,477	36,281
Service cost	5,839	2,444	2,136	1,247
Interest cost	19,985	15,515	6,093	5,398
Member contributions	6,706	6,230	-	-
Benefits paid	(5,033)	(8,098)	(1,505)	(1,788)
Actuarial loss (gain)	31,805	43,028	(8,623)	8,339
Closing defined benefit obligation	228,286	168,984	47,578	49,477

…/14

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

7 **POST EMPLOYMENT BENEFITS (Cont'd)**

(f) Changes in the fair value of plan assets are as follows:

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Opening fair value of plan assets	273,903	196,589	-	-
Members' contribution	6,706	6,230	-	-
Employer's contribution	6,526	5,898	-	-
Expected return on plan assets	33,933	28,234	-	-
Benefits paid	(5,033)	(8,098)	-	-
Actuarial gain	9,392	45,050	-	-
Closing fair value of plan assets	325,427	273,903	-	-

(g) The fair value of plan assets at the balance sheet date is analysed as follows:

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Equity fund	84,227	83,999	-	-
Fixed income fund	165,215	123,448	-	-
Mortgage and real estate fund	74,509	65,245	-	-
Other assets	1,476	1,211	-	-
Closing fair value of plan assets	325,427	273,903	-	-

The plan assets do not include any of the company's own financial instruments, nor any property occupied by or other assets used by the company.

…./15

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

8 **INVENTORIES**

	2005 $'000	2004 $'000
Finished goods	97,675	65,102
Work-in-progress	11,601	11,562
Raw materials and supplies	86,794	111,681
Goods-in-transit	76,484	50,680
	272,554	239,025

Inventories above are net of provisions for obsolescence amounting to approximately $20.1 million (2004: $15.7 million).

9 **ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	2005 $'000	2004 $'000
Trade receivables (net of rebates)	274,600	224,436
Less allowance for irrecoverable debts	31,266	36,369
	243,334	188,067
Other receivables and prepayments	15,495	20,758
Current portion of long-term receivables (Note 6)	1,341	526
	260,170	209,351

The allowance for estimated irrecoverable amounts from the sale of goods of $31.26M (2004:$36.37M) has been determined by reference to past default experience.

10 **CASH AND BANK DEPOSITS**

Bank deposits include interest bearing accounts totaling $1,899,676 (2004: $40,085) including foreign currency deposits amounting to $1,881,371 (2004: $4,786). Interest on foreign currency deposits are at rates of 1.75% and 2% per annum (2004: 2.2% and 2.875%) and local currency deposits are at a rate of 3% (2004: 9.75%).

11 **SHARE CAPITAL**

	2005 $'000	2004 $'000
Authorised 214,322,393 ordinary shares		
Stated capital (see below)		
At January 1	107,161	107,161
Transfer from share premium	34,632	-
At December 31	141,793	107,161

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

11 **SHARE CAPITAL (Cont'd)**

The company has one class of ordinary shares which carry no right to fixed income.

Consequent on the enactment of the new Jamaican Companies Act (2004) (effective on February 1, 2005), the shares of the company were converted from ordinary shares of 50 cents each to no par value shares as the company did not elect to retain its shares with a nominal or par value. Therefore, the authorized capital of the company of 214,322,393 ordinary shares of 50 cents each were deemed to be converted to 214,322,393 ordinary shares without nominal or par value.

Further, the consideration received for the shares issued by the company in excess of the original par value of 50 cents per share totaling $34.632 million (Note 12) previously recorded as share premium has been transferred to a stated capital account to accord with the Companies Act requirements of recording stated capital as the full consideration received for shares issued by the company.

12 **SHARE PREMIUM**

The amounts were transferred to stated capital during the year to accord with the provisions of the new Jamaican Companies Act. (Note 11).

13 **REVALUATION RESERVES**

	Properties Revaluation Reserve $'000
Balance at January 1, 2004	41,066
Adjustments to deferred tax liability in respect of revalued buildings	200
Balance at January 1, 2005	41,266
Adjustments to deferred tax liability in respect of revalued buildings (Note 14)	200
Balance at December 31, 2005	41,466

The revaluation reserves are not available for distribution to the company's shareholders.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

14 **DEFERRED TAX LIABILITIES (ASSETS)**

Certain deferred tax assets and liabilities have been offset in accordance with the company's accounting policy. The following is the analysis of the deferred tax balances (after offset) for balance sheet purposes.

	2005 $'000	2004 $'000
Deferred tax liabilities	36,743	28,565
Deferred tax assets	(17,481)	(17,137)
	19,262	11,428

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

	2005 $'000	2004 $'000
Balance, January 1	11,428	(4,431)
Charge to income for the year (Note 22)	8,034	16,059
Credit to equity for the year (Note 13)	(200)	(200)
Balance, December 31	19,262	11,428

The following are the major deferred tax liabilities and assets recognised by the company and the movements thereon, during the current and prior periods:

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, January 1, 2005	8,313	17,863	269	2,120	28,565
Charge (credit) to income for the year		8,379	141	(142)	8,378
Credit to equity for the year	(200)	-	-	-	(200)
Balance, December 31, 2005	8,113	26,242	410	1,978	36,743

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

14 **DEFERRED TAX LIABILITIES (ASSETS) (Cont'd)**

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, January 1, 2005	13,713	1,791	1,633	17,137
Credit to income for the year	2,312	(335)	(1,633)	344
Balance, December 31, 2005	16,025	1,456	-	17,481

15 **BALANCES/TRANSACTIONS WITH RELATED PARTIES**

Trading transactions

The company carried out transactions in the ordinary course of business during the year with its affiliates as follows:

	Sales of goods		Purchases of goods		Other charges		Amounts owed to (by) related parties	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Lewis Berger (Overseas Holdings) Ltd.	-	-	-	-	35,399	33,166	27,810	13,666
Berger Trinidad	466	5,638	4,936	4,426	-	-	1,178	(1,620)
Berger Barbados	4,195	4,337	-	3,024	-	-	(3,421)	(2,299)
Berger International Limited.	-	-	-	-	6,129	-	6,129	-
	4,661	9,975	4,936	7,450	6,129	-	3,886	(3,919)

Sale of goods to related parties were made at the predetermined group rates. Purchases are made at market prices discounted to reflect the quantity of goods purchased and the relationships between the parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the period for irrecoverable debts in respect of the amounts owed by related parties.

…/19

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

15 BALANCES/TRANSACTIONS WITH RELATED PARTIES (Cont'd)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	$'000	$'000
Short-term benefits	29,982	28,129
Post-employment benefits	1,484	1,318
	31,466	29,447

The remuneration of directors and key executives is determined by the directors of the parent company having regard to the performance of individuals and prevailing macro-economic factors.

Other related party transactions

In addition to the above Lewis Berger (Overseas Holding) Limited performed certain technical services for the company for which a fee of $35.399 million (2004:$33.166 million) was charged.

16 PROVISIONS

The provision in respect of a personal injury claim was settled during the year.

17 ACCOUNTS PAYABLE AND ACCRUALS

	2005	2004
	$'000	$'000
Trade payables	114,859	110,413
Other payables and accruals	69,999	63,138
Current portion of provisions (Note 16)	-	4,900
	184,858	178,451

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

18 **DIVIDENDS**

(a) A final dividend of 16¢ (2004: 20¢) per share totaling $34.291 million (2004: $43.162 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 18, 2005 (2004: May 13, 2004).

(b) In respect of the current year

(i) An interim dividend of 10¢ per share totaling $21.432 million was paid to shareholders on the company's register of members at the close of business on November 10, 2005.

(ii) The directors propose that a final dividend of 20¢ (2004: 16¢) per share totaling $42.864 million (2004: $34.291 million) be paid to shareholders. These proposed dividends are subject to approval by the shareholders at the Annual General Meeting and have not been included as a liability in these financial statements. (See Note 27).

19 **SALES (NET OF DISCOUNTS AND REBATES)**

An analysis of the company's sales is as follows:

	2005 $'000	2004 $'000
Decorative/architectural products	1,095,955	1,023,341
Industrial products	32,751	30,548
Vehicle refinish	45,763	53,516
	1,174,469	1,107,405

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

20 OPERATING PROFIT

Operating profit is stated after taking into account the following:

	2005 $'000	2004 $'000
Operating expenses		
Raw materials and consumables used	648,213	556,792
Changes in inventories of finished goods and work in progress	(32,612)	27,746
Manufacturing expenses	43,143	52,717
Depreciation	13,238	13,762
Employee benefits expense	211,878	183,397
Other operating expenses	201,764	182,106
Total	1,085,624	1,016,520
Other operating income		
Rebates received	1,414	5,677
Profit on disposal of property, plant and equipment	460	69
Miscellaneous	6,538	6,999
Total	8,412	12,745

Other operating expenses include charges in respect of inventory obsolescence of $4.4 million (2004: $13.182 million).

.../22

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

21 PROFIT BEFORE TAXATION

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

	2005 $'000	2004 $'000
Income		
Interest - bank deposits	993	1,796
Net foreign exchange gains	4,124	3,584
Expenses		
Directors' emoluments		
Fees	300	267
Management	8,403	8,922
Audit fees	2,130	1,890
Interest - overdraft	535	50
Allowance for irrecoverable debt on sale of goods net of recoveries of $621,000 (2004: $1,906,000)	14,997	1,548
Research and development costs	210	57

22 TAXATION

(a) The total charge for the year comprises:

	2005 $'000	2004 $'000
Current tax	23,890	22,300
Deferred tax adjustment (Note 14)	8,034	16,059
	31,924	38,359

(b) Income tax is calculated at 33⅓% 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:

	2005		2004	
	$'000	%	$'000	%
Profit before tax	97,715		105,376	
Tax at the domestic income tax rate of 33 ⅓%	32,572	33.3	35,125	33.3
Tax effect of expenses that are not deductible in determining taxable profit	4,646	4.2	5,938	5.6
Tax effect of expenses that are deductible for tax purposes only	(5,313)	(4.8)	(2,796)	(2.6)
Other	19	-	92	-
Tax expense and effective tax rate for the year	31,924	32.7	38,359	36.3

…./23

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

22 **TAXATION (Cont'd)**

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 (2004: $200,000) has been credited directly to equity (See Note 13).

23 **EARNINGS PER STOCK UNIT**

The calculation of earnings per stock unit is based on the profit after taxation of $65.791 million (2004 $67.017 million) and the number of stock units in issue during the year of 214,322,393 units.

24 **COMMITMENTS**

a) Capital commitment

Capital expenditure authorised but not contracted for at December 31, 2005 amounted to approximately $23.2 million. These expenditures are mainly in respect of the acquisition of equipment and building alterations.

b) Operating lease arrangements

	2005 $'000	2004 $'000
Minimum lease payments under operating leases recognized as an expense in the year	4,373	3,966

At the balance sheet date, the company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2005 $'000	2004 $'000
Within one year	3,981	3,984
In the second to fifth years inclusive	807	3,771
	4,788	7,755

Operating lease payments represents rentals payable by the company for certain of its office locations. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

25 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, receivable 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.

26 RISK MANAGEMENT

(a) 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's principal financial assets are cash and bank deposits, accounts receivable and long-term receivables. The credit risk on cash and bank deposits is limited as they are held with financial institutions with high credit ratings.

The company's credit risk is primarily attributable to its trade receivables from the retail and construction sectors. 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 company's credit risk exposure is mitigated as the amount due from each customer is not significant.

…/25

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

26 **RISK MANAGEMENT (Cont'd)**

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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, 2005 include aggregate net foreign currency liabilities as indicated below in respect of transactions arising in the ordinary course of business.

	2005	2004
	'000	'000
US$	1,453	944
£	-	228

(c) Interest rate risk

Interest rate risk is the risk 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 (these are all short-term deposits). Because of the structure of its balance sheet the company is not significantly affected by interest rate risk. Additionally, it is not anticipated that interest rates would change significantly in the short-term.

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.

…/26

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

26 **RISK MANAGEMENT (Cont'd)**

(e) 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, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed facilities. Due to the dynamic nature of the underlying business, the management of the company maintains an adequate amount of its financial assets in liquid form to meet contractual obligations and other recurring payments.

(f) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate because of changes in market interest rates. The company manages this risk through budgetary measures, ensuring, as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.

27 **SUBSEQUENT EVENT – Interim Dividends**

The directors at a meeting on February 14, 2006 intend to approve payment of a further interim dividend of 10 cents per share totalling approximately $21.4 million for the year 2005 (from the amount of $42.9 million proposed - See Note 18) to shareholders on record at March 3, 2006. The December 31, 2005 financial statements do not reflect this resolution, which will be reflected in the Statement of Changes in Equity for the year ending December 31, 2006.