BERGER PAINTS JAMAICA LIMITED

YEAR ENDED DECEMBER 31, 2008

CONTENTS

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DIAMOND ANNIVERSARY 1949 – 2009
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CONTINUING TO BE ONE STEP AHEAD

INDEPENDENT AUDITORS' REPORT

To the members of

BERGER PAINTS JAMAICA LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Berger Paints Jamaica Limited (the company), set out on pages 2 to 37, which comprise the balance sheet as at December 31, 2008, the income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Jamaica. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Carey O. Metz, Audley L. Gordon, Winston G. Robinson, Fagan E. Calvert, Gihan C. deMel

Consultants: T. Sydney Fernando, Donald S. Reynolds.

Member of
Deloitte Touche Tohmatsu

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2008, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on additional requirements of the Companies Act of Jamaica

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith and give the information required in the manner so required.

Deloitte & Touche

Chartered Accountants

Kingston, Jamaica
February 17, 2009

BERGER PAINTS JAMAICA LIMITED

BALANCE SHEET AS AT DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	179,469	158,076
Long-term receivables	6	1,849	1,109
Post employment benefits	7	111,420	105,131
Total non-current assets		292,738	264,316
Current assets			
Inventories	8	337,012	297,932
Due from fellow subsidiaries	9	6,039	2,393
Income tax recoverable	21	4,877	-
Trade and other receivables	10	313,075	352,189
Cash and bank balances	11(a)	26,591	21,184
Total current assets		687,594	673,698
Total assets		980,332	938,014
EQUITY AND LIABILITIES			
Shareholders' Equity			
Share capital	12	141,793	141,793
Revaluation reserves	13	42,066	41,866
Revenue reserve			
Income statement		220,239	249,687
Total shareholders' equity		404,098	433,346
Non-current liabilities			
Post employment benefits	7	71,487	62,466
Deferred tax liabilities	14	23,627	27,108
Total non-current liabilities		95,114	89,574
Current liabilities			
Due to immediate parent company	9	25,086	16,015
Dividends payable		10,898	9,338
Provisions	15	25,316	23,416
Trade and other payables	16	373,029	353,254
Income tax payable	21	-	13,071
Bank overdraft	11(b)	46,791	-
Total current liabilities		481,120	415,094
Total equity and liabilities		980,332	938,014

The Notes on Pages 6 to 37 form an integral part of the Financial Statements.

The financial statements on Pages 2 to 37 were approved and authorized for issue by the Board of Directors on February 17, 2009 and are signed on its behalf by:

Warren McDonald
Director

Michael Fennell
Director

BERGER PAINTS JAMAICA LIMITED

INCOME STATEMENT

YEAR ENDED DECEMBER 31, 2008

	Notes	2008 $'000	2007 $'000
Sales (net of discounts and rebates)	18	1,527,014	1,454,602
Operating profit	19	29,106	78,855
Investment revenues	20	292	949
Finance costs	20	(7,919)	(3,210)
PROFIT BEFORE TAXATION	20	21,479	76,594
Taxation	21	(5,919)	(29,231)
NET PROFIT		15,560	47,363
Earnings per stock unit	22	7¢	22¢

The Notes on Pages 6 to 37 form an integral part of the Financial Statements.

BERGER PAINTS JAMAICA LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2008

	Notes	Share Capital $'000	Revaluation Reserves $'000	Revenue Reserve - Income Statement $'000	Total $'000
Balance at January 1, 2007		141,793	41,666	240,902	424,361
Deferred tax adjustment	14	-	200	-	200
Net gain recognized directly in equity		-	200	-	200
Net profit for the year		-	-	47,363	47,363
Total recognised income		-	200	47,363	47,563
Dividends approved at Annual General Meeting	17	-	-	(38,578)	(38,578)
Balance at December 31, 2007		141,793	41,866	249,687	433,346
Deferred tax adjustment	14	-	200	-	200
Net gain recognized directly in equity		-	200	-	200
Net profit for the year		-	-	15,560	15,560
Total recognised income		-	200	15,560	15,760
Dividends approved at Annual General Meeting	17	-	-	(45,008)	(45,008)
Balance at December 31, 2008		141,793	42,066	220,239	404,098

The Notes on Pages 6 to 37 form an integral part of the Financial Statements.

BERGER PAINTS JAMAICA LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

	2008	2007
	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	15,560	47,363
Adjustments for:		
Depreciation	27,626	21,939
Profit on sale of property, plant and equipment	(4,130)	(2,112)
Unrealised foreign exchange losses (gains)	4,102	(649)
Post retirement benefit charge	14,875	13,219
Income tax expense	5,919	29,231
Interest income	(292)	(949)
Interest expense	7,919	3,210
Provision charge	4,996	11,586
Impairment loss recognized on trade receivables	23,045	16,967
Impairment loss recognized on other receivables	714	2,978
Reversal of impairment loss on trade receivables	(3,870)	(8,194)
Reversal of impairment for other receivables	(522)	-
Operating cash flows before movements in working capital:	95,942	134,589
Decrease (Increase) in trade and other receivables	16,914	(90,894)
Increase in inventories	(39,080)	(56,199)
Increase in due from fellow subsidiary companies	(3,646)	(8,675)
Provisions utilised	(3,096)	(3,222)
Increase in trade and other payables	17,859	111,197
Increase (Decrease) in due to immediate parent company	9,071	(25,966)
Post employment benefits contributions	(12,143)	(10,770)
Cash generated from operations	81,821	50,060
Income tax paid	(27,148)	(15,478)
Interest paid	(7,919)	(3,210)
Net cash provided by operating activities	46,754	31,372
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	292	949
Long-term receivables	(1,148)	(115)
Acquisition of property, plant and equipment	(49,020)	(49,151)
Proceeds on sale of property, plant and equipment	4,131	2,624
Net cash used in investing activities	(45,745)	(45,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(43,448)	(38,490)
Net cash used in financing activities	(43,448)	(38,490)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42,439)	(52,811)
OPENING CASH AND CASH EQUIVALENTS	21,184	73,279
Effect of foreign exchange rate changes	1,055	716
CLOSING CASH AND CASH EQUIVALENTS	(20,200)	21,184
Comprising:		
Cash and bank balances	26,591	21,184
Bank overdraft	(46,791)	-
	(20,200)	21,184

The Notes on Pages 6 to 37 form an integral part of the Financial Statements.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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.

These financial statements are expressed in Jamaican dollars.

2. **ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Standards and Interpretations effective in the current year

In the current year, the company adopted the amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets effective July 1, 2008, which permitted the reclassification of certain non-derivative financial assets recognized in accordance with IAS 39.

Three interpretations issued by the International Financial Reporting Interpretations Committee are also effective for the current period. These are:

IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14:IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The adoption of the above amended Standards and Interpretations has not resulted in changes to the company's accounting policies nor the amounts reported for the current or prior years.

Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not effective for the financial period being reported on:

		Effective for annual periods beginning on or after
New Standard		
IFRS 8	Operating Segments	January 1, 2009
Amendments to Standards		
IAS 1, 8, 10, 16, 18, 19, 20, 23, 27, 28, 29, 31, 36, 38, 39, 40, 41 and IFRS 7 (Revised)	Amendments resulting from May 2008 Annual Improvements to IFRS	January 1, 2009
IAS 1 and 32 (Revised)	Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 27, 28, and 31 (Revised)	Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 1 (Revised)	Presentation of Financial Statements	
	- Comprehensive revision including requiring a statement of comprehensive income	January 1, 2009
	- Amendment to add disclosures about an entity's capital	January 1, 2009

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

Standards and Interpretations in issue not yet adopted (Cont'd)

		Effective for annual periods beginning on or after
Amendments to Standards (Cont'd)		
IAS 23 (Revised)	Borrowing Costs – Comprehensive revision to prohibit immediate expensing in respect of qualifying assets	January 1, 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements - Amendment relating to cost of an investment on first-time adoption	January 1, 2009
IAS 39 (Revised)	Eligible Hedged Items	July 1, 2009
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards - Amendment relating to cost of an investment on first-time adoption	January 1, 2009
IFRS 2 (Revised)	Share-based Payment – Amendment relating to vesting conditions and cancellations	January 1, 2009
IFRS 3 (Revised)	Business Combinations – Comprehensive revision on applying the acquisition method	July 1, 2009
IFRS 5 (Revised)	Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRS	July 1, 2009
New Interpretations		
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 1, 2008
IFRIC 17	Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 18	Transfer of Assets from Customers	(*)

(*) effective for transfer received on or after July 1, 2009

The Board of Directors and management has assessed the impact of all the new and revised Standards and Interpretations above and have concluded the following in respect to the operations of the company:

New and Revised Standards and Interpretations that are not relevant

IAS 20 (Revised)	Accounting for Government Assistance and Disclosure of Government Assistance
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 28 (Revised)	Investments in Associates
IAS 29 (Revised)	Financial Reporting in Hyperinflationary Economies
IAS 31 (Revised)	Interest in Joint Ventures
IAS 40 (Revised)	Investment Property
IAS 41 (Revised)	Agriculture
IFRS 1 (Revised)	First-time Adoption of IFRS
IFRS 2 (Revised)	Share based payment
IFRS 3 (Revised)	Business Combinations
IFRS 5 (Revised)	Non-current Assets Held-for-Sale and Discontinued operations
IFRS 8	Operating Segments
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of Non-Cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

New and Revised Standards and Interpretations that are relevant

- Amendments specifically to IAS 1, 8, 10, 16, 18, 19, 23, 36, 38, 39 and IFRS 7, resulting from the May 2008 annual improvements to IFRS are not expected to have a significant impact on the company's financial statements on adoption at the respective effective dates.
- *IAS 1 (Revised 2007) Presentation of Financial Statements* – IAS 1, among other things, affects the presentation of owner changes in equity and comprehensive income. It requires the presentation of all non-owners changes in equity (comprehensive income) in one or two statements; either in a single statement of comprehensive income, or in an income statement and a statement of comprehensive income. On adoption at its effective date, the standard will result in a change in the presentation of the company's income statement and the statement of changes in equity.
- Under the amendment to *IAS 1 and* 32 *Financial instruments: Presentation – Puttable Instruments and Obligations Arising on Liquidation,* certain financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity. This standard is not expected to have any significant impact on the company's financial statements.
- *IAS* 23 *(Revised 2007) - Borrowing Costs* removes the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use. This standard is not expected to have any significant impact on the company's financial statements.
- The amendments to *IAS 39, Eligible Hedged Items*, provide clarification in relation to identifying inflation as a hedged risk and hedging with options. This standard is not expected to have any significant impact on the company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The company's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS) and the relevant requirements of the Companies Act of Jamaica.

Basis of preparation

The financial statements have been prepared under the historical cost basis. The principal accounting policies are set out below:

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 stated in the balance sheet at historical or deemed cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. No depreciation is provided on freehold land.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost including professional fees, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets other than land and properties under construction, over the estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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.

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

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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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 for which the estimates of future cash flows have not been adjusted.

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. An impairment loss is recognised immediately in profit or loss.

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 immediately in profit or loss.

Long-term receivables

These recoverable consumption taxes are shown at nominal values.

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 contributions are recognized as an expense when employees have rendered service entitling them to the contributions.

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 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.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

Employee benefits (Cont'd)

Termination obligations
Termination benefits are payable whenever an employee's employment is terminated involuntarily 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 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 used for the defined benefit pension plan.

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 fixed and variable 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 (fixed and variable) 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 necessary to make the sale.

Revaluation reserve

This represents revaluation surplus on property, plant and equipment net of annual deferred tax charges.

Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

Taxation

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

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the income statement 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
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 taxable 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted by the balance sheet date, which rates are expected to apply in the period when the liability is settled or the asset is realised. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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.

Current and deferred tax for the period
Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

Financial instruments

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

Financial assets of the company include any asset that is:

(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:

    (i) to receive cash or another financial asset from another entity; or
    (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the company.

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

Financial instruments (Cont'd)

Financial liabilities of the company include any liability that is a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the company.

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 are derecognized only when the contractual rights to the cash flows from the asset expire; or the company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognizes its retained interest in the assets and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognizes a collateralized borrowing for the proceeds received. Financial liabilities are derecognized when and only when, the company's contractual obligations are discharged, cancelled or they expired.

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

The fair values of financial instruments are discussed in Note 24. Listed below are the company's financial assets and liabilities and the specific accounting policies relating to each:

Financial assets

Financial assets are recognized and derecognized on trade date where the purchase or sale of the instrument is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

The company's financial assets are classified as 'loans and receivables' with the classification being based on the nature and purpose of the financial asset and is determined at the time of initial recognition.

a) *Loans and receivables*

These have fixed or determinable payments and are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

<u>Effective interest method</u>
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial assets, or where appropriate, a shorter period.

The company's portfolio of loans and receivables comprise amounts due from fellow subsidiaries (See Related Party below), trade and other receivables and cash and bank deposits.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

Financial instruments (Cont'd)

Financial assets (Cont'd)

a) *Loans and receivables (Cont'd)*

i) Trade and other receivables

These receivables are measured at initial recognition at their fair values. Interest is not charged on the outstanding balances as they are settled within a short period during which recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired (that is, the outstanding amounts will not be paid in accordance with the original contract terms).

ii) *Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, net of bank overdraft, and other highly liquid bank deposits held with financial institutions, with an original maturity of three months or less from the date of acquisition and are held to meet cash requirements rather than for investment purposes.

b) *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that have occurred after initial recognition of the financial assets, the estimated future cash flows of the asset have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate (See Effective interest method below).

The carrying amount of the financial asset is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously provided for reduce the amount of the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. Recoveries of amounts previously written off are credited to income.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

Financial instruments (Cont'd)

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs (where applicable). They are subsequently re-measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short-term liabilities when the recognition of interest would be immaterial.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The company's financial liabilities comprise amounts due to immediate parent company, dividends payable and trade and other payables.

a) *Related party*

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;
(iii) the party is a member of key management personnel of the company or its parent, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the company, including directors, officers and close members of the families of these individuals; or
(iv) the party is a post-employment benefit plan for the benefit of the employees of the company.

Intergroup transactions are recorded at pre-determined group rates and are settled quarterly. Interest is not charged on these balances as they are settled in a short period.

b) *Dividends payable*

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

c) *Trade and other payables*

Trade payables are initially measured at their fair values. No interest is accrued on outstanding balances as these are usually settled within a short period during which any interest charged would be immaterial.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and other similar allowances.

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

Revenue recognition (Cont'd)

Sale of goods
Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest revenue
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.

Foreign currencies

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

In preparing the financial statements of the company, transactions in currencies other than the company's functional currency, 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 re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognized in profit or loss for the period in which they arise.

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.

The company as a lessee
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals, if any, arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Research and development expenditure

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

Borrowing costs

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

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

In the application of the company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

Management believes there are no judgements made that had a significant effect on the amounts recognized in the financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

<u>Post employment benefit</u>
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 $111.4 million in respect of the defined benefit plan and a liability of approximately $71.5 million in respect of post retirement medical liabilities are subject to estimates in respect of periodic costs which costs would be dependent on future returns on assets, future discount rates, rates of salary increases and the inflation rate in respect of the pension plan, and rates of increases in medical costs for the post retirement medical plan. Actuaries are contracted by the company in this regard.

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 rates 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.

In respect of the post retirement medical benefits, a ±1% increase/decrease in the medical inflation assumption would result in a revised accumulated obligation before actuarial adjustment of approximately $80.6M and $60.8M respectively. Note 7(g) details some history of experience adjustments in these post employment benefit plans.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

5. **PROPERTY, PLANT AND EQUIPMENT**

	Freehold Land	Freehold Buildings	Plant and Machinery	Furniture, Fixtures & Equipment	Motor Vehicles	Capital Works-in-Progress	Totals
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost							
January 1, 2007	27,000	54,736	85,322	37,441	39,201	-	243,700
Additions	-	788	21,141	8,387	15,145	3,690	49,151
Disposals	-	-	(799)	(169)	(5,837)	-	(6,805)
December 31, 2007	27,000	55,524	105,664	45,659	48,509	3,690	286,046
Additions	-	898	29,397	13,265	5,287	173	49,020
Disposals	-	-	-	(6)	(8,162)	-	(8,168)
Transfers	-	3,630	-	-	-	(3,630)	-
December 31, 2008	27,000	60,052	135,061	58,918	45,634	233	326,898
Accumulated depreciation							
January 1, 2007	-	11,554	49,336	22,878	28,556	-	112,324
Depreciation charge	-	1,432	10,305	5,068	5,134	-	21,939
On disposals	-	-	(287)	(169)	(5,837)	-	(6,293)
December 31, 2007	-	12,986	59,354	27,777	27,853	-	127,970
Depreciation charge	-	1,770	12,467	6,474	6,915	-	27,626
On disposals	-	-	-	(6)	(8,161)	-	(8,167)
December 31, 2008	-	14,756	71,821	34,245	26,607	-	147,429
Carrying amounts							
December 31, 2008	27,000	45,296	63,240	24,673	19,027	233	179,469
December 31, 2007	27,000	42,538	46,310	17,882	20,656	3,690	158,076

The following useful lives are used in the calculation of depreciation:

Freehold buildings	50 years
Plant and machinery	6 years to 12½ years
Other fixed assets	4 years to 8 years

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.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

6. **LONG-TERM RECEIVABLES**

	2008 $'000	2007 $'000
General Consumption Tax (GCT) (See below)	5,032	3,884
Less current maturities included in Note 10	3,183	2,775
	1,849	1,109

GCT paid on purchases of certain items of property, plant and equipment is recoverable in twenty-four monthly instalments from the date of purchase.

7. **POST EMPLOYMENT BENEFITS**

The company operates a defined benefit 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 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.

Retiree Medical Plan

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

Valuation

The most recent actuarial valuations of the two plans were carried out as at December 31, 2008 by Ravi Rambarran of Rambarran & Associates Limited (Consulting Actuaries), Fellow of the Institute of 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) The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2008 %	2007 %
Gross discount rate	16.0	13.0
Expected return on plan's assets	14.5	14.0
Expected rate of salary increases	12.5	10.0
Future pension increases	6.0	4.0
Medical claims growth	13.5	10.5

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

(b) Amounts included in the balance sheet arising from the company's obligation in respect of these plans are as follows:

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Present value of obligation	(315,953)	(317,287)	(77,462)	(68,360)
Fair value of plan assets	427,373	422,418	-	-
	111,420	105,131	(77,462)	(68,360)
Assets not recognized due to limitation resulting from uncertainty of obtaining economic benefits	(61,567)	(48,658)	-	-
Unrecognized actuarial loss	61,567	48,658	5,975	5,894
Net asset (liability) in balance sheet	111,420	105,131	(71,487)	(62,466)

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

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current service cost	11,774	9,774	3,088	2,839
Interest costs	37,098	27,205	8,887	7,756
Expected return on plan assets	(59,309)	(52,616)	-	-
Change in unrecognized asset	12,909	18,035	-	-
Recognised actuarial loss	428	-	-	226
Total included in employee benefits expense	2,900	2,398	11,975	10,821
Actual return on plan assets	7,658	57,778	-	-

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

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance, January 1	105,131	99,211	(62,466)	(54,097)
Amount charged to income	(2,900)	(2,398)	(11,975)	(10,821)
Contributions by employer	9,189	8,318	2,954	2,452
	111,420	105,131	(71,487)	(62,466)

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

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

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Opening defined benefit obligation	317,287	260,699	68,360	64,630
Service cost	11,774	9,774	3,088	2,839
Interest cost	37,098	27,205	8,887	7,756
Members' contributions	10,082	8,802	-	-
Benefits paid	(16,751)	(27,470)	(2,954)	(2,452)
Actuarial loss (gain)	(43,537)	38,277	81	(4,413)
Closing defined benefit obligation	315,953	317,287	77,462	68,360

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

	Defined Benefit Pension Plan		Retiree Medical Plan	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Opening fair value of plan assets	422,418	380,831	-	-
Members' contributions	10,082	8,802	-	-
Employer's contributions	9,189	8,318	-	-
Expected return on plan assets	59,309	52,616	-	-
Benefits paid	(16,751)	(27,470)	-	-
Actuarial gain	(56,874)	(679)	-	-
Closing fair value of plan assets	427,373	422,418	-	-

(g) The major categories of plan assets and the expected rate of return at the balance sheet date for each category are as follows:

	Defined Benefit Pension Plan				Retiree Medical Plan	
	2008		2007		2008	2007
	Fair value of plan asset	Expected Return	Fair value of plan asset	Expected Return		
	$'000	%	$'000	%	$'000	$'000
Equity fund	104,118		112,241		-	-
Fixed income fund	158,124		154,684		-	-
Mortgage and real estate fund	118,361		104,764		-	-
Foreign currency fund	42,253		46,397		-	-
Other assets	4,517		4,332		-	-
Closing fair value of plan assets/ weighted average expected return	427,373	14.5	422,418	14.0	-	-

The overall expected rate of return is a weighted average of the expected return of the various categories of plan assets held. The directors' assessment of the expected return is based on historical trends and analysts' predictions of the market for the assets in the next twelve months.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

(g) (Cont'd)

The history of experience adjustments is as follows:

	Defined Benefit Pension Plan				
	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	(315,953)	(317,287)	(260,699)	(228,286)	(168,984)
Fair value of plan assets	427,373	422,418	380,831	325,427	273,903
Fund surplus	111,420	105,131	120,132	97,141	104,919
Experience adjustments on plan liabilities	43,537	(38,277)	1,595	(31,805)	(43,028)
Experience adjustments on plan assets	(56,874)	(679)	9,094	9,392	45,050

	Retiree Medical Plan				
	2008	2007	2006	2005	2004
	$'000	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	(77,462)	(68,360)	(64,630)	(47,578)	(49,477)
Fair value of assets	-	-	-	-	-
Fund deficit	(77,462)	(68,360)	(64,630)	(47,578)	(49,477)
Experience adjustments on plan liabilities	(81)	4,413	(11,029)	8,623	(8,339)

Impact of 1% Increase/Decrease in the Medical Inflation Assumption

	2008		2007	
	Inflation @ 14.5%	Inflation @12.5%	Inflation @ 11.5%	Inflation @9.5%
	$'000	$'000	$'000	$'000
Revised service cost	3,869	2,488	3,789	2,413
Revised interest cost	10,354	7,702	8,738	6,729
Revised accumulated benefit obligation	80,614	60,769	79,646	59,246

The company expects to make a contribution of $9.702 million (2007: $9.459 million) to the defined benefit plans during the next financial year.

Included in the holdings of plan assets is an investment in the Life of Jamaica Equity Fund, which holds 10.4% (2007:10.4%) of the company's issued shares.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

8. **INVENTORIES**

	2008	2007
	$'000	$'000
Finished goods	106,259	92,417
Work-in-progress	4,660	4,044
Raw materials and supplies	160,024	139,681
Goods-in-transit	66,069	61,790
	337,012	297,932

Inventories stated above are net of provision for obsolescence amounting to approximately $20.99 million (2007:$19.87 million).

The cost of inventories recognized as an expense during the year, was $775.87 million (2007:$ 746.86 million).

The cost of inventories recognized as an expense includes $2.14 million (2007: $8.48 million) in respect of write-downs of inventory to net realizable value.

9. **BALANCES/TRANSACTIONS WITH RELATED PARTIES**

Details of transactions with the parent company and other related parties are disclosed below:

Trading transactions

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

	Sales of goods and raw materials		Purchases of goods		Other charges		Amounts owed by (to) related parties	
	2008	2007	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Immediate parent								
Lewis Berger (Overseas Holdings) Ltd. (See below)	-	-	-	-	45,791	43,616	(25,086)	(16,015)
Fellow subsidiaries								
Berger Trinidad	8,707	1,849	3,876	1,121	-	-	1,631	(1,387)
Berger Barbados	10,917	1,029	2,159	1,731	-	-	5,019	5,039
Asian Paints International Limited	-	-	-	-	-	2,029	(611)	(1,259)
	19,624	2,878	6,035	2,852	-	2,029	6,039	2,393
Board of Directors (included in trade receivables)	190	-	-	-	-	-	30	41

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 during the year for irrecoverable debts in respect of the amounts owed by related parties.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

9. **BALANCES/TRANSACTIONS WITH RELATED PARTIES (Cont'd)**

Loans to related parties

	2008 $'000	2007 $'000
Key management personnel	300	410

These comprise short-term loans. No interest is charged on these amounts.

Compensation of key management personnel

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

	2008 $'000	2007 $'000
Short-term benefits	43,043	34,359
Post-employment benefits	1,990	1,930
	45,033	36,289

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

As disclosed above, Lewis Berger (Overseas Holdings) Limited performed certain technical services for the company for which a fee of $45.719 million (2007:$ 43.616 million) was charged.

10. **TRADE AND OTHER RECEIVABLES**

	2008 $'000	2007 $'000
Trade receivables (net of provisions for rebates to customers of $24.2M (2007: $22.8M))	342,617	367,685
Less allowance for doubtful debts	64,313	45,138
	278,304	322,547
Other receivables and prepayments (net of an allowance for doubtful debts of $3.170 million (2007: $3.358 million)	31,588	26,867
Current portion of long-term receivables (Note 6)	3,183	2,775
	313,075	352,189

The average credit period on sale of goods is 30 days. The company has provided fully for all receivables over one year because historical experience is such that receivables that are past due beyond this period are generally not recoverable. Trade receivables between 30 days and 1 year are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

10. TRADE AND OTHER RECEIVABLES (Cont'd)

Before accepting any new customer, the company uses a credit bureau to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually. Approximately 98% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit bureau assessment as well as the internal assessment system used by the company. Of the trade receivables balance at the end of the year, $66.51 million (2007: $71.76 million) (amount within the approved credit limit) is due from the company's largest customer (See also Note 24(d)). There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the company's trade receivable balance are debtors with a carrying amount of $111.73 million (2007: $155.42 million) which is past due at the reporting date for which the company has not provided as there has not been a significant change in credit quality of the debtors and the amounts are still considered recoverable. The company does not hold any collateral over these balances. The average age of these receivables is 66 days (2007: 62 days).

Ageing of past due but not impaired

	2008 $'000	2007 $'000
30 – 90 days	85,683	133,907
91 – 180 days	13,416	7,929
181 – 270 days	11,073	13,585
271 – 360 days	1,558	-
	111,730	155,421

Movement in allowance for doubtful debts

	Trade receivables		Other receivables	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance at beginning of year	45,138	52,020	3,358	380
Impairment losses recognized on receivables	23,045	16,967	714	2,978
Amounts written-off as uncollectible	-	(15,655)	(380)	-
Amounts recovered during the year	(3,870)	(8,194)	(522)	-
Balance at end of year	64,313	45,138	3,170	3,358

In determining the recoverability of a receivable, the company considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The directors believe that, at balance sheet date, there is no further credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables

	2008 $'000	2007 $'000
Impaired trade receivables ≥ 365 days	64,313	45,138

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

11. CASH RESOURCES

a) Cash and bank balances

These include interest bearing accounts totalling $26,658,758 (2007: $2,227,774) including foreign currency deposits amounting to $26,589,088 (2007: $2,159,657). Interest on foreign currency deposits are at rates of 1.75% and 2.4% per annum (2007: 1.75% and 2.2%) and local currency deposits are at a rate of 3.25% (2007: 6%) per annum.

b) Bank overdraft

	2008 $'000	2007 $'000
Secured at amortised cost (Note 11(b)(i))	46,791	-

(i) The company has a credit facility (overdraft) with a commercial bank to a limit of $100 million (2007: $75.25 million) at a rate of 20.625% (2007: 19.75%) per annum. This facility is secured by:

- Insurance on buildings for $11.25 million and letter of good standing and commitment letter accepted on October 5, 2005.

As at December 31, 2007, the overdraft facility was not being utilised.

12. SHARE CAPITAL

	2008 No. of shares	2007 No. of shares	2008 $'000	2007 $'000
Authorised: No par value ordinary shares	214,322,393	214,322,393		
Issued and fully paid January 1 and December 31	214,322,393	214,322,393	141,793	141,793
Stated capital				
At January 1 and December 31			141,793	141,793

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

13. REVALUATION RESERVES

	Properties Revaluation Reserve $'000
Balance at January 1, 2007	41,666
Adjustments to deferred tax liability in respect of revalued buildings (Notes 14, 21)	200
Balance at January 1, 2008	41,866
Adjustments to deferred tax liability in respect of revalued buildings (Notes 14, 21)	200
Balance at December 31, 2008	42,066

The properties revaluation reserve arose on the revaluation of land and buildings. Where revalued land and buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realized, is transferred directly to revenue reserve.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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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 for balance sheet purposes.

	2008 $'000	2007 $'000
Deferred tax liabilities	50,983	49,628
Deferred tax assets	(27,356)	(22,520)
	23,627	27,108

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

	2008 $'000	2007 $'000
Balance, January 1	27,108	24,577
(Credit) Charge to income for the year (Note 21)	(3,281)	2,731
Credit to equity for the year (Notes 13, 21)	(200)	(200)
Balance, December 31	23,627	27,108

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	Excess value over tax allowances on motor vehicles $'000	Total $'000
Balance, January 1, 2007	7,913	33,070	3,449	44,432
Charge to income for the year	-	1,974	3,422	5,396
Credit to equity for the year	(200)	-	-	(200)
Balance, December 31, 2007	7,713	35,044	6,871	49,628
Charge (credit) to income for the year	-	2,096	(541)	1,555
Credit to equity for the year	(200)	-	-	(200)
Balance, December 31, 2008	7,513	37,140	6,330	50,983

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

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

Deferred tax assets

	Post-employment benefit obligation	Depreciation charges in excess of capital allowances	Unrealised foreign exchange loss	Total
	$'000	$'000	$'000	$'000
Balance, January 1, 2007	18,032	1,477	346	19,855
Credit to income for the year	2,790	200	(325)	2,665
Balance, December 31, 2007	20,822	1,677	21	22,520
Credit to income for the year	3,007	131	1,698	4,836
Balance, December 31, 2008	23,829	1,808	1,719	27,356

15. **PROVISIONS**

	Employee benefits	
	2008	2007
	$'000	$'000
Balance, January 1	23,416	15,052
Utilised	(3,096)	(3,222)
Charged to income for year	4,996	11,586
Balance, December 31	25,316	23,416

The provision for employees' benefits represents annual leave entitlements accrued.

16. **TRADE AND OTHER PAYABLES**

	2008	2007
	$'000	$'000
Trade payables	265,805	258,187
Other payables and accruals	107,224	95,067
	373,029	353,254

The credit period on purchases of goods from the company's major suppliers range from 30 - 60 days. The company has financial risk management procedures in place to ensure that all payables are paid within the credit timeframe.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

17. DIVIDENDS

A final dividend of 21¢ (2007:18¢) per share totalling $45.008 million (2007: $38.578 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 30, 2008 (2007: June 1, 2007).

18. SALES (NET OF DISCOUNTS AND REBATES)

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

	2008 $'000	2007 $'000
Decorative/architectural products	1,449,125	1,381,302
Industrial products	11,819	11,978
Vehicle refinish	66,070	61,322
	1,527,014	1,454,602

19. OPERATING PROFIT

Operating profit is stated after taking into account the following:

	2008 $'000	2007 $'000
Operating expenses		
Raw materials and consumables used	788,189	735,110
Changes in inventories of finished goods and work-in-progress (net)	(14,458)	3,267
Manufacturing expenses	61,006	48,140
Depreciation	27,626	21,939
Employee benefits expense	347,871	319,475
Other operating expenses	293,124	253,343
Total	1,503,358	1,381,274
Other operating income		
Profit on sale of property, plant and equipment	4,130	2,112
Miscellaneous	1,320	3,415
Total	5,450	5,527

Other operating expenses include charges in respect of inventory obsolescence of $2.14 million (2007: $8.48 million).

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

20. **PROFIT BEFORE TAXATION**

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

	2008 $'000	2007 $'000
(a) Revenue (expenses) on financial assets at amortised cost		
Revenue:		
Interest – bank deposits	292	949
Expenses:		
Interest – overdraft	7,919	3,210
Allowance for doubtful debt on sale of goods net of recoveries of $3,870,000 (2007: $8,194,000)	19,175	8,773
Allowance for doubtful debt on other receivables	192	2,978
(b) Net loss on financial assets at amortised costs		
Net foreign exchange loss	13,824	4,612
(c) Other expenses		
Directors' emoluments		
Fees	1,000	1,000
Management	11,969	11,644
Audit fees	3,450	2,910

21. **TAXATION**

(a) **Recognised in profit and loss**

(i) The total charge for the year comprises:

	2008 $'000	2007 $'000
Current tax	9,200	26,500
Deferred tax adjustment (Note 14)	(3,281)	2,731
	5,919	29,231

BERGER PAINTS JAMAICA LIMITED

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YEAR ENDED DECEMBER 31, 2008

21. **TAXATION (Cont'd)**

(a) **Recognised in profit and loss (Cont'd)**

(ii) The charge for the year is reconciled to the profit as per the profit and loss account as follows:

	2008 $'000	2007 $'000
Profit before tax	21,479	76,594
Tax at the domestic income tax rate of 33⅓%	7,160	25,531
Tax effect of expenses that are not deductible in determining taxable profit	69	12,652
Tax effect of expenses that are deductible for tax purposes only	(1,392)	(9,186)
Other	82	234
Tax expense for the year	5,919	29,231

The tax rate used for the 2008 and 2007 reconciliations above is the company tax rate of 33⅓% payable by corporate entities in Jamaica on taxable profits under tax laws.

(b) **Recognised directly in equity**

	2008 $'000	2007 $'000
Revaluation of properties (Note 13)	200	200

(c) **Current taxes and liabilities**

	2008 $'000	2007 $'000
Current tax assets		
Withholding tax recoverable	(72)	(260)
Current tax liabilities		
Income tax (recoverable) payable	(4,805)	13,331
Tax (recoverable) payable	(4,877)	13,071

(i) This balance represents the excess of total advance tax of $14 million paid during the year over the estimated tax liability of $9.2 million at December 31, 2008.

BERGER PAINTS JAMAICA LIMITED

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YEAR ENDED DECEMBER 31, 2008

22. **EARNINGS PER STOCK UNIT**

The calculation of earnings per stock unit is based on the profit after taxation of $15.56 million (2007: $47.363 million) and the number of stock units in issue during the year of 214,322,393 units.

23. **COMMITMENTS**

(a) Capital commitment

Capital expenditure authorised but not contracted for at December 31, 2008 amounted to approximately $12.892 million. These expenditures are mainly in respect of the acquisition of equipment and building alterations.

(b) Operating lease arrangements

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

	2008	2007
	$'000	$'000
Minimum lease payments under operating leases recognized as an expense in the year	6,885	6,064

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

	2008	2007
	$'000	$'000
Within one year	6,248	6,885
In the second to fifth years inclusive	1,257	5,159
	7,505	12,044

24. **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

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YEAR ENDED DECEMBER 31, 2008

24 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Categories of financial instruments

The following table sets out the financial instruments as at the balance sheet date:

	2008	2007
	$'000	$'000
Financial Assets		
Loans and receivables (including cash and bank balances) – at amortised cost		
- Due from fellow subsidiaries	6,039	2,393
- Trade and other receivables (excluding prepayments and long-term receivables)	309,690	349,223
- Cash and bank balances	26,591	21,184
	342,320	372,800
Financial Liabilities (at amortised cost)		
- Due to immediate parent company	25,086	16,015
- Dividends payable	10,898	9,338
- Trade and other payables (excluding accruals)	361,203	340,431
- Bank overdraft	46,791	-
	443,978	365,784

Financial risk management policies and objectives

By its nature, the company's activities involve the use of financial instruments.

The company has exposure to the following risks from its use of its financial instruments: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Financial risk management objectives

The company's activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

The company has documented financial risk management policies which are directed by its parent company. These policies set out the company's overall business strategies and its risk management philosophy. The financial risk management programme seeks to minimize potential adverse effects of financial performance of the company. The Board of Directors, directed by the parent company, provides written principles for overall financial risk management and written policies covering specific areas, such as market risk, credit risk and liquidity risk. Periodic reviews are undertaken to ensure that the group's policy guidelines are complied with.

There has been no change during the year to the company's exposure to these financial risks or the manner in which it manages and measures the risk.

The company does not hold or issue derivative financial instruments.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

24 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

Exposures are measured using sensitivity analyses indicated below.

(a) 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. Except in respect of foreign currencies, as disclosed in Note 24 (b) below and interest rates, as disclosed in Note 24(c) below, the company has no exposure to market risk.

(b) Foreign exchange risk

The company undertakes certain transactions denominated in currencies other than the Jamaican dollar resulting in exposures to exchange rate fluctuations.

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

Management of foreign exchange risk
Management consistently reviews the company's exposure in this regard by constant monitoring of international foreign exchange markets and factors influencing currency movements including daily analysis of its demand for foreign currency to meet supplier payments and positioning its foreign currency bank account holdings accordingly.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities arising in the ordinary course of business at the reporting date are as follows:

	Liabilities		Assets		Net liabilities (assets)	
	2008	2007	2008	2007	2008	2007
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
US dollars	247,282	236,967	51,320	16,370	195,962	220,597
Pound (£)	300	257	60	99	240	158

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase and decrease in the Jamaican dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates.

If the Jamaican dollar strengthens or weakens by 10% against the relevant foreign currency, profit or loss will decrease or increase by:

	US Dollar impact		Pound (£) impact	
	2008	2007	2008	2007
	J$'000	J$'000	J$'000	J$'000
Profit or loss	19,596	22,060	24	16

This is mainly attributable to the exposure outstanding on bank balances, receivables and payables in the respective foreign currency at year end in the company.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

24. **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(b) Foreign exchange risk (Cont'd)

Foreign currency sensitivity (Cont'd)
The company's sensitivity to foreign currency has decreased during the current year mainly due to the increase of US dollar bank deposits and the increase in US dollar sales in the last quarter of the financial year which has resulted in higher US dollar denominated trade receivables which was offset by increasing US$ denominated liabilities in trade payables.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. US dollar denominated sales and liabilities are seasonal, fluctuating throughout the year.

(c) Interest rate risk management

Interest rate risk is the potential that the value of a financial instrument will fluctuate due to changes in market interest rates as a result of cash flow or fair value interest rate risk. Financial instruments subject to fixed interest rates are exposed to fair value interest rate risk while those subject to floating interest rates are exposed to cash flow risk.

The company's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section at Note 24 (e) below.

Management of interest rate risk
The company manages its interest rate risk by monitoring the movements in the market interest rates closely as well as using gap analysis.

Interest rate sensitivity
The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the company's profit for the year ended December 31, 2008 would decrease/increase by $0.1 million (2007: increase/decrease by $0.01 million). This is mainly attributable to the company's exposure to interest rate risk on its bank overdraft facility and its bank deposits.

The company's sensitivity to interest rates has increased during the current period mainly due to the utilization of the overdraft facility off-set by increased bank deposit holdings.

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company.

Financial assets that potentially subject the company to concentration of credit risk consist principally of cash, cash equivalents, trade and other receivables and amounts due from related parties. The maximum exposure to credit risk is the amount of approximately $342 million disclosed under 'categories of financial instruments' above and the company holds no collateral in this regard. Generally, the company manages its credit risk by screening its customers, establishing credit limits and the rigorous follow-up of receivables.

BERGER PAINTS JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

24. **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(d) Credit risk management (Cont'd)

Cash and bank deposits
The credit risk on liquid funds is limited because the counterparties are major banks with high credit ratings. The carrying amount of cash and bank balances totaling $26.815 million at year end represents the company's maximum exposure to this class of financial assets.

Amounts due from fellow subsidiaries
The directors believe that the credit risks associated with this financial instrument are minimal. The carrying amount of the above balance totalling $6.039 million at year end represents the company's maximum exposure to this class of financial assets.

Trade and other receivables
The company has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management on an annual basis. Further, trade receivables consist of a large number of customers, spread across the retail and construction sectors and as such, the company does not have significant credit risk exposure to any single counterparty, except in respect of one retail entity whose outstanding balance (within the approved credit limit) amounts to approximately 19% (2007: 20%) of trade receivables (see Note 10). Ongoing credit evaluation is performed on the financial condition of trade receivables. 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 carrying amount of financial assets in respect of trade receivables totalling $278.3 million and other receivables totalling $31.6 million at year end which is net of impairment of approximately $64.3 million and $3.2 million respectively, represents the company's maximum exposure to this class of financial asset.

(e) Liquidity risk management

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 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. Additionally, at December 31, 2008 the company had been utilizing a credit facility with a major bank as disclosed under Note 11(b).

BERGER PAINTS JAMAICA LIMITED

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YEAR ENDED DECEMBER 31, 2008

24. **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(e) Liquidity risk management (Cont'd)

Liquidity and interest risk analyses in respect of non-derivative financial liabilities

Non-derivative financial liabilities

The following tables detail the company's remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the group and company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	On demand or within 1 year	Total
	%	$'000	$'000
2008			
Non-interest bearing	-	397,187	397,187
Interest bearing	20.625	46,791	46,791
2007			
Non-interest bearing	Nil	365,784	365,784

Non-derivative financial assets

The following table details the company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	On demand or within 1 year	Total
	%	$'000	$'000
2008			
Non-interest bearing	-	315,661	315,661
Interest bearing	2.4	26,659	26,659
2007			
Non-interest bearing	-	370,572	370,572
Interest bearing	2.3	2,228	2,228

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24. **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(f) Fair value of financial assets and financial liabilities

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. Where market prices are not available for the financial assets and liabilities of the company, fair values in the financial statements have been presented using various estimation techniques based on market conditions existing at balance sheet date. Generally, 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 in determining the fair values of financial assets and financial liabilities:

- The amounts included in the financial statements for cash and bank balances, trade and other receivables and trade and other payables, due to immediate parent company and due from fellow subsidiaries reflect the approximate fair values because of the short-term maturity of these instruments.

Capital risk management policies and objectives

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the equity balance.

The Board monitors the return on capital (net income divided by shareholder's equity).

The company's Board of Directors reviews the capital structure on a semi-annual basis. As a part of this review, the Board of Directors considers the cost of capital and the associated risks. Additionally, based on recommendations of the Board of Directors, the company balances its overall capital structure through the payment of dividends.

The company's overall strategy as directed by its parent remains unchanged from year ended 2007.