

S.L. HORSFORD & CO. LIMITED (ST. KITTS)

RESEARCH REPORT



INVESTMENT BANKER:
BANK OF SAINT LUCIA LIMITED
MAY 2004

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EXECUTIVE SUMMARY

S.L. Horsford & Co. Ltd. (SLH) founded in 1875 was incorporated in 1912. Shares to the general public were first issued in 1990, signifying its conversion to a public company. Today, the company is a highly diversified business establishment involved in multiple trading, service and manufacturing activities through its various departments and subsidiary companies. It has traded profitably since its incorporation. SLH's major strengths are its efficient use of information technology (as reflected in its management information systems), economies of scale, strong branding of its products & services and product quality.

SLH, comprising of several operational departments and subsidiaries, operates in both St. Kitts and Nevis. Products and services traded include, building materials, hardware, furniture, appliances, food, cars, trucks, insurance, shipping, vehicle rentals, hire purchase and consumer credit. The key brands and principals represented include, IGA, Nissan, Kia, Hyundai, Geest Line, Avis Rent a Car, NEMWIL, ORGILL Brothers Inc., General Electric Corporation and Trinidad Cement Limited.

Actively trading subsidiary companies are Ocean Cold Storage (St. Kitts) Ltd – (Food and dry goods distributor), and S.L. Horsford Finance Co. Ltd – (automobile rentals and sales). Associate companies include St. Kitts Masonry Products Ltd, 50% owned – (manufacturers of concrete blocks, paving stones and ready mix concrete), Carib Brewery (St. Kitts and Nevis) Ltd, 20% owned – (produces beer and related beverages for the St. Kitts/Nevis and CARICOM markets) and St. Kitts Developments Limited, 30% owned – (involved in the development of housing sites on 200 acres of land at Half Moon Bay, St. Kitts).

SLH's Board of Directors and senior management are highly qualified and experienced. They comprise principally of the majority shareholder families. The ownership structure of SLH is 56% owned by the Directors, 1% by employees (excluding directors), 31% by individuals, 8% by Corporations and 4% by Institutions.

SLH's Historical Highlights

Date	Activity
1875	Geo Bennett & Co. of Antigua opened a branch in St. Kitts
1880	Traded under the name 'Estates Agency Depot' a partnership created between Geo Bennett and John Berkeley, a planter of St. Kitts
1885	Mr. Samuel Horsford purchased Estate Agency Depot and started trading under the name S.L Horsford (SLH)
1912	SLH was registered under the Company's Act of 1884 (No. 20 of 1884) of the Leeward Islands.
1929	Shares of S. Horsford purchased by Mr. B. Marshall, who maintained the name
1951	SLH paid its first dividend to its shareholders
July of 1990	SLH became a public company incorporated in St. Kitts and Nevis under the Companies Act 1884. (No 20 of 1884) of the Leeward Islands and re-registered as a company with limited liability under the provisions of the Companies Act (No. 22 of 1996).
Sept. of 1990	First Share issue - 4,000,000 Ordinary Shares of \$1.00 each per share. The main purpose of the offering was to enable the general public in St. Kitts-Nevis, employees and customers of the Company to participate in the progress and profitability of SLH. The issue was used to assist with the financing of the capital expansion programme of the Company.
1993	Second Share Issue – 2,600,000 Ordinary Shares of \$1.00 each per share. The main purpose of the offering was to assist SLH with the financing of the second phase of the Commercial Centre constructed at Wellington Road.
1998	Highest profit (after tax) of 2.3M was achieved in that year
1999	Third Share issue – 5,000,000 Ordinary Shares of \$1.00 each per share. The main purpose of the issue was to assist with the expansion and growth of the SLH Group.
1999- 2001	Restructure the SLH Group and finance capital projects – Valu Mart Supermarket, modernized existing premises (Building & Hardware, Nevis and Furniture plants).

The performance of the economy of St. Kitts and Nevis has in the recent years declined as reflected in real GDP growth for 2002 of -0.8%, compared to 2.3% in 2001 and 6.2% in 2000.¹ The decline in the economy was mainly due to the poor performing sectors of agriculture (sugar) and tourism, on which the St. Kitts & Nevis economy is strongly dependent. The decline in the sectors was influenced by September 11 terrorist attacks in the USA and by the recent hurricanes.

SLH has been operating reasonably well, with an asset base of EC\$125 million and annual turnover of EC\$103 million as at September 30, 2003. SLH's overall financial performance has been satisfactory, characterized by a mixture of good and bad performance. Profitability of the Group had declined significantly in 2001, which was mainly due to the economic climate. Profit performance reversed in 2002, with profits for 2002 increasing by 811% over 2001 figures, \$0.157M in 2001 to 1.430M in 2002. This was as a result of restructuring

¹ ECCB annual Report 2002/03

programmes implemented by SLH during the period 1999 to 2001. The programmes include Valu Mart Supermarket, Nevis Center and modernized building & hardware and furniture plants. Due to a marginal decrease in sales, profits for the period ending September 2003 decreased marginally by 2% from that of the previous year. This is attributable to the loss of the distribution contract for Carib Brewery (St. Kitts & Nevis) Ltd as well as a further slow down in the economy.

SLH's sales/revenue for the last ten years experienced an averaged growth rate of 8.5%. The main business lines contributing significantly to revenue growth were building materials, hardware, furniture, Nevis and Valu Mart Supermarket, accounting for almost 65% of revenue. The Company's levels of efficiency in the use of its fixed assets and the effective management of its trade payables and receivables have been satisfactory.

SLH's financial leverage is satisfactory, long-term debt to equity as at 2002 was 63:37 and further improved to 43:57 in 2003. SLH has maintained an excellent dividend payout history. The company has paid a dividend every year from 1951. From the period 1989 to 1998, the company paid its shareholders a dividend return of 6% per annum. This dropped to 1.2% in 2001, but the dividend improved in 2002 to 3.5%. Expected returns to investors for the next five years are estimated to average 4%.

SLH has recognized the need to become more aggressive, proactive and strategic to respond to the global changes that are impacting on the economy and business environment.

The following projections are provided for the next five years:

INDICATOR	2004	2005	2006	2007	2008	Average
Earnings Per Share (EPS)	\$0.07	\$0.08	\$0.09	\$0.11	\$0.11	\$0.09
Dividend Per Share (DPS)	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Return on Par Value \$1.00	4%	4%	4%	4%	4%	4%

The current book value and par value of SLH shares are \$1.98 and \$1.00 respectively as at September 30, 2003. The method used to assess the value of SLH and to determine the future performance of the company over the next five years was the Free Cash Flow Discount Model. Based on this valuation model, a total equity value of \$62,772,136 and a share value of \$2.08 were derived.

Given the findings of this research report, the writers believe that SLH, as a mature company, has the potential for stable growth, which will be reflected in a constant stream of returns to shareholders as demonstrated in its past performances.

1. BUSINESS DESCRIPTION

1.1 HISTORY OF S. L. HORSFORD & COMPANY LTD (SLH)

The business was founded in 1875 when the Firm of Geo. W Bennett & Co of St. John's, Antigua opened a branch in Basseterre, St. Kitts. Mr. Samuel Lamartine Horsford who was at the time the Accountant at Geo. W Bennett & Co. was appointed as Manager of the St. Kitts branch. In February of 1880, the business traded under the name "The Estates Agency Depot" and was a partnership between Messrs Geo. W. Bennett & Co. and Mr. John Hardman Berkeley, planter of Shadwell Estates, St. Kitts.

In 1885, Mr. Samuel Lamartine Horsford purchased the business from its previous owners and started trading as S.L. Horsford & Company (SLH). On 31 January 1912, the company was registered on the island of St. Kitts under the Companies Act 1884 (No. 20 of 1884) of the Leeward Islands.

In January 1929, Mr. B. Marshall purchased the shares owned by the late Mrs. Alberta Augusta Horsford (widow of Mr. S.L. Horsford Dec'd) and the four surviving offspring of Mr. & Mrs. Horsford.

SLH became a public company on 30 July 1990 under the Companies Act 1884 (No. 20 of 1884) of the Leeward Islands and re-registered as a company with limited liability under the provisions of the Company Act 1996 (No. 22 of 1996). The company is owned 56% by Directors, 1% by Employees (excluding directors), 32% by private individuals, 8% by Corporations and 4% by other institutions. The company is now the second largest conglomerate in the country with annual turnover of approximately EC\$103 million and a total asset base of EC\$125 million dollars as at 30 September 2003. SLH is a domestic retailer of building materials, hardware, food, furniture, appliances, automobiles and vehicle parts. They also act as agents for a number of shipping lines and insurance companies. Through its subsidiaries, SLH is involved in wholesale food distribution and automotive rentals.

SLH has traded profitably from its incorporation in 1912. Dividends have been paid to shareholders every year since 1951.

1.2 CORPORATE & MANAGEMENT STRUCTURE

1.2.1 *CORPORATE GOVERNANCE/BYE-LAWS*

The Board of Directors has general responsibility for governance of the Company. SLH has established documented Governance policies setting out the role and responsibilities of the Board of Directors. Board meetings are held at least every two months to review policy issues, major capital expenditure budgets and accounts. The Board is made up of eleven directors and a minimum of five is required to constitute a quorum. Appointments are made in accordance with the

Articles of Association. At annual general meetings, one-third of directors, comprising the longest serving directors, are due to retire from office, but shall be eligible for re-election. Currently, seven members of the Board are representatives of the two families holding majority interest, approximately 77% of the Company's shares. The other four directors represent the general minority shareholders.

The Managing Director is appointed by the Board of Directors and assumes the role of Chief Executive Officer (CEO). The CEO is responsible for the management of the Company and reports to the Board of Directors. Four members of the Board, inclusive of the Managing Director, are currently holding executive positions in the Company. An Audit Committee comprising members of the Board has been established as a standing committee to review accounting and control systems, recommend appointment of auditors, ensure timely submission of audited financial statements and review Auditor's Management Letters.

The Company is permitted by the Company Act 1996 to redeem or purchase any of its shares, increase or reduce the stated capital, issue any part of the capital whether original, redeemed or increased with or without preference, priority or special privilege or subject to any postponement of rights. Directors holding office currently own a total interest of 56% in the Company.

1.2.2 DIRECTORATE

Mr. William A. Kelsick, OBE – Chairman

Mr. Kelsick joined the Company on March 01, 1944 as an Accountant and was appointed Managing Director on 08 March 1955 and as Chairman on 13 August 1990.

Mr. Calvin L. Wilkin, MBE

Mr. Wilkin joined the Company on 8 February 1943 and appointed Company Secretary on March 1955 and Executive Director on 27 July 1983, and Deputy Chairman on 13 August 1990. Mr. Wilkin is retired but still serves as director.

Mr. W. Anthony Kelsick - BA. B. Comm., CA (Canada)

Mr. Kelsick joined the Company on 01 July 1982 as Financial Controller and was appointed as Financial Director on 28 July 1989 and Managing Director on 13 August 1990.

Mr. Donald L. Kelsick - BA, HBA

Mr. Kelsick joined the Company on 1 October 1996 as Executive Director. Mr. Kelsick has responsibility for overseeing the operations of the Building Center, Shipping and Insurance Departments, Furniture, Showroom and Texaco Gas Stations. He holds an Honours Business Administration degree from the University of Western Ontario.

Mr. Mark Wilkin - BA, MBA

Mr. Wilkin is the Managing Director of Carib Brewery (St Kitts and Nevis) Limited. Mr. Wilkin was formally employed by the Group from 1991 to 2003. He holds an MBA from the University of Keele - England.

Mr. Chris Martin – BA, MBA (Florida)

Mr. Martin joined the Group in 1991 and holds the post of Executive Director with responsibility for the management of the Nevis Center from 1993. Mr. Martin holds an MBA from the University of Miami, Florida.

Mr. Dennis S. Blake - DICTA

Mr. Blake is a Retired Business Executive. He was the Manager – Car Rental of SL Horsford Finance Company Ltd.

Vernon Mallalieu

Mr. Mallalieu is a Retired Business Executive. He was the Chief Executive Officer of K. J. Mallalieu & Sons.

Rosemarie Matheson

Ms. Matheson is a Manager of Four Seasons Resort (Nevis).

Malcolm C. Kirwan- BA, MBA

Mr. Kirwan is the Vice President of Business and Financial Affairs and an Associate Professor of Management at the University of the Virgin Islands.

Adrian Lam – B.Comm

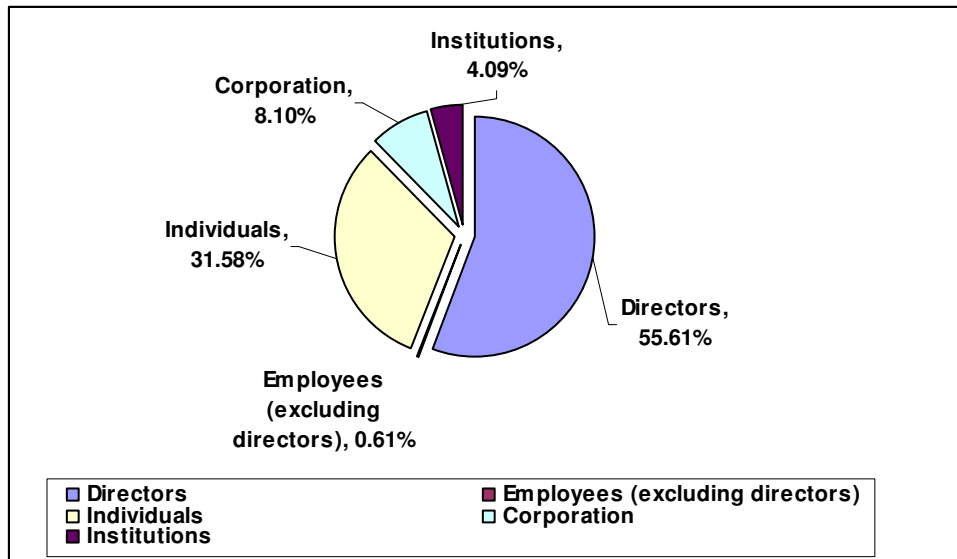
Mr. Lam is the Manager for Walls Deluxe Record and Bookshop. He holds a Bachelor of Commerce from St. Mary's University, Canada.

CORPORATE SECRETARY

Judith P. Ng'alla - FCCA

Ms. Ng'alla has been Corporate Secretary for the Board since 1998. She also has responsibility for the management of Horsford's Bank facilities and the supervision of SLH's Credit Department operations. Ms. Ng'alla is a qualified certified accountant (FCCA).

1.2.3 OWNERSHIP STRUCTURE



1.2.4 COMPANY INFORMATION

Registered Office

Marshall House, Independence Square West
Basseterre, St. Kitts, West Indies

Attorneys

Kelsick, Wilkin and Ferdinand
Independence Square South, Basseterre, St. Kitts

Auditors

Pannell Kerr Forster
Chartered Accountants
Independence Square North, Basseterre, St. Kitts

Bankers

Royal Bank of Canada, St. Kitts
Barclays Bank PLC, St. Kitts and Nevis

1.3 CORPORATE INFORMATION

1.3.1 MISSION STATEMENT

To be the premier provider of consumer products and related services at very affordable prices to the St. Kitts & Nevis market.

1.3.2 VISION

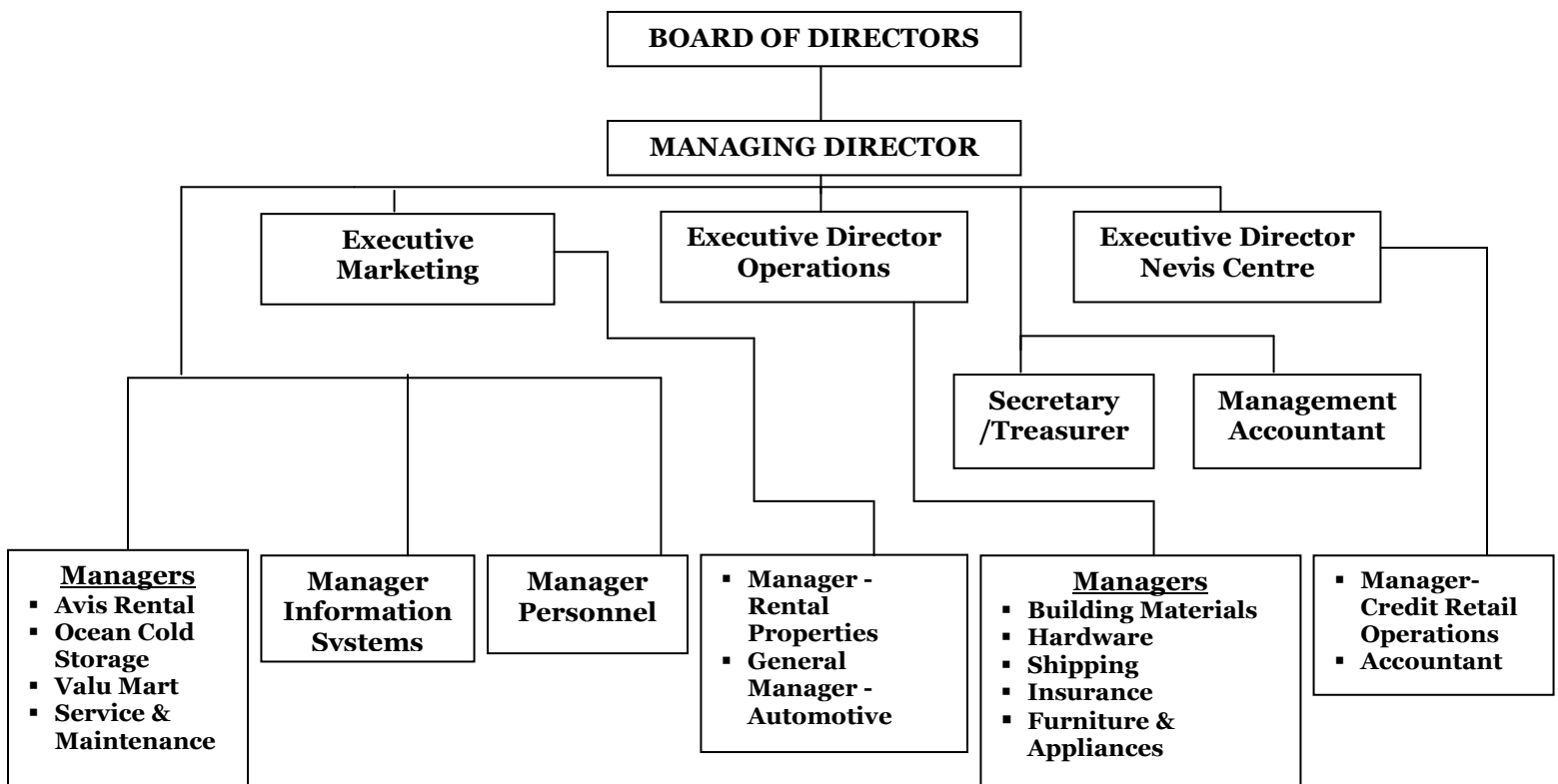
- a) To achieve an acceptable level of growth and profitability, so that a satisfactory level of return is paid to shareholders.
- b) To provide a comfortable working environment for employees, through the provision of training and related developmental programs.
- c) To provide a full range of quality consumer products and related services to St. Kitts and Nevis at affordable prices.
- d) To be a good corporate citizen.

1.3.3 CORPORATE STRATEGY

- a) Development of further strategic alliances with reputable value-added enterprises.
- b) Maximization and promotion of existing strengths such as assortment, locations and pricing.
- c) Improvement of inventory turnover to minimize dependence on debt capital.
- d) Debt reduction.
- e) Continual training of staff to ensure efficient customer service.
- f) Management of costs and expenditures.
- g) Use of Information Technology and the internet to provide optimal efficiencies and strategic advantages.

1.4 MANAGEMENT STRUCTURE

S. L. Horsford & Company's Organizational Structure includes the Board of Directors, Executive Directors and a combination of Senior and Middle/Line managers. The structure is as follows:



SLH's senior management team comprises eight highly experienced professionals four of whom are Executive Directors. The Executive Directors are William Kelsick, W. Anthony Kelsick, Managing Director; Donald Kelsick, Executive Director (Operations Manager); Valentine Monish, Executive, Marketing and Chris Martin, Executive Director (General Manager- Nevis Center). Other senior managers include Hazarie Ramoutar (Management Accountant), Judith Ng'alla (Secretary and Treasurer) and Warren Seetahal (Manager Information Technology), all report to W. Anthony Kelsick. The senior management team is assisted by 16 middle or line managers, with responsibilities for profit centers and head office activities.

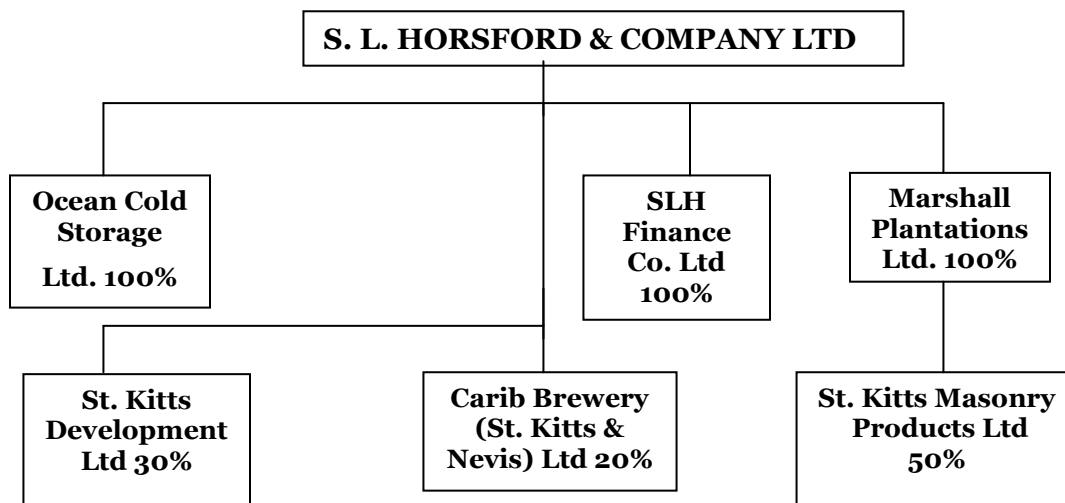
1.4.1 HUMAN RESOURCE

The SLH employs approximately 300 persons, including management. The Company's wages are above the minimum wage level and the level of unionization is very low. Floor and office level workers are provided with basic on-the-job training. This is supported by technical training provided by the Personnel and Information Technology Departments and by key suppliers. The level of absenteeism, accidents and staff turnover are very low and compare favorably with international norms.

1.5 SUBSIDIARIES & ASSOCIATED COMPANIES

SLH's organization comprises a parent company with three wholly owned subsidiaries and three associated companies (20.1% to 50% ownership). The parent company maintains various lines of business and acts as the holding company for the subsidiaries and associated companies. Within the parent company, there are fourteen eleven (11) departments or profit centers in St. Kitts, one (1) cost center (head office administration), and one (1) division (Nevis Center).

SLH Organizational Chart:



1.5.1 SUBSIDIARIES

Ocean Cold Storage (St. Kitts) Limited

Ocean Cold Storage (St. Kitts) Limited is engaged in the distribution of foodstuff, general merchandise distribution and acts as commission agents, through its wholesale facilities.

S. L. Horsford Finance Company Limited

S. L. Horsford Finance Company Limited offers automobile rentals through the Avis Rent a car franchise.

Marshall Plantations Limited

Marshall Plantations Limited formerly owned and operated sugar estates. Currently the company owns 50% of the shares of the St. Kitts Masonry Products Limited.

1.5.2 ASSOCIATED COMPANIES

St. Kitts Masonry Products Limited

A 50% joint venture owned through its subsidiary company, Marshall Plantations Limited. This Company, located at new facilities at Canada Estate, manufactures concrete blocks, paving stones and ready mix concrete.

St. Kitts Developments Limited

St. Kitts Developments Limited owns over 200 acres of lands at Half Moon Bay. The company is engaged in developing these lands in phases that involve putting in the infrastructure and offering fully serviced housing lots to the public.

Carib Brewery (St. Kitts & Nevis) Limited

Carib Brewery (St. Kitts & Nevis) Limited produces beer and related beverages for the St. Kitts/Nevis and CARICOM markets. SLH is no longer involved in the distribution of Beer.

1.6 PRODUCTS & SERVICES

SLH is a diversified company involved in multiple trading, service and manufacturing activities through its various departments, subsidiaries and associated companies.

The products and services are summarized below:

Building materials/Hardware materials (Building Center)

SLH provides a full line of major building material and hardware items.

Furniture & Appliances

SLH has a furniture store offering a wide range of furniture and appliances on hire purchase credit terms.

Automotive

The Company offers used and new Japanese vehicles, parts and servicing.

Sugar

Distributors of sugar produced by the St. Kitts Sugar Manufacturing Company.

Texaco Gas Station

Retailer of Gasoline and other related products under the Texaco Brand.

Insurance

Agents for N. E. M. (West Indies) Insurance Limited offering the full line of general and automobile insurance.

Shipping

Agents of Geest Lines and Bernuth Lines, several Cruise lines and several Inter-island vessels.

Valu Mart

A full service supermarket in St. Kitts operating under the IGA brand franchise.

Nevis Center

Nevis Center commenced operations in June 1993. It is engaged in the trading of building materials, builders & household hardware, furniture & appliances, vehicles, spare parts and hire purchase sales.

1.7 MANAGEMENT INFORMATION SYSTEMS

SLH has made significant investments in its management information systems. The company recognizes that information technology is an important factor in positioning itself in a competitive environment, for the delivery of quality service to its customers. Computer software suitable to the needs of the company, with point of sale front-end capabilities and real time processing were identified and installed, providing automated inventory counts and re-order facilities linked to various product suppliers.

The software is a Unix based system equipped with suitable audit trails to track both system and data errors with adequate built in security and integrity checks.

The Company has sourced adequately trained and qualified information technology personnel for the management of its computer system.

The reporting system is quite efficient and assists in providing management with timely and accurate information for quick decision-making. The investment in a well functioning IT system has already manifested in the improved returns reported for financial year 2001/2002. The Company launched its website at HORSFORD.COM with full online shopping, purchasing and other customer service information in 2003.

1.8 CAPITAL STRUCTURE AND DIVIDEND POLICY

1.8.1 CAPITAL STRUCTURE

Authorized share capital	50,000,000
Issued and fully paid	30,148,430
Stated share par value	\$1.00

Issued Share Capital history for the past five years (1998 to 2002):

	1999	2000	2001	2002	2003
Issued Share Capital ('000) (at \$1 each)	25,148	29,465	29,533	29,540	30,148

1.8.2 DIVIDEND POLICY

SLH's Dividend Policy is to pay a dividend each year to shareholders of approximately 50% of Net Profit After Tax.

Dividend history for the past five years (1999 to 2003)

	1999	2000	2001	2002	Proposed 2003
Dividend Payout	54%	61%	235%	72%	75%
Dividend per share	\$0.045	\$0.038	\$0.012	\$0.035	\$0.035
Return on Par Value (\$1.00)	4.5%	3.8%	1.2%	3.5%	3.5%
Dividend \$'000	\$1,132	\$1,105	\$369	\$1,034	\$1,055

Dividends for period ending September 2003 are only proposed.

To maintain its policy of paying dividends each year, in 2001, the Parent Company profits were used for the payment of dividends.

2.0 OPERATING ENVIRONMENT

2.1 ST. KITTS & NEVIS (GOVERNMENT)

The Federation of St. Kitts and Nevis is situated at the northern end of the Caribbean chain and is one of the Leeward Islands. It gained independence from Great Britain in 1983, and is now governed by an eleven-member House of Assembly. The Prime Minister is Dr. The Honorable Denzil Douglas, leader of the St Kitts/ Nevis Labor Party. The St. Kitts & Nevis Government is based on the constitutional monarchy with Westminster-style parliament.

2.2 ECONOMY¹

The St. Kitts and Nevis economy has traditionally depended on the growing and processing of sugarcane. For many years, the sugar industry was the main contributor to economic activity, with sugar being exported to the United Kingdom (UK) and to the United States of America. However, decreasing world prices have hurt the industry in recent years, thus reducing its significance to overall economic growth. Additionally, the Government has concentrated on diversifying the economy, with tourism, construction, financial services, information & communications technology and non-sugar agriculture, developing as important areas of economic activity. In particular, the tourism sector has grown rapidly over the last decade and has emerged as the dominant sector in St. Kitts and Nevis, accounting for a major source of income and employment.

Real Gross Domestic Product (GDP) growth in St. Kitts and Nevis averaged approximately 3.9% during the period 1997-2001 compared with 4.7% over the previous five years, 1992-1996. This downward trend continued with the deceleration in 2002. Real GDP in 2002 slowed to 0.8% from 2.3 % in 2001 and 6.2 % in 2000.² The deceleration in growth was influenced mainly by hurricanes, which impacted negatively on the agricultural and tourism sectors, as well as the global economic slowdown. As a result of the hurricanes, activity in the construction sector over the past ten years was strong, and led to the sector emerging as the major contributor to GDP, particularly during the period 1998-2000. Growth in the sector was strong, especially in 1999 and 2000, when the sector grew from 12.6% to 29.2% respectively.

2.2.1 *SECTORAL DEVELOPMENTS*

Agriculture

The agriculture sector in St. Kitts and Nevis is divided into sugar and non-sugar agriculture. Non-sugar agriculture is sub-divided into the crops, livestock, forestry and fishing sub-sectors. During the period 1997 – 2001, the agriculture sector contributed an average of 3.7% to GDP. This sector experienced growth of 13.3 per cent in 2002, the second consecutive year of increase. This increase was

¹ Source – ECCB Economic Review March 2002 and Ministry of Finance (St. Kitts)

influenced by higher outputs of both sugar cane and non-sugar cane crops. Production of sugar cane grew by 7.6 per cent, while value added in non-sugar cane rose by 33.8 per cent.³ This was attributed to increases in both vegetable and livestock production. However, overall, agriculture's share of GDP continued to exhibit a downward trend, falling from 6.8% in 1997 to 5.0% in 2001. The output of non-sugar agricultural produce is expected to expand rapidly in response to increased demand from the tourism sector in particular.

Manufacturing

In addition to sugar and rum, the manufacturing sector is comprised of export oriented enclave firms producing mainly garments and electronic components, and small enterprises producing food, beverages, clothing, furniture and other wood products mainly for the domestic market. The manufacturing sector contributed an average of 11.6% to GDP over the last five years. Output in this sector declined in 2002 by 4.0 per cent following growth of 6.6 per cent in 2001 and 17.0 per cent in 2000.⁴

Construction

Activity in the construction sector over the past ten years has been strong, and led to the sector emerging as the lead contributor to GDP over that period, particularly during the 1998-2000 period when value added in that sector increase by 16.3 percent on average. However, in 2002 value added was estimated to have declined by 4.5 per cent. The sector's share to GDP fell to 18.0 per cent from 19.0 per cent in 2001. It is estimated that this figure subsequently decreased in 2003. This is due to the completion of major public and private sector projects in the latter part of 2002. However, activity in 2004 is expected to increase due to the commencement of CLICO housing programme and the construction of other low to medium income projects which are expected to commence in the near to medium term.

Tourism

The impact of hurricanes Georges in 1998 and Lenny in 1999 seriously affected hotel accommodation. The Jack Tar Village was closed for most of 1999 and the Four Seasons Resort in Nevis was closed for eleven months in 2000. These two enterprises are by far the largest hotels in the Federation. Consequently, after growing by 4.9% and 5.5% in 1997 and 1998, stay-over visitors declined by 9.9%, 12.9%, 3.5% and 4.3% in 1999, 2000, 2001 and 2002 respectively. There had been a rapid increase in cruise tourism, particular, in the number of cruise ship arrivals when this increased by well over 90% between 1998 and 2001. However, in 2002 cruise ship visitors decreased by 33.9 % partly as a result of the cancellation of visits by a major cruise line. Expected activities in this sector did not come to fruition as scheduled. The Marriott did not open its doors until May 2003 with only 250 rooms, with the fully expected capacity not coming on stream until December 2003. It is expected that activities in this sector will increase in 2004.

³ ECCB Annual Report 2002/03

⁴ ECCB Annual Report 2002/03

3. ANALYSIS OF BUSINESS

3.1 MARKET ANALYSIS

3.1.1 *RETAIL MARKET*

Notwithstanding deceleration in economic conditions, the retail market of St. Kitts & Nevis has been performing reasonably well, over the past five years. Demand has increased at about 7% p.a.³, driven by increased work force and increased purchasing power in both St. Kitts and Nevis. Most consumer goods are imported.

Preliminary estimates from the 2001 Population Census indicate that the population of St. Kitts and Nevis is 45,884. Over the period 1997 to 2001, the population increased at an average annual growth rate of 3.0%.

The age distribution of the population for 2000 indicates that the economically active population (i.e. persons 15-64 years), of which the labor force is a subset, constituted 60.5% of the population. The age group with the second largest population (20.1%) was the school going age group (i.e. persons 5-15 years). This group can be considered the future work force that would be involved in economic activity in the country. The remaining persons constituted the dependent population and include persons in the 0-4 (10.5%) and the 65 and over (8.9%) age groups.

Notwithstanding the above population limitations (example, the size of the population), disposable income for spending on food and other merchandise has been high. This is a result of low levels of unemployment and an increase in the minimum wage in the mid 1990's⁴. This situation is likely to positively influence the performance of the building materials & hardware, food and automotive markets, which are directly relevant to SLH's operation and financial success.

3.1.2 *BUILDING MATERIAL AND HARDWARE MARKET*

The building materials and hardware market has been strongly influenced by the high level of public and private sector construction activity⁵. The construction sector has in recent years emerged as the leading contributor to GDP – contributing an average of 16.3% to GDP between 1997 and 2001. However in 2002, value added in this sector declined by 4.5% and was expected to further decline in 2003, reflecting the completion of a number of major projects in both the public and private sector. Growth in the construction sector is expected in 2004 with the commencement of the CLICO housing programme and the expected commencement of other low to medium income projects in the near to medium term. Activity in the coming years is also expected to increase, with the

³ Source: Ministry of Finance of St. Kitts

⁴ The minimum wage was recently increased to EC\$4 – info from Ministry of Finance

⁵ Source: Ministry of Finance

increasing demand for housing, the availability of agricultural lands being made available by the Government for residential purposes and reduced mortgage interest rates.

The Building & Hardware retail market in St. Kitts and Nevis comprise of three main operators, Trading Development Company (TDC), SLH and Builders' Paradise. The other operators in the market are small and are specialized providers of hardware and building products.

3.1.3 FOOD MARKET

Food imports into St Kitts & Nevis have been fairly stable over the past ten years, averaging 16.6% of total imports. However, there were declines in 1999 (14.9%) and 2000 (15.6%), which was attributed to increases in the unemployment levels, due to structural damages done by hurricanes and closure of the Four Seasons Resort in Nevis (1999) and the Jack Tar Village (2000), resulting in a 26% drop in employment in the hotel and catering industry.

3.2 SWOT ANALYSIS

3.2.1 STRENGTHS

1. 125 years in business resulting in strong brand recognition of the Horsford's name and resulting Goodwill.
2. State of art premises for most business units provide leading locations on islands in terms of shopping experience with adequate parking and comfortable shopping environments.
3. Strategic alliances with key suppliers which provide a full range of products (availability and variety), reasonably priced and additional services such as advertising, store assortment planning and strategic planning.
4. The leader in assortment, variety and quality in most key departments.
5. The leader in price competitiveness in most departments.
6. Several employees employed for several years, resulting in intimate knowledge of products and customer base.
7. High technology driven, resulting in several efficiencies in operations and competitive advantages.

3.2.2 WEAKNESSES

1. High exposure to debt financing.
2. The perception that the higher standard of several of SLH's locations, represent higher prices.

3. While customer service is generally satisfactory, there is a need for improvement in some areas.

3.2.3 OPPORTUNITIES

1. Expected increases in economic activity and employment due to expansion of the hotel industry.
2. Lowering of Banks lending rates may create a direct benefit for SLH and stimulate the construction sector.

3.2.4 THREATS

1. While economic growth is expected to increase, the economy is still under stress. .
2. Increasing competition in several areas in the recent years may result in pressures on market share and sales growth.
3. Inability to raise prices in several areas due to regulatory and competitive pressures.
4. A weak labor market, making it increasingly difficult to find suitably trained or trainable staff, particularly at the senior levels.
5. Notwithstanding recent improvements in the tourism sector, the industry is still very volatile.

3.3 OPERATIONS ANALYSIS

SLH is a domestic retailer of building materials, hardware, food, furniture, appliances, automotive (sales, spares, servicing and rentals) and maintenance services, and represents shipping lines and insurance companies. Through its subsidiaries, SLH is involved in wholesale food distribution and automotive sales and service. Through joint-venture and minority stakes, SLH is associated with a concrete and block manufacturer, beer and beverage manufacturer and land developer.

SLH has established major departments with responsibility for domestic retailing of its products & services. The departments include: building materials and hardware, furniture and appliances, automotive (sales, spares and service), sugar, appliance servicing and maintenance, insurance, shipping, food distribution, supermarket and Texaco gas stations.

4. FINANCIAL PERFORMANCE & ANALYSIS

4.1 HISTORICAL FINANCIAL PERFORMANCE

SLH financial strength has been focused on providing a good return on investment to its shareholders. Return on Equity (ROE) averaged about 4.2% over the period 1994 to 2003.

The table below shows SLH's Group of companies overall financial performance for the period 1994 to 2003.

(In Thousands of Eastern Caribbean dollars)

ITEM	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	AGR*
Current Assets	26,057	31,223	38,077	43,069	50,683	55,495	54,926	54,400	55,271	58,210	12.0%
Current Liabilities	23,700	29,695	38,451	44,597	46,381	50,095	33,790	36,386	35,738	39,614	10.4%
Working Capital	2,357	1,528	-374	-1,528	4,302	5,400	21,136	18,014	19,533	18,596	7.9%
Investments	1,362	3,501	4,373	4,382	4,681	4,895	5,364	6,980	6,800	9,427	28.6%
Plant & Equipment	37,193	38,711	40,924	41,493	43,450	42,632	47,283	48,556	46,594	56,897	6.8%
Long term Liabilities	8,725	11,016	10,703	8,771	15,561	15,073	30,907	29,230	28,308	25,351	33.5%
Share capital	16,766	16,766	16,766	16,766	16,766	25,148	29,465	29,533	29,540	30,148	7.5%
Minority Interest	5	5	5	5	5	5	5	0	0	0	0.0%
Retained Earnings	7,773	8,450	9,500	10,706	12,003	4,602	5,307	5,094	5,383	12,515	13.5%
Reserves	7,643	7,503	7,950	8,099	8,099	8,099	8,099	9,692	9,696	16,905	10.8%
Total Equity	32,187	32,724	34,221	35,576	36,873	37,854	42,876	44,319	44,619	59,568	7.2%
Total Assets	64,612	73,435	83,374	88,944	98,814	103,022	107,573	109,936	108,665	124,534	9.5%
No. of Shares Issued @ \$1.00 (000s)	16,766	16,766	16,766	16,766	16,766	25,148	29,465	29,533	29,540	30,148	7.5%
Trade receivables	8,725	7,592	8,030	9,167	7,950	11,775	13,303	14,086	15,795	18,566	10.3%
Trade payables	4,914	4,525	5,811	5,100	4,382	6,049	4,843	4,724	5,308	5,922	7.7%
Provision for doubtful debt	725	755	812	837	908	1,426	1,405	1,588	1,752	2,092	14.1%
Goods & Services turnover	58,337	72,351	91,072	96,800	100,899	114,485	115,367	107,707	105,064	102,545	8.5%
Operating Profit	2,084	2,077	2,387	2,436	2,383	2,446	1,990	90	1,984	1,734	199.8%
Other income- Investments	284	888	987	1,166	1,196	1,130	1,088	964	551	707	19.5%
Profit before tax	2,368	2,965	3,374	3,602	3,579	3,576	3,078	1,054	2,535	2,441	10.3%
Taxation	858	1,151	1,318	1,389	1,277	1,462	1,268	897	1,105	1,041	5.4%
Net Profit After Tax	1,598	1,813	2,056	2,213	2,303	2,114	1,810	157	1,430	1,400	73.2%
Dividends paid	1,006	1,006	1,006	1,006	1,006	1,132	1,105	369	1,034	**1,055	14.4%

* AGR - Average Growth Rate

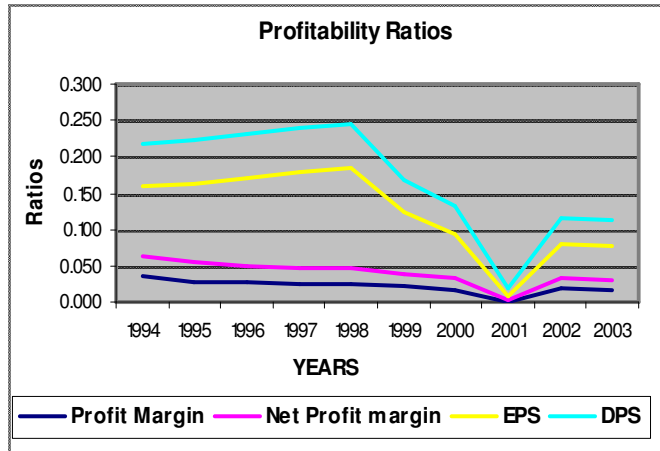
** Proposed for 2003. In accordance with the revised IAS 10 proposed dividends are not recognized in the Accounts.

4.2 FINANCIAL ANALYSIS

RATIOS	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<u>CAPITAL STRUCTURE & SOLVENCY</u>										
Long term Debt/Equity	0.271	0.337	0.313	0.247	0.422	0.398	0.721	0.660	0.634	0.426
Total Debt/Equity	1.007	1.244	1.436	1.500	1.680	1.722	1.509	1.481	1.435	1.091
Total liabilities/Total Assets	0.502	0.554	0.590	0.600	0.627	0.633	0.601	0.597	0.589	0.522
Financial Leverage Ratio	3.854	4.380	4.973	5.305	5.894	4.097	3.651	3.722	3.679	4.131
Financial Leverage Index	1.842	2.127	2.342	2.469	2.592	2.701	2.609	2.495	2.458	2.238
<u>LIQUIDITY</u>										
Current Ratio	1.099	1.051	0.990	0.966	1.093	1.108	1.626	1.495	1.547	1.469
<u>RETURN ON INVESTED CAPITAL</u>										
Return on Assets	0.028	0.026	0.026	0.026	0.025	0.021	0.017	0.001	0.012	0.012
Return on Common Equity	0.051	0.056	0.061	0.063	0.064	0.057	0.045	0.004	0.030	0.027
<u>ASSET UTILIZATION & EFFICIENCY</u>										
Fixed Assets Turnover	1.568	1.869	2.225	2.333	2.322	2.685	2.440	2.218	2.255	1.802
Trade payable/Trade receivable	0.563	0.596	0.724	0.556	0.551	0.514	0.364	0.335	0.336	0.319
Provision for bad debt/Trade receivables	0.083	0.099	0.101	0.091	0.114	0.121	0.106	0.113	0.111	0.113
<u>PROFITABILITY</u>										
Profit margin (operating profit/turnover)	0.036	0.029	0.026	0.025	0.024	0.021	0.017	0.001	0.019	0.017
Net Profit to Sales	0.027	0.025	0.023	0.023	0.023	0.018	0.016	0.001	0.013	0.014
Earnings per share -EPS	0.095	0.108	0.123	0.132	0.137	0.084	0.061	0.005	0.045	0.046
Dividends per Share	0.060	0.060	0.060	0.060	0.060	0.045	0.038	0.012	0.035	0.035
Total Equity/No. of shares (SBV)	1.920	1.952	2.041	2.122	2.199	1.505	1.455	1.501	1.510	1.976

The SLH's overall financial performance has been satisfactory, characterized by a mixture of good and poor performances. Performance in 2002 improved significantly over 2001 – Profits increased by 811% over that of 2001. However, in 2003 profits decreased marginally by 2% from that of the previous year, due to a marginal reduction in sales, which is attributable to a loss of the distribution contract for Carib Brewery (St. Kitts & Nevis) Ltd as well as a further slow down in the economy.

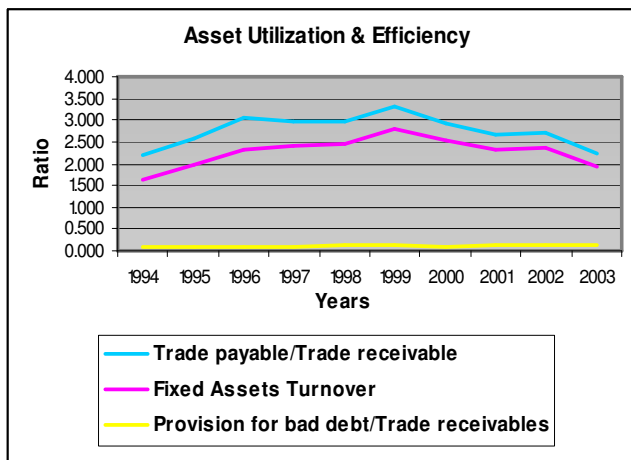
4.2.1 PROFITABILITY



The Group has been profitable in its operations for the period under review 1994 to 2003. Profitability dropped in 2001 to \$0.157M, from an average profit level of \$1.99M during the period 1994 to 2000, representing a decline of 1165%. Profit performance improved significantly in 2002 to \$1.43M, an increase of 811% and decreased marginally in 2003 by 2% to 1.4M. This

pattern is also reflected in the profit margins for the period under review. Profit margins have averaged \$0.03 during the period 1993 to 2000. The margin dropped to \$0.001 in 2001, and improved in 2002 and 2003 to \$0.02. Sales/turnover for the period 1994 to 2003 experienced an average growth rate of 8.5% for the SLH Group. The Group has paid an average dividend of 4.39% over the period 1993 to 2002. Dividends for 2003 are proposed to be 3.5%. The return on equity ratios has also averaged 5.0% during the period under review. Slow down in the main sectors of St. Kitts in particular 2001, has contributed to the drop in profit margin in that year.

4.2.2 ASSET UTILIZATION & EFFICIENCY

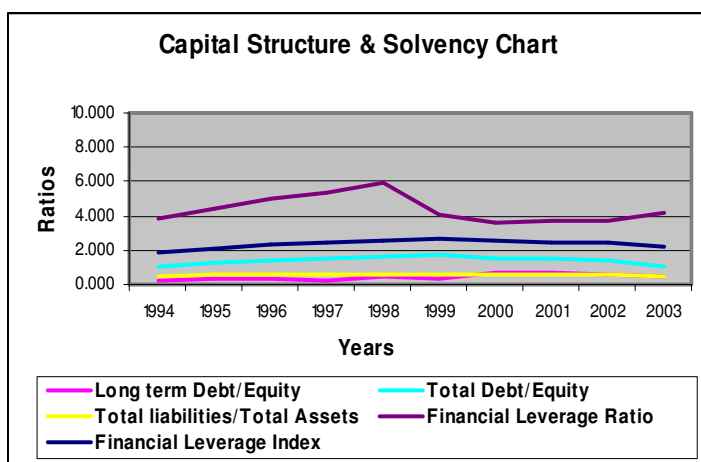


Asset utilization has been within acceptable standards, thus indicating the efficient use of fixed assets. Fixed asset turnover has improved from 1.57% in 1994 to 2.26% in 2002, and decreased to 1.80% in 2003 reflecting an increase in total asset base of 15% without a corresponding increase in sales which was due to the loss of the distribution contract for Carib Brewery (St. Kitts & Nevis) Ltd. Efficiency has been adequate, due to the effective

management of trade payables and receivables and the low levels of provision for bad debts to receivables.

4.2.2 CAPITAL STRUCTURE & SOLVENCY

SLH's financial leverage (total assets to common shareholders' equity) is favorable. A leverage of greater than one has been achieved and maintained.



The Company is solvent and maintains a strong capital base. The percentage of capital employed that is financed by long-term debt, has averaged 44% for the period 1994 to 2003. For the period 2003 long-term debt (LTD) to equity was 43:57, improving from a position of 63:37 in 2002. This was due to new shares being issued with a simultaneous decrease in LTD of 10%.

This good financial leverage will afford SLH the opportunity to increase debt if the need for borrowing arises. This low leverage will also guard against volatility in sales.

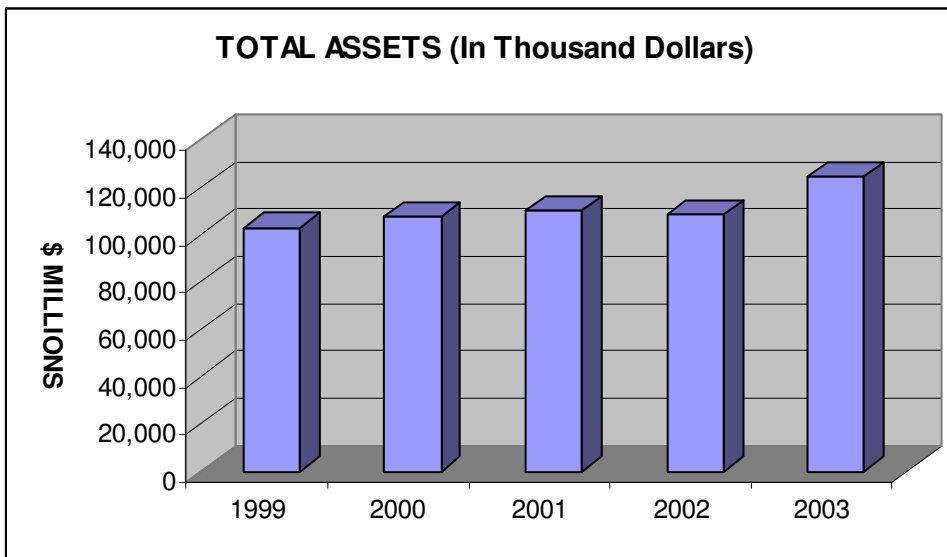
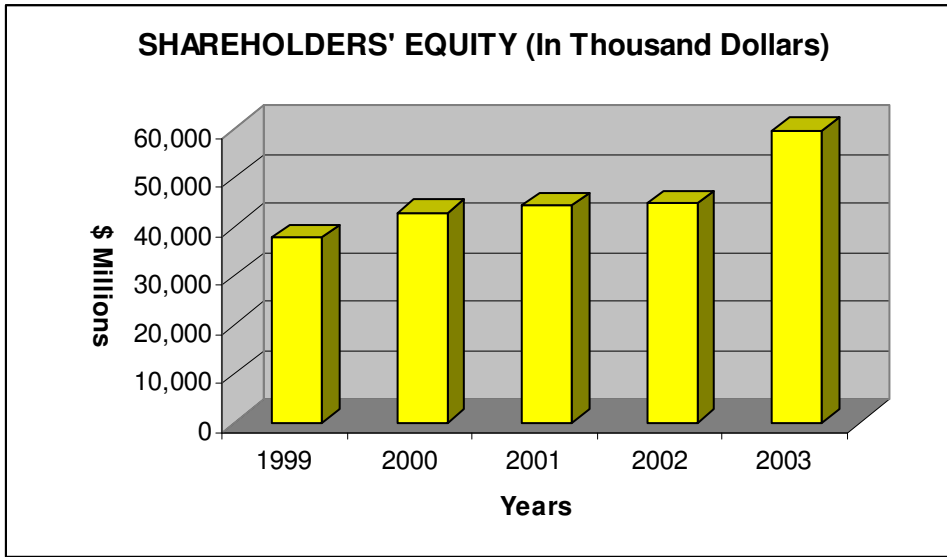
4.2.4 ASSET GROWTH

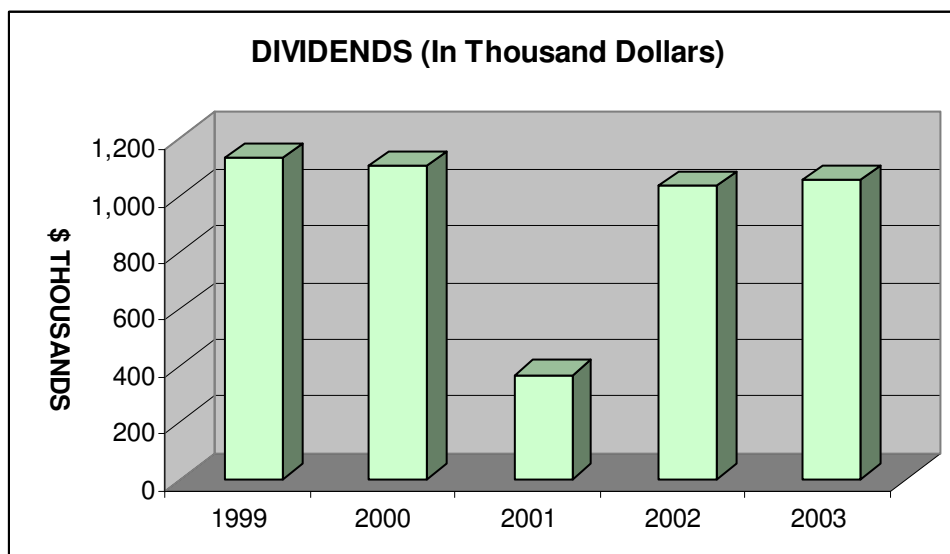
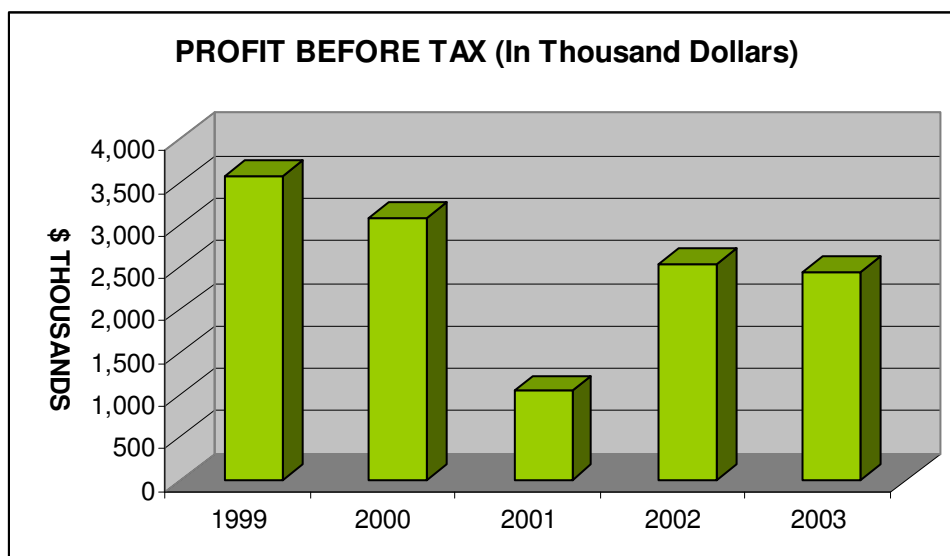
SLH's total asset base increased by 93% from 1994 (\$64,612M) to 2003 (\$124,534M), equity also increased by 85% during the period. The increase in asset base was due to SLH expanding its operations and also upgrading its premises.

4.2.5 LIQUIDITY

SLH maintains adequate levels of working capital, with a current ratio of over 1.0 in the past years.

4.3 KEY PERFORMANCE INDICATORS (1999 TO 2003)





Dividends in 2003 is only proposed and are not recognized in the Accounts – (In accordance with the revised IAS 10)

4.4 FINANCIAL PROJECTIONS/ANALYSIS

4.4.1 *LONG-TERM PLANS/PROSPECTS*

1. With the introduction of e-commerce, the management of SLH believes that this will assist in further stimulating sales, particularly in the building center and improve on overall efficiency with regards to access to online shopping.
2. To improve the management of Ocean Cold, which will in turn assist in improving on the overall profitability of the company.
3. Continue the hire purchase arrangement presently offered by the furniture & appliances centers.
4. Maintain and/or reduce expenses, particularly in employment and interest costs.
5. To increase revenue by 3% annually over the next five years.

4.4.2 PROJECTED INCOME STATEMENT (2004-2008)

ITEMS	2004	2005	2006	2007	2008	AGR
Sales	82,930,501	85,418,416	86,597,873	89,195,809	91,871,684	3%
Cost of Sales	66,330,533	68,320,449	69,042,452	71,113,725	73,247,138	3%
Gross Margin	16,599,968	17,097,967	17,555,421	18,082,084	18,624,546	3%
Other Income	11,741,898	12,094,155	12,456,980	12,830,689	13,215,610	3%
Gross Revenue	28,341,866	29,192,122	30,012,401	30,912,773	31,840,156	3%
Expenses:						
Bldg. & Insurance	3,022,675	3,022,675	3,020,515	3,020,515	3,020,515	0%
Office	1,239,600	1,276,788	1,315,092	1,354,544	1,395,181	3%
Employment	9,742,900	10,035,187	10,333,102	10,643,095	10,962,388	3%
Selling	2,694,750	2,775,593	2,858,330	2,944,080	3,032,402	3%
Depreciation	2,593,780	2,608,606	2,623,877	2,639,606	2,655,806	
Interest	4,461,600	4,355,832	4,270,853	4,055,590	3,783,108	
Other	1,129,438	1,173,190	1,173,190	1,173,190	1,173,190	0%
Total Expenses	24,884,743	25,247,871	25,594,959	25,830,620	26,022,590	
Net Profit	3,457,123	3,944,251	4,417,442	5,082,153	5,817,566	

5. COMPANY VALUATION

5.1 DATA RECONCILIATION

The valuation exercise was conducted based on historical information supplied by Management of the Company, supported by audited financial statements by the firm of Pannell Kerr Forster and projected income statements, also supplied by SLH's Management and examined by the valuers for consistency with the historical performance as reported.

5.2 VALUATION METHODOLOGIES AND VALUES

In commenting on the valuation of the Company it must be noted that valuation is not a science. However, a menu of methodologies exists for determining the value of firms. The Free Cash Flow Discount Model was used in valuing the equity of SLH.

Free Cash Flow Discounted Method

This method is based on the determination of the present value of the expected or projected free cash flows of the firm to a horizon year, by discounting with an appropriate factor. Fundamental in this approach is the determination of the appropriate discount factor and determining the reasonableness of the projected free cash flows.

Discount Factor

In determining the discount factor several issues were taken into consideration. Principally, using the Capital Asset Pricing Model (CAPM), an attempt was made to determine the cost of equity. The average rate on 10-year government bonds in the Eastern Caribbean region was used as the risk free rate (r_f) and the average return on equities in the region was used as the market risk (r_m). Using a weighted beta (β), based on industry sector betas in the USA, similar to the sectors SLH is engaged in and adjusting for the following variables: (i) general economic conditions in St Kitts/Nevis and the Eastern Caribbean region, (ii) current predictions for inflation in St Kitts, (iii) country risk and (iv) size premium based on historical returns, a discount factor of 11.5 was arrived at.

In the view of the valuers this discount factor incorporates: the opportunity cost of capital, characteristics of the distributive trade industry, country/region and operational risk as perceived by the valuers.

On the basis of the foregoing, a total equity value of EC\$62,772,136 and a share value of EC\$2.08 was concluded.

6.0 INVESTMENT PREDICTABILITY

6.1 RISK ANALYSIS

a) Competition

The retail industry in all aspects of business, supermarket, hardware supplies and automobile sales is quite competitive. This is likely to result in pricing pressures and thin profit margins. Given the size of the market in which the Company operates and the other players in the market, competition is likely to intensify. The company's performance would also be sensitive to any changes in consumer preferences. SLH faces competition in all of its various business lines and although the Company is at the higher end of the competition, it operates within a small market space and a small population means that the opportunities for increasing the customer base are very limited.

b) Liquidity

A number of capital projects were undertaken in the past few years including construction, expansion and renovation. The intention was to upgrade the physical environment for the comfort of customers, expand on business lines, provide for a better inventory system and enhance the distribution network. The projects required substantial cash outlays and involved additional debt obligations. If the projected increase in sales does not materialize it could have a negative impact on the liquidity of the Company. SLH has contracted long-term debt denominated in United States dollars at rates pegged to LIBOR. An exposure to interest rate risk arises, as any adverse increases in LIBOR would increase the weighted average cost of capital. A foreign exchange risk may arise in the event of any devaluation of the Eastern Caribbean dollar.

c) Economic

There is a high correlation between the performance of the economy and the success of the retail industry and therefore any downturn in the economic performance will have an effect on Company's sales revenue. Economic pressures from globalization and trade liberalization continue to affect the economies of the region. Substantial reductions in revenue from the sugar industry and the effects of September 11, 2001 on the tourism industry have contributed to increased unemployment and reduced revenue, hereby affecting the purchasing power of consumers. However, SLH is optimistic that the recent opening of a new 900-room hotel plant by the Marriott Hotel chain and the anticipated favorable impact on the economic performance of the country will increase business in the retail industry.

d) Operational

High inventory levels with substantial value have accumulated over the years particularly in one inventory line (car spares). This was costly to SLH as the company had to write off as losses. To address this, an effective inventory management system has been put in place to assist in monitoring and managing the levels and reorder of stock. Spoilage of perishable items during delivery and storage is another element of risk and therefore an effective order and delivery system must be in place. SLH is exposed to a limited amount of credit risk from the hire purchase aspect of its operations. The Company has tried to focus mainly on continuing business for existing customers with good credit ratings.

6.2 CONCLUSION

S. L. Horsford Co. Ltd is a successful conglomerate in St. Kitts & Nevis. SLH has been in business for over 125 years. SLH has developed a strong brand of the Horsford's name and goodwill in the St. Kitts & Nevis business environment. SLH commenced operations as a domestic retailer of building hardware & materials, and has since expanded its operations to provide a wider range of products & services to its customers, such as furniture, appliances, automotive, shipping lines, insurance among others. The company is one of the biggest conglomerates in St. Kitts & Nevis and a leader in the provision of quality products and competitively priced goods. The Board and management of the Group are highly qualified and experienced.

SLH has been operating reasonably well, with an asset base of EC\$125 million and annual sales turnover of EC\$103 million as at September 30, 2003. The Company has been operating profitably for many years, but in the year 2001, SLH experienced a fall in profits (before tax) of 66% over 2000. This unsatisfactory result was due to a significant contraction in the St. Kitts economy, which was precipitated by a slow-down in the construction industry, decline in tourist stay-over visitors and contracting disposable income. Additionally, there was a shift in the automotive market from new to used vehicles. Profit performance reversed in 2002, with profits increasing by 811% over 2001 figures, \$0.157M in 2001 to 1.430M in 2002. Profit decreased marginally by 2 % to a figure of 1.4M in 2003.

SLH has maintained an excellent dividend payout history. The company has paid a dividend every year from 1951. From the period 1989 to 1998, the company paid its shareholders a dividend equivalent to a return of 6% per annum. This dropped to 1.2% in 2001. SLH has recognized the need to become more aggressive, proactive and strategic in responding to the global changes that are impacting on the economy and business environment and has commenced implementation of its new strategy towards the repositioning of the Company. SLH is projecting an overall increase in profits for 2004, ranging from 2.5% to 3% across its various departments. Expected return to investors for the next five years is estimated at 4% and a growth rate of 3% is anticipated.

The following projections are provided for the next five years (average):

INDICATOR	2004	2005	2006	2007	2008	Average
Earnings Per Share (EPS)	\$0.07	\$0.08	\$0.09	\$0.11	\$0.12	\$0.09
Dividend Per Share (DPS)	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Return on Par Value \$1.00	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Market Value (MV) – <i>Fifth Year Projected Value per Share</i>						\$2.08

GIVEN THE INFORMATION ABOVE, THE VALUERS BELIEVE THAT SLH AS A MATURE COMPANY, HAS THE POTENTIAL FOR STABLE GROWTH WHICH WILL BE REFLECTED IN A CONSTANT STREAM OF RETURNS TO SHAREHOLDERS AS DEMONSTRATED IN ITS PAST PERFORMANCE.