

HARDWARE & LUMBER LTD

Notes to the Financial Statements

31 December 2001

1. Principal Activities and Related Parties

The company is 87% owned by Pan-Jamaican Investment Trust Limited. The company and its subsidiaries trade in hardware, lumber, household items, agricultural products and boat engines, and provide construction related and janitorial services.

The company, its holding company and subsidiaries are incorporated in Jamaica.

All amounts are stated in Jamaican dollars unless otherwise indicated.

2. Significant Accounting Policies

(a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with Jamaican generally accepted accounting principles and therefore include all required material disclosures.

(b) Comparative information

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(c) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Consolidation

The consolidated financial statements present the results of operations and financial position of the company and its subsidiaries as detailed below:

	<u>Principal Activities</u>	<u>Shareholding</u>
H. & L. True Value Limited	Trading	100%
H & L Agri & Marine Company Limited	Trading	100%
Hole-In-The-Wall Limited	Trading (Dormant)	100%
Office Services Limited	Construction and janitorial Services	100%
Wherry Wharf Sales Company Limited	Trading (Dormant)	93%
Scott's Preserves Limited	Trading	100%
Scott's of Jamaica Limited	Trading (Dormant)	100%

Goodwill arising on acquisition of subsidiaries has been adjusted against capital reserves.

(e) Fair value of financial instruments

Financial instruments carried on the balance sheet include trade investments, accounts receivable, cash and bank balances, accounts payable, short term loans, long term loans and net obligations under finance leases.

The fair values of the group's and the company's financial instruments are discussed in Note 24.

(f) Fixed assets and depreciation

Fixed assets are stated at cost or valuation. In accordance with group policy, the cost or valuation of fixed assets, other than freehold land, is written off on the straight line method over the expected useful lives of the assets held at the beginning of the year.

The expected useful lives are as follows:

Freehold buildings	10 - 55 years
Furniture and office equipment	10 years
Vehicles and forklift trucks	5 - 7 years
Scaffolding	20 years
Equipment	10 years
Leasehold improvements	5 & 10 years
Computer equipment	5 years

Gains and losses on disposal of fixed assets are dealt with in the profit and loss account.

Repair and maintenance expenditure are charged to the profit and loss account.

Improvement expenditure is included in the cost of the related asset or in leasehold improvement as appropriate.

(g) Foreign currency balances

Balances denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are converted at the rates of exchange ruling on the transaction dates, Gains or losses arising on translation and conversion are reflected in the profit and loss account.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the weighted average cost method.

(i) Investment in subsidiaries

In the company's financial statements, investments in subsidiaries are stated at

cost.

(j) Finance leases

The present value of minimum lease payments under finance leases is capitalised as fixed assets and a corresponding obligation to the lessor is recorded. Lease payments are treated as consisting of principal repayment and finance charges. The finance charges are recorded so as to give a constant periodic interest rate on the outstanding obligation.

(k) Retirement benefit plan

The group participates in contributory retirement plans. Retirement benefits are actuarially determined based on career earnings. Employers' contributions to fund past service deficiencies and future service liabilities are made monthly and are charged to the profit and loss account.

(l) Deferred expenses

Deferred expenses are being written off over the period of benefit.

(m) Deferred taxation

Deferred taxation is not recognised in these financial statements because the timing differences are not expected to reverse in the foreseeable future.

(n) Revenue

Revenue is recognised upon delivery of products and customer acceptance or performance of services, if any, net of General Consumption Tax and discounts and after eliminating sales within the Group.

3. Turnover

Turnover represents the value of goods sold to third parties, net of returns and General Consumption Tax.

4. Operating Profit

Operating profit is arrived at after charging/(crediting) the following items:

	<u>The Group</u>		<u>The Company</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Depreciation	18,909	17,943	10,089	9,748
Profit on disposal of fixed assets	(1,013)	(1,067)	(433)	(265)
Directors' emoluments -				
Management remuneration	9,602	8,802	4,811	4,134
Auditors' remuneration	3,440	3,130	1,625	1,480
Staff costs (Note 5)	102,658	135,663	48,201	49,637
Deferred expenditure	360	438	360	360
Provision for bad and doubtful debts - net	4,193	9,469	3,029	5,301
	=====	=====	=====	=====

5. Staff Costs

	<u>The Group</u>		<u>The Company</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Wages and salaries	87,116	100,936	40,881	36,042
Statutory contributions	7,875	9,759	3,702	3,845
Pension costs	3,778	4,241	2,249	2,171
Staff welfare	3,397	20,727	1,369	7,579
Termination costs	492	-	-	-
	102,658	135,663	48,201	49,637
	=====	=====	=====	=====
Average number of employees				
Regular	143	176	50	49
Contract	308	275	32	28
	451	451	82	77
	=====	=====	=====	=====

6. Finance Costs - net

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Interest expense	15,155	18,990	13,079	16,196
Interest income	(1,159)	(415)	(3,086)	(7,697)
	<u>13,996</u>	<u>18,575</u>	<u>9,993</u>	<u>8,499</u>
Foreign exchange loss	6,609	8,181	5,166	7,431
	<u>20,605</u>	<u>26,756</u>	<u>15,159</u>	<u>15,930</u>
	=====	=====	=====	=====

7. Exceptional Item

Exceptional item represents stock losses resulting from flooding at the company's premises in November 2001. The losses are net of insurance proceeds

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Inventory written off	7,302	-	2,503	-
	=====	=====	=====	=====

8. Taxation

(a) Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Income tax at 33 1/3%	-	10,506	-	6,621
Tax credit on issue of bonus shares	-	(1,045)	-	-
Contractor's levy	-	26	-	-
Prior year over provision	(482)	-	-	-
	<u>(482)</u>	<u>9,487</u>	<u>-</u>	<u>6,621</u>
	=====	=====	=====	=====

- (b) There is no taxation charge for the current year as tax losses brought forward from previous years were utilised to offset taxable income.
- (c) The group and the company have available tax losses of \$94,757,000 (2000 - \$115,823,000) and \$1,982,000 (2000 -Nil) respectively for set off against future taxable profits. The set off against future taxable profits of these tax losses is subject to agreement with the Commissioner of Income Tax.
- (d)The contractors' levy relates to taxes withheld from payments made to sub-contractors.

9. Net Profit and Retained Earnings

i) The net profit/(loss) is dealt with in the financial statements as follows:

	Restated	
	2001	2000
	\$'000	\$'000
Parent company	(6,637)	8,351
Subsidiaries	<u>22,989</u>	<u>11,010</u>
	16,352	19,361
	=====	=====

ii)The retained earnings is reflected in the financial statements as follows:

	Restated	
	2001	2000
	\$'000	\$'000
Parent company	38,781	47,424
Subsidiaries	<u>105,666</u>	<u>87,777</u>
	144,447	135,201
	=====	=====

10. Earnings Per Stock Unit

The calculations of earnings per stock unit are based on:

- (i) the profit after taxation of \$ 16,352,000 (2000 - \$19,361,000)
- (ii) the number of stock units in issue throughout both years.

11. Fixed Assets

	<u>THE GROUP</u>						
	<u>Freehold Land</u>	<u>Freehold Buildings</u>	<u>Furniture & Office Equipment</u>	<u>Leasehold Improve-ments</u>	<u>Equip-ment & Scaffolding</u>	<u>Vehicles & Forklift Trucks</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -							
1 January 2001	77,230	134,448	56,022	28,720	12,392	6,640	315,452
Additions	-	-	4,936	540	815	4,668	10,959
Disposals	-	-	(280)	-	(369)	(1,250)	(1,899)
31 December 2001	<u>77,230</u>	<u>134,448</u>	<u>60,678</u>	<u>29,260</u>	<u>12,838</u>	<u>10,058</u>	<u>324,512</u>
Depreciation -							
1 January 2001	-	5,468	18,675	7,122	3,782	2,883	37,930
Charge for the year	-	5,468	6,110	5,276	834	1,221	18,909
On disposals	-	-	(259)	-	(186)	(1,218)	(1,663)
31 December 2001	<u>-</u>	<u>10,936</u>	<u>24,526</u>	<u>12,398</u>	<u>4,430</u>	<u>2,886</u>	<u>55,176</u>
Net Book Value -							
31 December 2001	77,230	123,512	36,152	16,862	8,408	7,172	269,336
31 December 2000	<u>77,230</u>	<u>128,980</u>	<u>37,347</u>	<u>21,598</u>	<u>8,610</u>	<u>3,757</u>	<u>277,522</u>

	<u>THE COMPANY</u>				
	<u>Freehold Land</u>	<u>Freehold Buildings</u>	<u>Furniture & Fixtures</u>	<u>Vehicles & Forklift Trucks</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -					
1 January 2001	77,230	134,448	29,162	6,107	246,947
Additions	-	-	3,250	1,854	5,104
Disposals	-	-	-	(1,214)	(1,214)
31 December 2001	<u>77,230</u>	<u>134,448</u>	<u>32,412</u>	<u>6,747</u>	<u>250,837</u>

Depreciation -

1 January 2001	-	5,468	13,559	2,335	21,362
Charge for the year	-	5,468	3,407	1,214	10,089
On disposals	-	-	-	(1,214)	(1,214)
31 December 2001	-	10,936	16,966	2,335	30,237

Net Book Value -

31 December 2001	77,230	123,512	15,446	4,412	220,600
31 December 2000	77,230	128,980	15,603	3,772	225,585

(a) Freehold land and buildings are stated at fair market value and depreciated replacement cost, respectively, as appraised by C.D. Alexander Company Realty Limited, real estate brokers and appraisers in December 1999.

All other fixed assets are stated at cost.

(b) Included in vehicles and forklift trucks are motor vehicles costing \$3,382,000 (the group and the company) which have been lease financed (Note 20).

12. Long Term Receivables

These comprise National Housing Trust contributions to 31 July 1979 made in compliance with The National Insurance (Amendment) Act 1976 which are recoverable in the years 2002 to 2004.

13. Deferred Expenditure

This represented store restructuring and bond issue costs which were written off over three to five years.

14. Holding Company and Fellow Subsidiaries

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Due to holding company (net)	(2,253)	(2,253)	(2,253)	(2,253)
Due to subsidiaries	-	-	(88,154)	(55,952)
	<u>(2,253)</u>	<u>(2,253)</u>	<u>(90,407)</u>	<u>(58,205)</u>
Due from fellow subsidiaries	2,507	1,953	320	-
Due from subsidiaries	-	-	145,738	114,670
	<u>254</u>	<u>(300)</u>	<u>55,651</u>	<u>56,465</u>
	=====	=====	=====	=====

See Note 21 for related party transactions.

15. Current Assets

	<u>The Group</u>		<u>The Company</u>	
	2001	Restated 2000	2001	Restated 2000
	\$'000	\$'000	\$'000	\$'000
Inventories	284,090	313,279	82,430	112,768
Trade receivables, less provision \$17,627,000 (2000 - \$14,805,000)	85,597	116,578	57,794	81,881
Other receivables and prepayments	16,202	10,305	7,531	3,634
Taxation recoverable	17,177	3,868	8,612	-
Bank deposits	8,190	3,510	1,076	1,510
Cash on hand and in bank	6,088	9,655	704	7,474
	<u>417,344</u>	<u>457,195</u>	<u>158,147</u>	<u>207,267</u>
	=====	=====	=====	=====

16. Current Liabilities

	<u>The Group</u>		<u>The Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Payables and accruals	224,186	233,930	107,921	107,925
Bank loans and overdrafts	31,920	86,106	30,392	76,070
Taxation payable	-	-	-	6,506
Dividend proposed	6,000	7,200	6,000	7,200
Short term loans	-	27,322	-	24,972
Current maturities of long term loans (Note 18)	17,602	6,684	13,213	926
Current portion of net obligations under finance leases (Note 20)	<u>329</u>	<u>251</u>	<u>329</u>	<u>251</u>
	<u>280,037</u>	<u>361,493</u>	<u>157,855</u>	<u>223,850</u>

The bank loans and overdrafts are secured by:

- (a) Demand debentures stamped \$21,900,000 with power to upstamp providing a charge over the fixed assets and a floating charge over all the other assets the company.
- (b) joint and Several Demand Debenture incorporating composite guarantee of the company and its subsidiaries in respect of credit facilities of each of the others, stamped \$26,500,000 with the power to upstamp without notice and providing a charge over the fixed assets and a floating charge over all other assets of the company and its subsidiaries.
- (c) Legal Mortgages stamped collateral to Debentures over real estate of the company.
- (d) Security sharing agreement between the company, The Bank of Nova Scotia Jamaica Limited and CitiBank N.A.
- (e) Items (a) and (b) above rank pari passu to Debenture/Supplemental

mortgages for \$64,000,000 in favour of CitiBank, over the assets of the company and H. & L. True Value Limited.

- (f) Assignment of peril insurance providing full cover over buildings, inventory, furniture, fixtures and equipment owned by the company and its subsidiaries.

Bank loans and overdrafts include foreign currency denominated liabilities of approximately US\$ 1,480,000 (2000 - US\$1,671,000).

Payables and accruals include foreign currency denominated liabilities in various currencies, the equivalent of J\$151,312,000 (2000 - J\$118,397,000)

17. Share Capital

	2001 \$'000	2000 \$'000
Authorised -		
50,000,000 Ordinary shares of 50 cents each	25,000	25,000
	=====	=====
Issued and fully paid -		
40,000,000 Ordinary stock units of 50 cents each	20,000	20,000
	=====	=====

	Number of Stock Unit (thousands)	Ordinary Stock Unit \$'000	Share Premium \$'000	Total \$'000
At 31 December 1999	<u>40,000</u>	<u>20,000</u>	<u>25,934</u>	<u>45,934</u>
At 31 December 2000	<u>40,000</u>	<u>20,000</u>	<u>25,934</u>	<u>45,934</u>
At 31 December 2001	<u>40,000</u>	<u>20,000</u>	<u>25,934</u>	<u>45,934</u>

18. Long Term Loans

		<u>The Group</u>		<u>The Company</u>	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Bank of Nova Scotia	(a)	1,751	-	-	-
Citibank N. A.	(b)	35,548	-	35,548	-

First Life Insurance Company Limited	(c)	1,328	-	1,328	-
First Life Insurance Company Limited	(c)	-	372	-	372
First Life Insurance Company Limited	(c)	23	267	23	267
First Life Insurance Company Limited	(c)	243	588	243	588
Pan Caribbean Merchant Bank Limited	(d)	<u>4,763</u>	<u>7,809</u>	<u>-</u>	<u>-</u>
		43,656	9,036	37,142	1,227
Current maturities (Note 16)		<u>17,602</u>	<u>6,684</u>	<u>13,213</u>	<u>(926)</u>
		26,054	2,352	23,929	301
		=====	=====	=====	=====

- (a) This loan is secured by an unlimited guarantee of the holding company, Pan-Jamaican Investment Trust Limited. As at 31 December 2001, the interest was 24% per annum. The loan is repayable by 2004.
- (b) This loan is denominated in United States dollars. It is guaranteed by a composite debenture, which contains a fixed and floating charge over the present and future assets of the company. As at 31 December 2001, the interest rate was 12% per annum. The loan is repayable between 2001/2003.
- (c) These are related party loans that were used to acquire motor vehicles and are secured by Bills of Sale on the vehicles. At 31 December 2001, the interest rate was 25% per annum. The loans are repayable between 1998/2004.
- (d) This loan is due to a related party and is secured by the hypothecation of the funds of the holding company. The loan, which is denominated in United States dollars, attracts interest at 15% per annum. The loan is repayable between 1998/2004.

19. Borrowings

The interest rate exposure of the borrowings are as follows:

	<u>The Group</u>		<u>The Company</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Total borrowings:				
At fixed rates	40,311	1,727	35,548	1,727
At floating rates	35,265	122,464	31,986	102,269
	=====	=====	=====	=====
	%	%	%	%
Weighted average effective interest rates:				
Bank overdrafts	24	25	24	25
Jamaican dollar loans	24	26	24	26
US dollar loans	10	12	10	12
	=====	=====	=====	=====

20. Net Obligations Under Finance Leases

The Group and the company entered into finance lease agreements for the purchase of motor vehicles. Obligations under these agreements are as follows:

		<u>The Group and The Company</u>	
		2001 \$'000	2000 \$'000
In the year ending 31 December			
	2001	-	251
	2002	329	634
	2003	634	634
	2004	634	634
	2005	528	528
Minimum lease payments		<u>2,125</u>	<u>2,681</u>

Less: Future interest payments	(761)	(954)
Net obligations under finance leases	<u>1,364</u>	<u>1,721</u>
Repayable within one year (Note 16)	<u>(329)</u>	<u>(251)</u>
	<u>1,035</u>	<u>1,476</u>
	=====	=====

21. Related Party Transactions

	2001	2000
	\$'000	\$'000
Rental charges -		
Related company	3,576	3,065
Sales -		
Fellow subsidiaries	18,377	15,000
Management fees -		
Parent company	2,376	2,160
Purchases-		
Related company	-	694
Interest expense -		
Fellow subsidiaries	1,345	998
Interest Income -		
Fellow subsidiaries	-	986
	=====	=====

See Note 14 for related party balances at year-end.

22. Dividend

	<u>The Group and</u> <u>The Company</u>	
	2001	2000
	\$'000	\$'000
Dividends comprise:		
Interim - \$0.036 per ordinary stock unit	-	1,450
Final - \$0.15 per ordinary		
stock unit (2000 - \$0.18)	<u>6,000</u>	<u>7,200</u>

6,000	8,650
=====	=====

The dividend is subject to withholding tax.

23. Prior Year Adjustment

This arose as a result of errors made in the inventory costing at December 2000

24. Financial Instruments

(a) Currency risk

The net foreign currency exposures as at 31 December 2001 are as follows, asset/(liability):

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
United States (\$'000):				
Cash	42	18	-	17
Other Balances	<u>(4,680)</u>	<u>(5,173)</u>	<u>(3,258)</u>	<u>(3,791)</u>
	=====	=====	=====	=====
Pound Sterling (f'000)	(9)	(6)	(7)	(8)
	=====	=====	=====	=====

(b) Credit risk

The group and company have no significant concentrations of credit risk. Cash and short-term deposits are placed with substantial financial institutions.

(c) Fair value

The amounts included in the financial statements for cash and bank balances, receivables, inter-company balances, other liabilities and payables reflect their approximate fair values because of the short-term maturity of these instruments.

The estimated fair values of other financial instruments are as follows:

	The Group			
	2001		2000	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
Finance leases	1,035	1,035	1,476	1,476
Long term loans	26,054	26,054	2,352	2,352
	=====	=====	=====	=====

	The Company			
	2001		2000	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
Finance leases	1,035	1,035	1,476	1,476
Long term loans	23,929	23,929	301	301
	=====	=====	=====	=====

The fair value of long term liabilities is based upon projected cash flows discounted at an estimated current market rate of interest. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented above are not necessarily indicative of the amounts that the company would realise in a current market exchange.

25. Retirement Benefit Plans

The group participates in contributory pension plans administered by First Life Insurance Company Limited.

The company and most of its subsidiaries participate in a plan whose benefits are based on 2% of final five years' average salary for each year of service. The latest actuarial valuation, which was carried out as at 31 December 1999, indicated that there was a past service deficiency of \$3,168,000. The trustees have implemented the actuary's recommendation that, effective 1st January 2001, the employer contributes at the rate of 8.6% of members' earnings until the next valuation date which should occur no later than 31 December 2002. The employees contribute at a rate of 5% of earnings.

One subsidiary, Office Services Limited, participates in a plan whose benefits are based on career earnings. The latest actuarial valuation, which was carried out as at 31 December 1998, indicated that there was a funding surplus of \$1,267,000.

During the year, contributions made by the group and the company were \$3,778,000 (2000 - \$4,241,000) and \$2,249,000 (2000- \$2,171,000) respectively.

26. Lease Commitments

At 31 December 2001, the group had lease commitments in respect of certain properties. Lease payments are estimated at \$30,236,000 for the year 2001, and are expected to continue at that level for the foreseeable future.
