

Courts (Jamaica) Limited

Notes to the Financial Statements

31 March 2003

1 Turnover and Cost of Sales

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

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

2 Operating Profit

This is stated after charging/(crediting):

	2003 \$'000	2002 \$'000
Bad debts written off and increase in provision for doubtful accounts	104,115	162,082
Depreciation	45,369	40,440
Directors' emoluments -		
Fees as directors	814	768
Executive remuneration (included in staff cost)	59,502	36,348
Auditors' remuneration	1,766	1,650
Gain on disposal of fixed assets	(2,853)	(2,185)
Staff costs (Note 3)	596,493	473,196
	=====	=====

3 Staff Costs

(a) Staff costs comprise:

	2003	2002
	\$'000	\$'000
Wages and salaries	480,446	378,747
Statutory contributions	48,053	36,979
Pension costs	12,466	10,310
Other	55,528	47,160
	<u>596,493</u>	<u>473,196</u>
	=====	=====

(b) The average number of employees in 2003 was 972 (2002 - 879), of whom 341 (2002 - 267) were employed part-time.

4 Finance Income/(Costs)

	2003	2002
	\$'000	\$'000
Foreign exchange gain	1,779	3,278
Interest income	83,920	25,203
	<u>85,699</u>	<u>28,481</u>
Interest expense -		
Related companies	(613)	(2,322)
On loans and overdraft	(14,024)	(69,590)
	<u>(14,637)</u>	<u>(71,912)</u>
	71,062	(43,431)
	=====	=====

5 Taxation

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

	2003	2002
	\$'000	\$'000
Income tax at 33 1/3%	393,866	363,295
Adjustment to prior year provision	(38)	(472)
Tax credit on bonus issue of shares	(49,940)	(29,964)
	<u>343,888</u>	<u>332,859</u>
	=====	=====

6 Dividends

	2003 \$'000	2002 \$'000
Ordinary, out of unfranked income, gross -		
Interim declared - 55 cents per share (2002 - 0.75 cents)	878,945	8,990
Final proposed - 0.42 cents per share (2002 - 1.20 cents)	<u>10,068</u>	<u>19,177</u>
	889,013	28,167
	=====	=====

7 Earnings per Stock Unit

The calculation of earnings per ordinary 50 cents stock unit is based on the net profit for the year of \$826,736,000 (2002 - \$770,476,000) and 1,598,082,000 ordinary stock units in issue at the end of the year. The comparative figure for the previous year has been adjusted to reflect the issue of 399,521,000 bonus shares during the year (Note 17(a)).

8 Fixed Assets

	Freehold Land and Buildings \$'000	Equipment, Fixtures and Fittings \$'000	Motor Vehicles \$'000	Total \$'000
Cost or Valuation -				
1 April 2002	912,977	271,783	31,897	1,216,657
Revaluation	(43,151)	-	-	(43,151)
Additions	142,362	40,186	8,006	190,554
Disposals	(9,512)	(494)	(6,098)	(16,104)
31 March 2003	<u>1,002,676</u>	<u>311,475</u>	<u>33,805</u>	<u>1,347,956</u>
Depreciation -				
1 April 2002	13,676	133,566	19,131	166,373
Charge for the year	8,325	30,702	6,342	45,369
Revaluation	(22,001)	-	-	(22,001)
On disposals	-	(222)	(5,076)	(5,298)
31 March 2003	<u>-</u>	<u>164,046</u>	<u>20,397</u>	<u>184,443</u>
Net Book Value -				
31 March 2003	1,002,676	147,429	13,408	1,163,513
	=====	=====	=====	=====
31 March 2002	899,301	138,217	12,766	1,050,284
	=====	=====	=====	=====

(a) Freehold land and buildings includes \$264,088,000 in respect of land.

(b) During the year, freehold land and buildings were revalued on the basis of market valuation by Langford and Brown, valuers and real estate agents. The deficit arising from these valuations was written off against capital reserves arising from previous upward valuation of the same properties (Note 18). Subsequent additions are included at cost.

9 Goodwill

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

	2003	2002
	\$'000	\$'000
Cost	15,000	15,000
Less: Amortisation	<u>(3,750)</u>	<u>(3,000)</u>
	<u>11,250</u>	<u>12,000</u>
	=====	=====

10 Long Term Receivable

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

11 Long Term Hire Purchase Receivables

	2003	2002
	\$'000	\$'000
Hire purchase receivables	4,160,567	2,963,947
Less: Deferred profit	<u>(1,870,791)</u>	<u>(1,296,329)</u>
	2,289,776	1,667,618
Less: Provision for doubtful accounts	<u>(153,357)</u>	<u>(177,155)</u>
	2,136,419	1,490,463
Less: Current portion (Note 11)	<u>(1,035,438)</u>	<u>(968,087)</u>
	<u>1,100,981</u>	<u>522,376</u>
	=====	=====

12 Receivables

	2003	2002
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	\$'000	\$'000
Current portion of hire purchase receivables (Notes 11)	1,035,438	968,087
Other receivables	<u>99,657</u>	<u>79,338</u>
	<u>1,135,095</u>	<u>1,047,425</u>
	=====	=====

13 Inventories

	2003	2002
	\$'000	\$'000
Merchandise for resale	540,679	598,722
Gifts	20,134	39,308
Goods in transit	<u>87,178</u>	<u>65,348</u>
	<u>647,991</u>	<u>703,378</u>
	=====	=====

14 Cash and Short Term Deposits

	2003	2002
	\$'000	\$'000
Cash at bank and in hand	20,739	39,113
Short term deposits	<u>25,000</u>	<u>505,454</u>
	<u>45,739</u>	<u>544,567</u>
	=====	=====

The weighted average effective interest rate on short term deposits was 18% (2002 - 15%), and these deposits have been placed on call or overnight deposit.

15 Payables

	2003	2002
	\$'000	\$'000
Trade payables	57,690	90,087
Warranty provisions	56,024	36,889
Accruals and other payables	<u>177,388</u>	<u>88,980</u>
	<u>291,102</u>	<u>215,956</u>
	=====	=====

16 Bank and Short Term Loans

2003	2002
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	\$'000	\$'000
Bank loan - unsecured	190,000	-
Bank overdrafts - unsecured	<u>103,258</u>	<u>-</u>
	293,258	-
	=====	=====

- (a) The bank loan represents working capital borrowings repayable on 30 April 2003. The loan attracts interest at a rate of 36% per annum and is unsecured.
- (b) The company has an unsecured overdraft facilities of \$230,000,000 with The Bank of Nova Scotia Jamaica Limited, and \$135,000,000 with National Commercial Bank Jamaica Limited.

17 Share Capital

	2003 \$'000	2002 \$'000
Authorised, 1,600,000,000 (2002 - 1,200,000,000)		
Ordinary shares of 50 cents each	800,000	600,000
	=====	=====
Issued and fully paid, 1,598,082,000 (2002 - 1,198,561,000)		
Ordinary stock units of 50 cents each	799,041	599,281
	=====	=====

- (a) During the year, the authorised share capital of the company was increased by \$200,000,000 by the creation of 400,000,000 ordinary shares of 50 cents each. A total of 399,520,667 shares were then issued at par as fully paid up bonus shares by the capitalisation of \$199,760,333 of retained earnings. The shares so issued were then converted to stock units.
- (b) Share options -
The Share Option Trust has purchased shares from which future share options are exercisable. At the year end, there were outstanding share options exercisable as follows:
- (i) Exercisable by 2 Executive Directors, 1 of whom is to acquire 50,000 shares and the other 66,667 shares. These options are exercisable on or after 17 January 2005 at a price of \$2.83 per share.

- (ii) Exercisable by an Executive Director to acquire 50,000 shares. This option is exercisable on or after 17 January 2005 at a price of \$5.55 per share.
- (iii) Exercisable by 2 Executive Directors to acquire 50,000 shares each. These options are exercisable on or after 31 October 2007 at a price of \$3.38 per share.
- (iv) Exercisable by 5 Senior Managers to acquire 10,000 shares each. These options are exercisable on or after 17 January 2005 at a price of \$2.83 per share.
- (v) Exercisable by a Senior Manager to acquire 10,000 shares. This option is exercisable on or after 17 January 2005 at a price of \$5.55 per share.
- (vi) Exercisable by a Senior Manager to acquire 15,000 shares. This option is exercisable on or after 31 October 2007 at a price of \$3.38 per share.

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

18 Capital Reserve

	2003	2002
	\$'000	\$'000
Realised capital gains	10,905	1,969
Unrealised surplus on revaluation of fixed assets	<u>585,848</u>	<u>615,934</u>
	<u>596,753</u>	<u>617,903</u>
	=====	=====

19 Related Party Transactions

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

	2003	2002
	\$'000	\$'000
Interest income	(899)	(160)
Interest expense	613	2,322
Management fees	7,673	6,554
Computer charges	24,858	21,069
Other charges	12,442	8,219
Purchases and expenses	1,307,184	1,010,469

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20 Commitments

(a) Capital expenditure approved and contracted for at 31 March 2003 amounted to approximately \$10,213,000 (2002 - \$122,000,000) and relates to the continued expansion of the company's operations.

(b) Commitments under operating leases are scheduled for payment as follows:

	2003 \$'000	2002 \$'000
In the year ending 31 March 2003	-	6,974
2004	14,256	9,842
2005	13,696	10,810
2006	11,351	11,231
2007	5,287	5,183
2008	<u>1,320</u>	<u>-</u>
	45,910	44,040
	=====	=====

21 Financial Instruments

(a) Currency risk

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

	2003			2002		
	US\$'000	£'000	EC\$'000	US\$'000	£'000	EC\$'000
Assets						
Cash and short term deposits	215	-	-	133	-	-
Due from affiliates	-	-	112	-	-	58
	<u>215</u>	<u>-</u>	<u>112</u>	<u>133</u>	<u>-</u>	<u>58</u>
Liabilities						
Payables	(55)	-	-	(84)	-	-
Holding company	-	(147)	-	-	(87)	-
Due to affiliates	<u>(1,116)</u>	<u>-</u>	<u>-</u>	<u>(1,064)</u>	<u>-</u>	<u>-</u>

	(1,171)	(147)	-	(1,148)	(87)	58
Net Assets/(Liabilities)	(956)	(147)	112	(1,015)	(87)	58
	=====	=====	=====	=====	=====	=====

(b) Interest risk

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

	Floating rate	Fixed rate	Non rate sensitive	Total	Weighted average period for which rate is fixed	Weighted average interest rate	Weighted average period until maturity
	\$'000	\$'000	\$'000	\$'000	years	%	years
Assets							
Long term hire-purchase receivables	-	1,100,981	-	1,100,981	1.7	20	1.7
Receivables	-	1,035,438	99,657	1,135,095	1	20	1
Cash and short term deposits	37,066	-	8,673	45,739	-	18	overnight
	<u>37,066</u>	<u>2,136,419</u>	<u>108,330</u>	<u>2,281,815</u>			
Liabilities							
Payables	-	-	(291,102)	(291,102)	-	-	0.25
Holding company	-	(12,854)	-	(12,854)	1	12	1
Due to affiliates	-	-	(56,813)	(56,813)	-	-	-
Bank and short term loans	(103,258)	(190,000)	-	(293,258)	0.1	36	0.1
	<u>(103,258)</u>	<u>(202,854)</u>	<u>(347,915)</u>	<u>(654,027)</u>			
Net Assets/(Liabilities)	<u>(66,192)</u>	<u>1,933,565</u>	<u>(239,585)</u>	<u>1,627,788</u>			
	=====	=====	=====	=====			

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company has no

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

(d) Liquidity risk

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

(e) Fair values

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

The long term hire purchase receivables are originated loans. The carrying amount approximates the amortised cost of these loans, after making suitable allowance for doubtful debts. The carrying amount is deemed to approximate the fair value of these receivables because the balances are subject to terms and conditions similar to those otherwise available in the market.

22 Pension Scheme

All permanent employees are eligible to join the contributory pension scheme. Retirement benefits are based on the highest salary in the last three years prior to retirement. The scheme was actuarially valued as at 31 March 2002 and the results indicated a surplus of approximately \$129,660,000. The actuaries have recommended that the company contribute to the fund at the rate of 5% of annual salaries. The company as at 31 March 2003 contributes at the rate of 5% of pensionable salaries.

23 Contingent Liabilities

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

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

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

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