

Consolidated Financial Statements of

Freeport Concrete Company Limited

Year ended August 31, 2003

Freeport Concrete Company Limited

Consolidated Financial Statements

Year ended August 31, 2003

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Freeport Concrete Company Limited as of August 31, 2003 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Chartered Accountants

Freeport, Bahamas
January 16, 2004

Freeport Concrete Company Limited

Consolidated Balance Sheet

August 31, 2003

	Note	2003	2002
Assets			
Current assets:			
Cash		B\$ 103,303	84,201
Time deposits	3	50,869	463,343
Accounts receivable, net	4	668,853	283,851
Inventories	5	3,626,079	3,572,417
Inventory of spare parts and supplies		88,569	173,480
Deposits and prepaid expenses		84,578	107,624
		<u>4,622,251</u>	<u>4,684,916</u>
Due from shareholder	6	170,871	162,294
Goodwill, net	7	65,816	200,375
Property, plant and equipment	8	3,015,893	3,106,078
		<u>B\$ 7,874,831</u>	<u>8,153,663</u>

Liabilities and Shareholders' Equity

Current liabilities:			
Bank overdraft	9	B\$ 783,512	782,617
Accounts payable and accrued expenses		2,419,875	1,519,404
Warranty provision		90,645	30,000
Due to shareholder	6	537,218	403,800
Business acquisition payable		–	206,250
		<u>3,831,250</u>	<u>2,942,071</u>
Minority interest		–	361
Shareholders' equity:			
Share capital	11	47,083	47,083
Contributed surplus		5,774,868	5,774,868
Appraisal excess	8	1,433,867	1,433,867
Accumulated deficit		(3,212,237)	(2,044,587)
		<u>4,043,581</u>	<u>5,211,231</u>
Commitments and contingencies	5 & 10		
		<u>B\$ 7,874,831</u>	<u>8,153,663</u>

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved on behalf of the Board of Directors on January 16, 2004 by the following:

Johannes F. Babak Director

Raymond Simpson Director

Freeport Concrete Company Limited

Consolidated Statement of Operations

Year ended August 31, 2003

	2003	2002
Sales, net of discounts	B\$ 16,686,612	11,697,824
Cost of sales (note 5)	(12,319,059)	(8,773,919)
Gross profit	4,367,553	2,923,905
Other expense/(income):		
Payroll related costs, including employee benefits and commissions (note 6)	2,675,483	2,503,711
Rent (notes 6 and 10)	502,317	484,917
Depreciation and amortisation	385,055	382,232
Advertising	355,355	408,178
Utilities, postage and delivery	314,380	270,021
Other operating costs	172,935	203,869
Bank charges and exchange	165,866	106,076
Legal and professional	142,274	196,777
Vehicle, maintenance and repairs	110,423	134,631
Bad debt expense	109,395	41,509
Licence fees and permits	104,506	109,501
Computer and office supplies	100,134	97,536
Product warranty	85,792	30,000
Business insurance	70,676	35,517
Travel, trade shows and entertainment	59,207	141,824
Donations	42,637	55,288
Security	37,003	80,282
Other income	(16,995)	(43,930)
(Gain)/loss on disposal of fixed assets	(3,020)	5,017
	5,413,423	5,242,956
Net loss from operations	(1,045,870)	(2,319,051)
Net financing expense	(121,780)	(49,322)
Minority interest	–	145,564
Net loss	B\$ (1,167,650)	(2,222,809)
Loss per share (note 13)		
Basic loss per share	B\$ (0.248)	(0.472)
Diluted loss per share	B\$ (0.248)	(0.472)

See accompanying notes to consolidated financial statements.

Freeport Concrete Company Limited

Statement of Changes in Shareholders' Equity

Year ended August 31, 2003

	Number of shares issued and issuable	Common share capital	Shares subscribed	Treasury shares	Contributed surplus	Appraisal excess	Retained earnings/ (accumulated deficit)	Total
Balance at August 31, 2001	4,708,334	B\$ 45,000	2,083	–	5,774,868	1,433,867	711,172	7,966,990
Dividends	–	–	–	–	–	–	(532,950)	(532,950)
Net loss	–	–	–	–	–	–	(2,222,809)	(2,222,809)
Treasury shares acquired	–	–	–	(710,001)	–	–	–	(710,001)
Treasury shares sold	–	–	–	710,001	–	–	–	710,001
Transfer	–	2,083	(2,083)	–	–	–	–	–
Balance at August 31, 2002	4,708,334	47,083	–	–	5,774,868	1,433,867	(2,044,587)	5,211,231
Net loss	–	–	–	–	–	–	(1,167,650)	(1,167,650)
Balance at August 31, 2003	4,708,334	B\$ 47,083	–	–	5,774,868	1,433,867	(3,212,237)	4,043,581

See accompanying notes to consolidated financial statements.

Freeport Concrete Company Limited

Consolidated Statement of Cash Flows

Year ended August 31, 2003

	2003	2002
Cash flows from operating activities:		
Net loss	B\$ (1,167,650)	(2,222,809)
Adjustment for:		
Minority interest	(361)	(145,564)
Depreciation and amortisation	595,417	551,284
Net financing expense	121,780	49,322
Bad debt expense	109,395	41,509
Provision for slow moving inventory	(5,339)	306,666
Product warranty	85,792	30,000
(Gain)/loss on disposal of fixed assets	(3,020)	5,017
Operating cash flow before changes in working capital	(263,986)	(1,384,575)
Changes in working capital items:		
Accounts receivable	(494,397)	272,581
Inventories	(48,323)	(1,277,428)
Inventory of spare parts and supplies	84,911	(136,669)
Deposits and prepaid expenses	23,046	(40,305)
Accounts payable and accrued expenses	875,324	1,007,851
Cash generated from operations	176,575	(1,558,545)
Net interest (paid)/received	(88,362)	11,723
Cash provided/(used) by operating activities	88,213	(1,546,822)
Cash flows from investing activities:		
Time deposit maturing more than three months after year end	-	610,000
Due from shareholder	(8,577)	(13,642)
Additions to property, plant and equipment	(370,673)	(809,349)
Share subscription receivable	-	390,000
Cash paid for acquisition of business assets of RH	-	(350,586)
Proceeds from sale of property, plant and equipment	3,020	-
Cash used by investing activities	(376,230)	(173,577)
Cash flows from financing activities:		
Acquisition payable	(206,250)	(1,200,000)
Loan from shareholder	100,000	400,000
Dividends paid on ordinary shares	-	(532,950)
Cash used by financing activities	(106,250)	(1,332,950)
Net decrease in cash and cash equivalents	(394,267)	(3,053,349)
Cash and cash equivalents at beginning of year	(235,073)	2,818,276
Cash and cash equivalents at end of year	B\$ (629,340)	(235,073)

See accompanying notes to consolidated financial statements.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements

Year ended August 31, 2003

1. General information

Freeport Concrete Company Limited ("the Company") is incorporated under the laws of the Commonwealth of The Bahamas and its shares are publicly held. The registered office of the Company is at The First Commercial Centre, 3rd Floor, Suite 9, East Mall Drive, Freeport, Grand Bahama, Bahamas. The Company made an initial public share offering ("IPO") on February 19, 2001, and net proceeds raised amounted to B\$4,292,493. The principal activities of the Company consist of the production and sale of aggregate and ready-mixed concrete, the retail sale of hardware, appliances and other consumer products. As of August 31, 2003 the Company had 117 employees.

In August 2001, the Company acquired the business assets of Builders Depot ("BD"). The Company operates from the premises previously occupied by BD under the trade name, The Home Centre, in Freeport, Grand Bahama. The Home Centre opened for business to the public in October 2001. This date marked the commencement of the Company's business activities involving the retail sale of hardware, appliances and other consumer products.

On September 8, 2001, the Company consummated an agreement to purchase 62.5% of the outstanding shares of Robin Hood Enterprises Limited ("RH"), a company operating in New Providence, Bahamas. On August 30, 2002, the Company purchased an additional 27.5% of the outstanding shares of RH for a total investment of 90% of the outstanding shares of RH. RH is in the business of purchasing and selling new and refurbished equipment and appliances.

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), promulgated by the International Accounting Standards Board, and the significant accounting policies are as follows.

(a) *Basis of preparation*

The consolidated financial statements are presented in Bahamian dollars (B\$) which is the measurement currency of the Company. They are prepared on the historical cost basis, except for land which is stated at directors' valuation.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

(b) *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiary, RH, which is controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of the enterprise so as to obtain benefits from its activities. The operating results of the subsidiary have been included from the date of each acquisition, being the date control commences. All significant intercompany balances and transactions have been eliminated in preparing the consolidated financial statements.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

2. Significant accounting policies, continued

(c) *Cash and cash equivalents*

The Company considers all cash on hand, demand deposits and fixed deposits with financial institutions maturing within three months of the balance sheet, less bank overdraft, as cash and cash equivalents.

(d) *Accounts receivable, net*

Accounts receivable are stated at historical cost less an allowance for doubtful accounts determined based on the policy of impairment in note 2(h).

(e) *Inventories*

(i) *Cement*

Cement inventory is stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out method.

(ii) *Aggregate*

Aggregate represents "pea rock" and "67 rock" which are materials produced by the Company and used in the production of ready mixed concrete. The Company's estimate of the quantity of aggregate on hand at year end is based on an independent survey performed by professional surveyors. Aggregate is stated at the lower of cost and net realisable value. Cost is determined based on direct production costs and an appropriate share of overheads based on normal operating capacity. Net realisable value is determined after considering the net sales price of the finished product which is ready mixed concrete. A write-down below cost is not made when the ready mixed concrete is expected to be sold above cost.

(iii) *Retail hardware and consumer products*

Retail hardware and consumer products are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Inventory provisions are made when in management's opinion, inventory items will have to be sold at amounts less than cost. Inventory provisions are calculated as the difference between net realisable value, as estimated by management, and cost.

(f) *Goodwill*

Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (refer to policy h). Amortisation of goodwill is charged to income on a straight-line basis over its estimated useful life of two and one half years. Goodwill is amortised from the date of initial recognition.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

2. Significant accounting policies, continued

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation, except for land which is stated at directors' valuation and is not depreciated. Depreciation is calculated on the straight-line basis over the estimated useful lives as follows:

Plant	10 years
Heavy equipment	5 years
Automobiles	3 – 5 years
Trailers	5 – 7 years
Store furniture and equipment	7 – 10 years
Office furniture and equipment	4 – 7 years
Leasehold improvements	the lesser of 10 years or the term of lease

Expenditures for maintenance and repairs are charged against income. Cost of renewals and improvements are added to property, plant and equipment. At the time of disposal or retirement of assets, the cost and related accumulated depreciation are eliminated, and any resulting profit or loss is reflected in statement of operations for the year.

(h) *Impairment*

The carrying amount of the Company's assets other than inventories {refer to policy (e)} are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of operations.

(i) *Share compensation plans*

Salary expense relating to shares granted to employees as part of a compensation plan is recognised in the period in which the employee provides the service and is recorded at the fair value of the shares as of the date the employee is entitled to receive the shares.

(j) *Accounts Payable*

Accounts payable is stated at cost.

(k) *Warranties*

The provision for warranties relates mainly to goods sold during the year ended August 31, 2003. The provision is based on estimates made by management from historical warranty data.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

2. Significant accounting policies, continued

(l) Minority interest

Minority interest represents the minority shareholders' ownership interest in the net business assets of RH, the Company's subsidiary. When the subsidiary has a net deficit position, and the minority shareholder does not have a binding obligation to make good the losses, this deficit position and any further losses of the subsidiary are charged to the Company.

(m) Treasury shares

When issued shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. When the Company later reissues them, the consideration received is recognised as a change in equity.

(n) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(o) Sales returns

The provisions for sales returns relates mainly to goods sold during August 2003. The provision is based on estimates made by management from historical sales return data.

(p) Revenue recognition

Revenue from the sale of inventory, aggregate and ready mix concrete is recognised at the point of sale.

(q) Operating lease payments

Payments made under operating leases are recognised as an expense on a straight-line basis over the term of the lease.

(r) Net financing (expense)/income

Net financing (expense)/income comprise interest payable on borrowings net of interest receivable on time deposits.

Interest income and expense are accounted for on the accrual basis.

(s) Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products (business segment), which is subject to risks and rewards that are different from other segments.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

2. Significant accounting policies

(t) Fair value disclosure of financial instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from attempting to realise, at one time, the Company's entire holdings of a particular financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Except for the amount due from shareholder whose fair value cannot be readily determined because it is interest free and/or repayment date is not known, the carrying amount of the Company's significant financial assets and liabilities approximate fair value because of one or all of the following reasons:

- (i) Immediate or short-term maturity
- (ii) Carrying value approximates market value

(u) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Time deposits

As of August 31, 2003, time deposits earned interest at 3.5% (2002: 4.00% to 4.50%) per annum. Time deposits include B\$50,000 (2002: B\$107,000) which is being held by the Company's bankers as security for letters of credit mentioned in note 10(b). All time deposits mature within 3 months of the balance sheet date. All time deposits are held with banks located in the Bahamas and are denominated in Bahamian dollars.

4. Accounts receivable, net

	2003	2002
Trade accounts	B\$ 962,126	507,844
Trade accounts – related party	20,968	7,456
Employee receivable and advances	40,332	16,180
	1,023,426	531,480
Less: allowance for doubtful accounts	(354,573)	(247,629)
	B\$ 668,853	283,851

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

4. Accounts receivable, net, continued

The movement in the allowance for doubtful accounts is as follows:

	2003	2002
Balance at the beginning of the year	B\$ 247,629	257,384
Increase in provision for bad debts	109,395	41,509
Write-offs	(2,451)	(51,264)
Balance at the end of the year	B\$ 354,573	247,629

5. Inventories

	2003	2002
Hardware and consumer products	B\$ 3,872,266	3,771,475
Aggregate	277,591	417,067
Cement	7,875	7,875
	4,157,732	4,196,417
Less provision for slow moving inventory	(531,653)	(624,000)
	B\$ 3,626,079	3,572,417

The movement in the provision for slow moving inventory is shown below and is included in cost of sales:

	2003	2002
Opening provision for slow moving and obsolete inventory	B\$ 624,000	317,334
(Decrease)/increase in provision	(5,339)	306,666
Write-offs	(87,008)	—
	B\$ 531,653	624,000

As of August 31, 2003, aggregate comprises 45,474 tons (2002: 67,988 tons, restated) of "pea rock" and "67 rock". When the aggregate is used in production or is sold, the Company has an obligation to pay the landlord B\$2.25 per cubic yard, in accordance with the agreement described in note 10. This future obligation has not been included in inventories and accounts payable.

6. Related party transactions

The balance due from shareholder (founding shareholder) is interest free and payable on demand. The original balance primarily represents 50% of the various costs incurred in connection with the equity issue mentioned in note 1, as outlined in the offering document. During 2002, the Company purchased a portable concrete batch plant valued at B\$110,000 from the founding shareholder. The purchase price was applied against the amount due from the founding shareholder. Subsequent to year end the founding shareholder paid B\$132,027 of the amount due.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

6. Related party transactions, continued

During 2002, a director and shareholder granted a loan to the Company of B\$400,000. During the year, an additional loan of B\$100,000 was granted. The amount due to shareholder does not have any stated repayment terms, incurs interest at 9% per annum and includes accrued interest of B\$37,218 (2002: B\$3,800).

Directors of the Company and their immediate relatives control approximately 43% (2002: 50%) of the voting shares of the Company.

The Company rents office space from a related party for an annual rent of B\$28,980 per annum. The related party is a company in which the founding shareholder has an equity interest.

The Company used the services of H&F Babak Construction Company to complete certain leasehold improvements to premises occupied by The Home Centre. These leasehold improvements are included in property, plant and equipment in note 8. This company is owned by the founding shareholder. Payments for such services amounted to B\$98,581 (2002: B\$187,247) and in the absence of a formal contract, the directors believe the business relationship to be arms length in nature.

Total executive remuneration included in "payroll related costs" including employee benefits and commissions is shown below.

		2003	2002
Directors' fees	B\$	55,000	25,000
Executive officers		538,794	568,200
	B\$	593,794	593,200

Included in the 2003 directors' fees are \$30,000 and \$25,000 respectively, relating to fees for the calendar years 2003 and 2002. The 2002 amount represents directors' fees for the year 2001. An executive officer is paid a commission of 1½ - 3% of sales (2002: 6% - 11% of purchases) made by RH which amounted to B\$199,650 (2002: B\$309,299) and is included in the executive officers' remuneration shown above.

7. Goodwill, net

		2003	2002
Balances at the beginning of the year	B\$	200,375	—
Additions through business combinations		—	338,100
Amortisation charge for the year		(134,559)	(137,725)
Balances at the end of the year	B\$	65,816	200,375

The amortisation charge is recognised in "depreciation and amortisation" in the consolidated statement of operations.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

8. Property, plant and equipment

Cost:

	2002	Additions	Disposals	2003
Land				
(at directors' valuation) B\$	1,521,000	–	–	1,521,000
Plant	731,000	41,704	–	772,704
Heavy equipment	1,371,059	31,974	–	1,403,033
Automobiles	189,607	56,919	(9,597)	236,929
Trailers	16,859	8,379	–	25,238
Store furniture and equipment	325,753	23,361	–	349,114
Office furniture and equipment	219,413	56,095	(996)	274,512
Leasehold improvements	458,218	152,241	–	610,459
	B\$ 4,832,909	370,673	(10,593)	5,192,989

Accumulated depreciation:

	2002	Charge	Disposals	2003
Plant	B\$ 529,883	62,627	–	592,510
Heavy equipment	881,991	176,809	–	1,058,800
Automobiles	74,338	41,119	(9,597)	105,860
Trailers	16,859	1,396	–	18,255
Store furniture and equipment	105,964	60,906	–	166,870
Office furniture and equipment	86,227	67,190	(996)	152,421
Leasehold improvements	31,569	50,811	–	82,380
	B\$ 1,726,831	460,858	(10,593)	2,177,096

Net book value:

	2003	2002
Land	B\$ 1,521,000	1,521,000
Plant	180,194	201,117
Heavy equipment	344,233	489,068
Automobiles	131,069	115,269
Trailers	6,983	–
Store furniture and equipment	182,244	219,789
Office furniture and equipment	122,091	133,186
Leasehold improvements	528,079	426,649
	B\$ 3,015,893	3,106,078

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

8. Property, plant and equipment, continued

The director's valuation of land is based on an appraisal as of August 31, 2000 by Mr. Bert E. Lightbourne, Member of the Bahamas Real Estate Association and the American Society of Professional Real Estate Appraisers, of Freeport, Grand Bahama, of the market value of the land. The excess of this valuation over the cost of the land is reflected as "appraisal excess" in the consolidated balance sheet. The land comprises 126.75 acres located in the East Airport Zone of Freeport, Grand Bahama, and is intended to be used by the Company for future quarrying operations.

During the prior year, the Company acquired a used portable concrete batch plant from the founding shareholder as outlined in note 6. The plant was not in use during the year and has a carrying value of B\$110,000 as of the end of the year.

Depreciation expense on certain plant assets and equipment amounting to B\$210,362 (2002: B\$169,052) has been included in cost of sales.

9. Bank overdraft

The bank overdraft bears interest at 9% per annum and is secured by a first floating charge debenture stamped for B\$1,040,000 over the Company's land and all of its business assets. The overdraft facility limit is B\$1,300,000.

10. Commitments and contingencies

(a) Leases

Ready-mixed concrete operations

The Company was party to an agreement to lease approximately 25 acres of land in the Heavy Industrial Area of Freeport for a 7½ year period. Certain limestone rock dredged from the Freeport Harbour has been deposited on this land. The lease agreement expired on December 31, 2001. No new written agreement has been executed between the Company and the landlord. The Company has received verbal assurance that they can continue to occupy the land under similar terms of the old lease agreement. In the event that a satisfactory lease is not negotiated, the Company may be required to move its aggregate inventory and relocate its concrete operation. In doing this, the Company will incur relocation and business interruption costs.

This limestone rock is used by the Company to produce sand and aggregate which it uses to produce ready-mixed concrete. The rent payable is B\$0.25 per cubic yard of limestone rock utilised by the Company but in no event shall the quarterly rent be less than B\$2,000. Under the agreement referred to in the preceding paragraphs, the Company is also required to pay B\$2.25 per cubic yard of limestone rock utilised with a minimum of B\$18,000 per quarter.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

10. Commitments and contingencies, continued

(a) Leases, continued

Ready-mixed concrete operations, continued

Commencing January 1, 2003, the Company shut down the aggregate production facility used to produce aggregate and sand for use in the ready mix production process. The aggregate production plant resumed activities in September 2003. During 2003, management made a decision to recrush part of the "67 rock" in order to produce "pea rock" and sand.

Hardware and consumer products operations

As part of the acquisition of the business assets of BD in August 2001, the Company entered into a lease agreement whereby it agreed to lease the premises previously occupied by BD for a period of 10 years with an option to renew for another 10 years. The Company was granted the option to purchase the premises. The option is exercisable at the end of the third year of the lease commencing August 15, 2001 and the end of every twelve month period thereafter during the continuation of the lease. The purchase price is to be B\$3.5 million less 2% per annum starting from June 1, 1998. The Company has assigned this option to a shareholder.

The leased premises referred to in the previous paragraph are occupied by the Company's retail merchandising operations in Freeport, which operates under the trade name, The Home Centre. The lease calls for monthly lease payments with adjustments thereof annually to reflect the increase and decrease in the annual average of the United States Consumer Price Index All Urban Consumers, US City Average for the preceding twelve months but in no event to be less than B\$306,000 per annum. The annual rent is to be paid monthly in advance. Rent expense incurred during the current year amount to B\$314,921 (2002: B\$300,500).

The Company's subsidiary, RH, is party to agreements for lease of premises on Soldier Road and Harold Road in Nassau from which it operates. Lease payments for the Soldier Road premises are B\$2,000 per month, however, there is no existing formal agreement and this store was closed in September 2003. Monthly lease payments for the Harold Road premises are B\$7,538 plus common area maintenance fees of B\$1,600 per month, for a period of 5 years terminating in September 2006 with an option to renew for another 5 years. Rent expense incurred during the current year for Soldier Road and Harold Road locations amount to B\$24,000 (2002: B\$24,000) and B\$134,416 (2002: B\$146,615), respectively.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

10. Commitments and contingencies, continued

(a) Leases, continued

Administrative offices

The Company leases administrative office space from a related party for an annual rent of B\$28,980 per annum. The lease expires on December 31, 2004.

The approximate future minimum annual lease payments under non-cancellable leases are as follows:

2004	B\$	431,430
2005		406,110
2006		366,300
2007		306,000
2008		306,000
Thereafter		918,000
	B\$	2,733,840

(b) Credit facilities

The Company is contingently liable under stand-by letters of credit amounting to B\$50,000, a customs bond guarantee of B\$20,000 and corporate visa of B\$20,000. These credit facilities are collateralized by a fixed and floating charge over the Company's land and inventory stamped for B\$1,040,000. The maximum amount of the letter of credit facility is B\$50,000. The Company has available a B\$1,300,000 (2002: B\$1,000,000) overdraft facility of which B\$783,512 (2002: B\$782,617) has been used.

(c) Litigation

The Company is involved in various legal proceedings, claims and investigations related to products sold by the Company and employee matters. Based on information provided by the Company's legal counsel, in management's opinion, the ultimate disposition of these matters will not have a material effect on the Company's financial condition, in excess of the provisions that have already been recognised.

(d) Other contingencies

As mentioned above, in the event that a satisfactory lease for the Company's ready-mixed concrete operations is not negotiated, the Company may be required to move its aggregate inventory and relocate its concrete operation. In doing this, the Company will incur relocation and business interruption costs.

11. Share capital

The Company has an authorised share capital of 20,000,000 shares with par value B\$0.01 per common share.

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

12. Dividends

During the prior year, the Company paid a dividend of B\$0.11 per share to shareholders of record on December 18, 2001.

13. Loss per share

Loss per share is calculated by dividing net loss for the year by the weighted average number of shares issued and outstanding and the diluted effect of share options outstanding during the respective years.

	2003	2002
Net loss applicable to ordinary shares	B\$ (1,167,650)	(2,222,809)
Weighted average number of ordinary shares outstanding	4,708,334	4,708,334
Weighted average number of ordinary shares outstanding, assuming full dilution for options	4,708,334	4,708,334

14. Segment reporting

Segment reporting is presented in respect of the Company's business segments. The primary format is based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Company operates in the Bahamas only, in two business segments comprising aggregate and ready-mixed concrete, and hardware and consumer products. Unallocated assets comprise "share subscription receivable" and "due from shareholder". Unallocated liabilities comprise "business acquisition payable", "due to shareholder" and other acquisition costs included in "accounts payable and accrued expenses".

The table below summarises business segment information expressed in B\$000's.

	Aggregate and ready-mixed concrete		Hardware and consumer products		Total 2003	Total 2002
	2003	2002	2003	2002		
Revenue	B\$ 2,803	2,533	13,884	9,164	16,687	11,697
Direct costs						
Materials used/ merchandise sold	(1,284)	(1,009)	(10,018)	(6,390)	(11,302)	(7,399)
Payroll related	(512)	(590)	-	-	(512)	(590)
Equipment	(114)	(156)	-	-	(114)	(156)
Depreciation	(210)	(169)	-	-	(210)	(169)
Utilities	(186)	(152)	-	-	(186)	(152)
	(2,306)	(2,076)	(10,018)	(6,390)	(12,324)	(8,466)
Movement in provision for slow moving inventory	-	-	5	(307)	5	(307)
Gross profit	497	457	3,871	2,467	4,368	2,924

Freeport Concrete Company Limited

Notes to Consolidated Financial Statements, Continued

Year ended August 31, 2003

14. Segment reporting, continued

	Aggregate and ready-mixed concrete		Hardware and consumer products		Total	Total
	2003	2002	2003	2002	2003	2002
Net operating expense	(690)	(563)	(4,723)	(4,680)	(5,413)	(5,243)
Segment result	(193)	(106)	(852)	(2,213)	(1,045)	(2,319)
Net financing income/(expense)	6	48	(128)	(97)	(122)	(49)
Minority interest	–	–	–	145	–	145
Net loss	B\$ (187)	(58)	(980)	(2,165)	(1,167)	(2,223)
<i>Other information:</i>						
Segment assets	B\$ 2,856	3,434	4,848	4,545	7,704	7,979
Unallocated assets	–	–	–	–	171	162
Total assets	B\$ 2,856	3,434	4,848	4,545	7,875	8,141
Segment liabilities	B\$ 421	359	2,873	1,961	3,294	2,320
Unallocated liabilities	–	–	–	–	537	610
Total liabilities	B\$ 421	359	2,873	1,961	3,831	2,930

15. Subsequent events

During October 2003, the Company commenced production of “pea rock” and sand for use in its ready-mixed concrete production process.

In September 2003, the RH Soldier Road store was closed.

16. Going concern

During the current year, the Company incurred a net loss of B\$1,167,650 (2002: B\$2,222,809) and a net operating cash deficiency before working capital requirements of B\$263,986 (2002: B\$1,384,575).

The Company’s ability to continue as a going concern is dependent on attaining future profitable operations and/or obtaining additional funding from the Company’s shareholders or bankers.

Management’s plans to return the Company to profitability include:

- Increase sales as was done during fiscal 2003
- Increase gross profit margins
- Control of discretionary costs

The directors consider management’s plans and the positive results subsequent to year end to be an indication that the Company will continue in operational existence for the foreseeable future and have satisfied themselves that the Company will meet its foreseeable cash requirements. Accordingly, the directors feel that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

17. Corresponding figures

Certain corresponding figures for 2002 have been reclassified to conform with the presentation adopted in 2003.