



McKENLEY
& ASSOCIATES
CHARTERED ACCOUNTANTS

"Continuous Improvement and Innovation are our Duties....."

I N D E X

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**McKENLEY
& ASSOCIATES**
CHARTERED ACCOUNTANTS

12 Kingslyn Avenue
Kingston 10, Jamaica
Telephone: (876) 968-3117-8
Fax: (876) 929-7041
Website: www.wmckenley.com

To the Members of
Derrimon Trading Company Limited

Independent Auditors' Report

We have audited the accompanying Financial Statements of Derrimon Trading Company Limited which comprise the Company's statement of financial position as at 31 December 2015 and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Members of
Derrimon Trading Company Limited


Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2015 and of the financial performance and cash flows of the Company for the year then ended, so far as concerns the members of the Company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.


Chartered Accountants

29 February 2016
Kingston, Jamaica

Derrimon Trading Company Limited
Statement of Profit or Loss and Other Comprehensive Income
Year ended 31 December 2015

	Note	31 Dec. 2015 \$	31 Dec. 2014 \$
Revenue			
Trading income	3(f)	6,293,998,467	5,609,597,370
Less cost of sales		5,460,667,436	4,983,191,683
Gross profit		833,331,031	626,405,687
Other income			
Interest income		658,624	723,046
Rental from warehouse space		6,387,113	39,653,307
Other income: insurance proceeds and bad debts recovered		1,174,739	7,947,663
		841,551,507	674,729,703
Less operating expenses:			
Administrative	5	538,261,602	471,892,595
Selling & distribution	5	164,024,700	113,751,327
		702,286,302	585,643,922
Operating profit before finance costs		139,265,205	89,085,781
Finance costs	5	(87,084,422)	(45,594,810)
Share of profit of associated company	7	35,949,530	8,115,750
Profit before taxation		88,130,313	51,606,721
Taxation	8	-	-
Net profit		88,130,313	51,606,721
Other comprehensive Income			
Items that may be reclassified to profit or loss			
Increase/(decrease) in revaluation of investments	9	654,000	(40,000)
Profit, being total comprehensive income for year		88,784,313	51,566,721
Earnings per stock unit	10	0.32	0.19

Derrimon Trading Company Limited
Statement of Financial Position
31 December 2015

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		\$	\$
ASSETS			
Non-current assets:			
Property, plant and equipment	11	160,324,895	148,860,731
Goodwill	12	15,220,200	8,220,200
Investment in associate	7	160,825,012	129,282,994
Current assets:			
Inventories	13	588,287,002	604,678,070
Receivables	14	505,729,266	494,788,245
Related parties	15	14,534,879	3,915,387
Investments	16	2,351,015	11,386,199
Cash & bank	17	60,203,034	49,634,757
		<u>1,171,105,196</u>	<u>1,164,402,658</u>
Current liabilities:			
Payables	18	560,542,673	598,586,008
Short term loan	19	-	111,167,244
Current portion of borrowings	20	6,658,984	318,022,612
		<u>567,201,657</u>	<u>1,027,775,864</u>
Net current assets		<u>603,903,539</u>	<u>136,626,794</u>
Total assets less current liabilities		<u>940,273,646</u>	<u>422,990,719</u>
EQUITY			
Share capital	21	140,044,436	140,044,436
Capital reserve	9	57,503,266	57,503,266
Investment revaluation reserve	9	614,000	(40,000)
Retained earnings		250,200,177	162,069,864
		<u>448,361,879</u>	<u>359,577,566</u>
Non-current liabilities:			
Shareholders' loans	22	-	49,898,289
Borrowings	20	491,911,767	13,514,864
		<u>491,911,767</u>	<u>63,413,153</u>
Total equity and non-current liabilities		<u>940,273,646</u>	<u>422,990,719</u>

Approved for issue by the Board of Directors on 29 February 2016 and signed on its behalf by:



 Derrick F. Cotterell Director



 Earl A Richards Director

Derrimon Trading Company Limited
Statement of Changes in Equity
31 December 2015

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Investment Revaluation Reserve</u>	<u>Capital Reserves</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Balance at 31 December 2012	1,000	61,034,799	-	43,127,451	104,163,250
Capitalization of shareholders loan	52,671,860	-	-	-	52,671,860
Capitalization of reserves	499,000	(499,000)	-	-	-
Issue of shares net of transaction costs	86,872,576	-	-	-	86,872,576
Net profit for 2013	-	49,927,344	-	-	49,927,344
Other comprehensive income	-	-	-	14,375,815	14,375,815
Balance at 31 December 2013	140,044,436	110,463,143	-	57,503,266	308,010,845
Net profit for 2014	-	51,606,721	-	-	51,606,721
Other comprehensive income	-	-	*(40,000)	-	(40,000)
Balance at 31 December 2014	140,044,436	162,069,864	*(40,000)	57,503,266	359,577,566
Net profit 2015	-	88,130,313	-	-	88,130,313
Other comprehensive income	-	-	*654,000	-	654,000
Balance at 31 December 2015	140,044,436	250,200,177	614,000	57,503,266	448,361,879

* Unrealised gain/(loss) on shares quoted on the Jamaica Stock Exchange classified as available for sale

Derrimon Trading Company Limited
Statements of Cash Flows
31 December 2015

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		\$	\$
Cash flows from operating activities:			
Net profit		88,130,313	51,606,721
Items not affecting cash resources:			
Depreciation	11	25,020,448	21,599,697
Gain on sale of fixed assets		(300,000)	(320,623)
Share of profit of associated company		(35,949,530)	(8,115,750)
Interest income		(658,624)	(723,046)
Finance costs		87,084,422	45,594,810
Operating income before changes in operating assets and liabilities		<u>163,327,029</u>	<u>109,641,809</u>
Changes in non-cash working capital components:			
Inventories		16,391,068	(181,452,589)
Related company balances		(10,619,492)	2,945,196
Receivables		(10,941,021)	(115,616,047)
Payables		(38,043,335)	8,093,540
Income tax paid		-	(13,685,664)
		<u>(43,212,780)</u>	<u>(299,715,564)</u>
Cash generated by/(used in) operations		<u>120,114,249</u>	<u>(190,073,755)</u>
Finance costs		(87,084,422)	(45,594,810)
Net cash provided by/(used in) operating activities		<u>33,029,827</u>	<u>(235,668,565)</u>
Investment activities:			
Interest income		658,624	723,046
Investments		9,689,184	7,650,157
Purchase cost of associated company		-	(121,167,244)
Dividend received from associated company		4,407,512	-
Proceeds from sale of property, plant and equipment		300,000	1,154,447
Purchase of property, plant and equipment	11	(36,484,612)	(30,089,301)
Purchase cost of goodwill		(7,000,000)	(4,470,200)
Net cash used in investment activities		<u>(28,429,292)</u>	<u>(146,199,095)</u>
Financing activities:			
Loans received during the year		501,000,000	517,832,569
Repayment of loans		(445,133,969)	(182,529,286)
Shareholders' loans advanced		(49,898,289)	45,009,091
Net cash /provided by financing activities		<u>5,967,742</u>	<u>380,312,374</u>
Net increase/(decrease) in cash balances		<u>10,568,277</u>	<u>(1,555,286)</u>
Net cash balance at beginning of year		<u>49,634,757</u>	<u>51,190,043</u>
Net cash balances at end of year	17	<u><u>60,203,034</u></u>	<u><u>49,634,757</u></u>

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

Derrimon Trading Company Limited (“the Company”) is a company limited by shares, incorporated and domiciled in Jamaica. Its registered office is located at 233 and 235 Marcus Garvey Drive, Kingston 11.

The principal activity of the Company is distribution of bulk household food items inclusive of meat products. The Company also distributes branded products on behalf of a major global corporation.

In 2009, the Company purchased the assets of a wholesale distribution company and continued to operate from its original location at 233 Marcus Garvey Drive, Kingston 11. The Company maintained the entity’s trading name, Sampars Cash & Carry. At the reporting date, 31 December 2015, the Company increased by acquisition the number of retail outlets islandwide to six (6) in addition to its main distribution hub located at Marcus Garvey Drive.

Effective 17 December 2013, the Company’s shares were listed on the Junior Market of the Jamaican Stock Exchange.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of compliance:

The financial statements of Derrimon Trading Company limited are prepared in accordance with International Financial Reporting Standards (“IFRS”), and their interpretations adopted by the International Accounting Standards Board and comply with the provisions of the Jamaican Companies Act.

New, revised and amended standards and interpretations that became effective during the year.

During the reporting period, certain new standards, interpretations and amendments to existing standards that have been published became effective during the current financial year. Management has assessed the relevance of all such new standards, interpretations and amendments that became effective January 1, 2015. The majority of the standards did not have a significant effect on the amounts and disclosures in these financial statements. They included:

Amendments to IAS 12 Financial Instruments: Presentation which clarifies that an entity has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(a) Statement of compliance (continued):

New, revised and amended standards and interpretations that became effective during the year (continued)

Amendments to IAS 36 Impairment of Assets were issued to reverse the unintended requirements in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

IFRIC 21 Levies provides guidance on accounting for levies in accordance with the requirements of IAS 37 Provisions, *Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It requires an entity to recognise a liability for a levy only when the triggering event specified in the legislation occurs.

IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets, have been amended to clarify that, at the date of revaluation:

- (i) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking account of accumulated impairment losses; or
- (ii) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

IAS 24, Related Party Disclosures, has been amended to extend the definition of “related party” to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. For related party transactions that arise when key management personnel services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity.

New, revised and amended standards and interpretations that are not yet effective

At the date of authorisation of the financial statements, certain new and revised and amended standards and interpretations were in issue but were not yet effective for the current year and which the Company has not early adopted. Management has assessed all such new standards, amendments and interpretation with respect to its operations and has determined that the following may be relevant:

IFRS 9, Financial Instruments, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(a) Statement of compliance (continued):

New, revised and amended standards and interpretations that are not yet effective (continued)

IFRS 9, Financial Instruments (continued)

It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS39. Effectively, IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model, which means that a loss event will no longer need to occur before an impairment is recognized.

IFRS 15, ‘Revenue from Contract with Customers’ is effective for annual reporting periods beginning on or after January 1, 2017. This applies to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts. It specifies how and when an entity will recognise revenue as well as requiring entities to provide more informative and relevant disclosures. The standard supersedes IAS 18, ‘Revenue’, IAS 11, ‘Construction Contracts’ and a number of revenue-related interpretations.

Improvements to IFRS, 2012-2014 cycles, contain amendments to certain standards and interpretations and are effective for annual reporting periods beginning on or after January 1, 2016. The standards affected and the subjects of the amendments include:

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** - changes in methods of disposal
- **IFRS7 Financial Instruments: Disclosures** - servicing contracts
- **IFRS 7** to condensed interim financial statements
- **IAS 19 Employee Benefits** - regional market issue regarding discount rate
- **IAS 34 Interim Financial Reporting** - disclosure of information “elsewhere in the interim financial report”.

The Company is assessing the possible impact that these new standards and the amendments will, when they become effective, have on its 2016 financial statements.

(b) Basis of measurement

The financial statements of Derrimon Trading Company Limited have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets.

(c) Presentation and functional currency

The financial statements are presented in Jamaican Dollars (J\$) which is the functional currency of the Company.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(d) Use of key sources of estimation and critical judgments (continued):

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates.

Key sources of estimation uncertainty.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are noted below:

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for possible tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were originally recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Company applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

(iii) Allowance for losses

In determining amounts recorded for allowance for losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from accounts receivable and other financial assets from conditions such as repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired assets, including the net realizable value of underlying collateral, as well as the timing of such cash flows. The adequacy of the allowance depends on the accuracy of these judgments and estimates.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(d) Use of key sources of estimation and critical judgments (continued):

(i) Critical Judgments

In the process of applying the Company's accounting policies, management has not made any judgments that it believes would cause a significant impact on the amounts recognized in the financial statements.

(ii) Contingencies

In determining the existence of a contingent liability, management assesses the existence of:

- (a) A possible obligation that arises from a past event and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or;
- (b) A present obligation that arises from a past event but is not recognized because it is not possible that an outflow of economic benefit is required to settle or the amount of the obligation cannot be measured reliably.

In estimating possible outflow of economic benefits in relation to a contingent liability, management, sometimes in consultation with experts such as legal counsel may or may not make provision in the financial statements based on judgments regarding possible outcomes according to specific but uncertain circumstances. Contingent liabilities are disclosed in the financial statements unless immaterial or the possibility of an outflow of economic benefits is remote.

(iii) Going concern

The preparation of the financial statements in accordance with IFRS assumes that the Company will continue in operational existence for the foreseeable future. This means, in part, that the statements of profit or loss and comprehensive income and financial position assume no intention or necessity to liquidate or curtail the scale of operations. This is referred to as the going concern basis.

While the Company has experienced liquidity problems in the past and had to seek assistance through long term loans, over the past few years the operational and management performance of the Company has resulted in a favourable financial position and improved operational results and positive trends in its key performance indicators and as a consequence management does not anticipate the Company experiencing any going concern challenges within the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company has one wholly owned subsidiary, DMC West Bay Limited. This Company is not involved in any trading activity and thus no consolidation of entities is considered necessary.

(b) Associate

Where the Company has the power to participate in (but not control) the financial and operating policy decisions of another entity, that entity is classified as an associate. The associate is initially recognized in the company's statement of financial position at cost. Subsequently associates are accounted for using the equity method where the company's share of post-acquisition profits and losses is recognized in the statement of comprehensive income. Losses in excess of the Company's investment in the associate are not recognized unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Company and its associate are recognized only to the extent of unrelated investors' interest in the associate. The investor's share of the associated profit and losses resulting from these transactions is adjusted against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Company's associate Company, incorporated in Jamaica is Caribbean Flavours and Fragrances Limited (CFFL). The Company acquired a 49% shareholding in August 2014 by purchasing 44,078,122 shares @ \$2.75 in CFFL.

(c) Divisional balances

- i. Transactions are eliminated on consolidation of each division of the Company.

Inter-divisional transactions among the different business units and segments are undertaken at cost and there is no gain or loss on these transactions. Sales and receivables balances are eliminated at the end of the reporting period.

- ii. Associate

During the year, no trading activity was done with the Company's associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

The business segments are distribution and the operation of a wholesale chain of outlets trading as Sampars Cash and Carry. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the Company's Board of Directors.

(e) Property, plant and equipment

i. Valuation of property, plant and equipment

Items of property, plant and equipment are measured at cost, except for certain plant and equipment and freehold land and buildings which are measured at valuation, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

The market value of freehold land and building is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction considering its existing condition and location. The market value of plant and equipment is estimated using depreciated replacement cost approach. Gains or losses arising from changes in market value are taken to capital reserve.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The cost of the day to day servicing of property, plant and equipment is recognized in the statement of comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

ii. Depreciation

Property, plant and equipment are stated at historical cost except certain equipment and freehold buildings which are measured at valuation, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. Depreciation is calculated on the straight line basis at such rates that will write off the carrying value of the assets over the period of their estimated useful lives. Each financial year, the depreciation methods, useful lives and residual values, although consistently applied are reassessed to ensure that the assets are fairly stated. Annual depreciation rates are as follows:

Furniture, fittings & fixtures	20%
Machinery & equipment	10%
Motor vehicle	20%
Computers	33 $\frac{1}{3}$ %
Buildings	2.5%
Leasehold improvements	2.5%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognized in other income in the income statement.

Repairs and maintenance expenditure is charged to the income statement during the financial period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of General Consumption Tax, returns and discounts and after eliminating inter-division sales within the five (5) divisions of the Company.

The Company recognizes revenue in the income statement when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company, where the significant risks and rewards of ownership have been transferred to the buyer and specific criteria have been met in relation to the Company's activities as described below:

Sale of goods

Sales are recognized upon delivery of products and customer acceptance of the products and collectability of the related receivables is reasonably assured.

Interest income

Interest income, is recognized in the statement of comprehensive income for all interest bearing instruments on an accrual basis unless collectability is doubtful.

Dividend income

Dividend income is recognized when the right to receive payment is established.

(g) Foreign currency translation

(i) Functional and presentation currency

The financial statements are presented in the functional currency of the Company which is the Jamaican dollar. The Jamaican dollar is the currency of the primary economic environment in which the Company operates.

(ii) Transactions and balances

Foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from transactions at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income except when deferred in other comprehensive income.

(h) Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Financial assets:

The Company classifies its financial assets such as loans and receivables, cash and cash equivalent and investments at fair value. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and reevaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current.

Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial liabilities:

The Company's financial liabilities are initially recorded at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

At balance sheet date, the following items were classified as financial liabilities: bank overdraft, long-term loans and trade payables.

(i) Inventories

Inventories are valued at the lower of cost and net realizable value, cost being determined on a first-in-first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of selling expenses.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income taxes

Taxation expense in the income statement comprises current and deferred tax charges

i. Current Taxation

Current tax charges are based on taxable profit for the year, which differs from the reported profit before tax because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Company's liability for current tax is calculated at tax rates that have been enacted at the date of the statement of financial position.

ii. Deferred Taxation

Deferred tax is the tax expected to be paid or received on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is charged or credited to profit or loss, except where it related to items charged or credited to other comprehensive income or equity, in which cases, deferred tax is also dealt with in other comprehensive income or equity

At 31 December 2015, no deferred tax was accounted for because the Company was listed on the Junior Market of the JSE, effective 17 December 2013 and is therefore subject to five (5) years tax free status until 17 December 2018 and 50% tax free status until 17 December 2023.

(k) Trade receivables

Trade receivables are carried at original invoice amounts less provision made for impairment of these receivables. The Company's policy is not to provide credit beyond thirty (30) days. If customers do not comply with the credit terms and limits, supplies are discontinued. A provision for impairment of these receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the transactions.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss in administration expenses. When a trade receivable is uncollectible, it is written off against the provision for trade receivables. Subsequent recoveries of amounts previously written off are credited to the profit or loss account.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Investments

The Company classifies its investments securities as financial assets at fair value through profit or loss and available-for-sale are carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of investments classified as financial assets at fair value through profit or loss are included in the determination of profit or loss in the period in which they arise while unrealized gains and losses are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for an investment is not active, the Company establishes fair value by using valuation techniques. Where fair values cannot be reliably measured, the Company carries the investment at cost.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents balances comprise of cash at banks and in hand and other short-term deposits held at financial institutions on call, other liquid cash investments with original maturities of three months or less, net bank overdrafts.

(n) Intangible assets

i. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the acquisition date. The useful life of goodwill is reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment. If not, the change of useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and the appropriate portion is written off during the year.

ii. Computer software

Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These software costs are amortized on a straight line basis over the estimated useful life of four (4) years. Amortization is recognized in the profit or loss in administration expenses.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment of financial assets

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

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

Property, plant and equipment and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Employee benefits

Employee benefits are all forms of consideration given by the Company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and termination benefits.

Employee benefits that are earned as a result of past or current service are recognized in the following manner: short-term employee benefits are recognized as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognized when the employee becomes entitled to the leave.

(i) Pension Plan

The Company does not operate a formal pension plan for employees. The employees of the Company participate in an individual retirement account (IRA) scheme operated by an independent insurance company. The Company makes fixed contributions to the scheme for participating employees. The Company has no obligation for benefits provided under the scheme as these are provided by and accounted for by the Insurance Company.

(ii) Other retirement benefits

After retirement, the Company does not provide any health benefits to employees and there is no agreed profit share scheme in place for employees.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Borrowings and borrowing costs

Borrowings are classified as financial liabilities measured at amortized cost and are recognized as the proceeds received, net of transaction costs using the effective yield method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of these assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed in the income statement in the period in which they are incurred.

(r) Payables and accruals

Payables for trade and other accounts payable at 31 December 2014, which are normally settled on 30 to 90 days terms, are recorded at original invoice amount or an amount representing the fair value of the consideration to be paid in the future for goods or services received by the Company.

Amounts accrued for certain expenses are based on estimates and are included in payables.

(s) Dividends

Dividends on ordinary shares are recorded as a liability and are recognized in shareholders equity in the period in which they are approved by the Company's directors. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(t) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings and bank charges. Borrowing costs are recognized in profit or loss using the effective interest method.

4. SEGMENTAL FINANCIAL INFORMATION

The Company operates two (2) divisions and they are exposed to similar risks as they both sell household and grocery products. The principal divisions are:

- (i) Distribution-** distribution of Nestle household products, Sun Power Detergents and bulk food products.
- (ii) Wholesale (including retail)-**operation of six (6) outlets trading under the name *Sampars Cash and Carry*.

The distribution centres along with three (3) outlets are located in Kinston and Saint Andrew and three (3) are located in rural Jamaica. The third rural location was acquired in February, 2015.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

4. SEGMENTAL FINANCIAL INFORMATION (Continued)

Financial information relating to the segments is noted below:

	2015		
	<u>Distribution</u>	<u>Sampars Outlets</u>	<u>Total</u>
	\$	\$	\$
Revenues	3,614,310,236	2,679,688,231	6,293,998,467
Less cost of sales	3,121,168,799	2,339,498,637	5,460,667,436
Gross profit	493,141,437	340,189,594	833,331,031
Gross profit %	14%	13%	13%
Current liabilities	413,251,503	153,950,154	567,201,657
Current Assets	854,903,798	316,201,398	1,171,105,196

	2014		
	<u>Distribution</u>	<u>Sampars Outlets</u>	<u>Total</u>
	\$	\$	\$
Revenue	3,589,710,532	2,019,886,838	5,609,597,370
Less cost of sales	3,229,515,116	1,753,676,567	4,983,191,683
Gross profit	360,195,416	266,210,271	626,405,687
Gross profit %	10%	13%	11%
Current liabilities	676,977,609	350,798,255	1,027,775,864
Current Assets	911,392,060	253,010,598	1,164,402,658

5. EXPENSES BY NATURE

Total direct, administrative, selling and finance expenses

	<u>2015</u>	<u>2014</u>
	\$	\$
DIRECT		
Cost of inventories recognized as an expenses	5,460,667,436	4,983,191,683
ADMINISTRATIVE		
Directors fees and expenses	500,000	441,000
Insurance	19,402,448	16,705,238
Motor vehicle expenses	11,979,006	7,399,665
Professional services	45,452,363	39,925,084
Office expenses	17,817,934	11,208,679
Repairs and maintenance	26,480,322	22,396,703
Rental of equipment and office	54,273,696	39,701,042
Staff costs (note 20)	250,226,460	214,185,423
Security	10,736,966	13,994,859
Utilities	59,736,460	60,300,701
Depreciation	25,020,448	21,599,697
Gain on disposal of fixed assets	(300,000)	(320,623)
Travelling and accommodation	15,514,189	23,476,620
Other, including minimum business tax	1,421,310	878,507
	<u>538,261,602</u>	<u>471,892,595</u>

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

5. EXPENSES BY NATURE (Continued)

	<u>2015</u>	<u>2014</u>
	\$	\$
SELLING AND DISTRIBUTION		
Advertising and promotion	31,990,187	24,751,134
Commission	29,125,926	21,284,765
Bad debts written off	7,792,247	26,956
Trucking and delivery	95,116,340	67,688,472
	<u>164,024,700</u>	<u>113,751,327</u>
	<u>2015</u>	<u>2014</u>
	\$	\$
FINANCE COSTS		
Long term loans: Interest (including preference dividend)	50,425,345	25,344,566
Credit line interest and bank charges	36,659,077	20,250,244
	<u>87,084,422</u>	<u>45,594,810</u>

6. STAFF COSTS

	<u>2015</u>	<u>2014</u>
	\$	\$
Salaries and wages	232,343,054	193,945,467
Staff welfare	12,050,327	17,364,867
Contract services	4,826,629	2,533,432
Training and development	1,006,450	341,657
	<u>250,226,460</u>	<u>214,185,423</u>

The average number of persons employed full-time by the Company during the year was 257 (2014 – 207). As a policy, the Company does not hire part time employees.

7. INVESTMENT IN ASSOCIATE

	<u>2015</u>	<u>2014</u>
	\$	\$
Investment at the beginning of the year	129,282,994	-
Associate acquired: August 2014	-	121,167,244
	129,282,994	121,167,244
Share of results after tax	35,949,530	8,115,750
Less dividend received	(4,407,512)	-
Balance at the end of the year	<u>160,825,012</u>	<u>129,282,994</u>

In August 2014, the Company acquired 49% of Caribbean Flavours and Fragrances Limited (CFFL) a company incorporated in Jamaica and listed on the Junior Market of the Jamaican Stock Exchange. The Company participates in the financial and operating policy decisions but it does not control CFFL.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

7. INVESTMENT IN ASSOCIATE (Continued)

The assets and liabilities as at 31 December and six months revenue and net profit of the associate for the period ended 31 December 2015 as reported to the Jamaica Stock Exchange were as follows:

	<u>2015</u> <u>\$('000)</u>	<u>2014</u> <u>\$('000)</u>
Assets	267,361	195,940
Liabilities	27,795	17,596
Revenue	192,442	145,503
Net profit	<u>37,285</u>	<u>21,634</u>

8. INCOME TAX

Income tax is based on profit for the year adjusted for taxation purposes and comprises income tax as follows:

	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Current year's income tax charge @ 25% (2014 - 25%)	-	-
	<u>-</u>	<u>-</u>

The income tax charge on the Company's profit differs from the theoretical amount that arose using the statutory tax rate as follows:

	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Profit before taxation	88,130,313	51,606,721
Income tax calculation at 25%	<u>22,032,578</u>	<u>12,916,680</u>
Net effect of other charges for tax purposes	(6,698,667)	735,492
Remission of tax	<u>(15,333,911)</u>	<u>(13,652,172)</u>
	<u>-</u>	<u>-</u>

The Company was listed on the Junior Market of the Jamaican Stock Exchange on 17 December 2013 and under the Income Tax Act (Jamaica Stock Exchange Junior Market) (Remission) Notice, 2010, 100% of income taxes will be remitted by the Minister of Finance during the first five (5) years of listing on Junior Market (Phase One) of the Jamaica Stock Exchange and 50% of income taxes will be remitted by the Minister of Finance during the second five (5) years of listing on the Junior Market (Phase Two) of the Jamaica Stock Exchange. To obtain the remission of income taxes, the following conditions should be adhered to over the period:

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

8. INCOME TAX (Continued)

- (i) the Company remains listed for at least 15 years and is not suspended from the JSE for any breaches of the rules of the JSE
- (ii) the Subscribed Participating Voting Share Capital of the Company does not exceed \$500 million
- (iii) the Company has at least 50 Participating Voting Shareholders.

The financial statements have been prepared on the basis that the Company will have the full benefit of the tax remissions. The period is as follows:

Years 1 to 5 (17 December 2013- 16 December 2018) - 100%
Years 6 to 10 (17 December 2018- 16 December 2023) - 50%

Government of Jamaica (GOJ) new taxes

Effective January 1, 2014, the Government of Jamaica enacted new tax measures to change the tax incentive regimes applicable to various industries. Given the current non-tax position of the Company, these new tax measures have resulted in changes in the income tax and capital allowances computations but will not materially affect the Company's tax position until the end of the tax remission period. Some of these changes are as follows:

- Tax compliant entities are able to claim up to 30% of employer's and employees' statutory contributions (Employment Tax Credit (ETC)) against income tax for the year. Unused ETC , cannot be carried forward or refunded
- The maximum capital allowances on private motor vehicles, which were previously limited to J\$3,200, increased to a maximum of US\$35,000 and
- No initial allowances are given on the purchase of buildings; however, all other capital expenditure on buildings and other assets continue to attract initial allowances.
- A Minimum Business Tax of \$60,000 was enacted, payable in two installments, June 15 and September 15 of each year by registered companies. This tax can be set-off against income tax liability for the financial year but cannot be carried forward if unused in the respective year.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

9. CAPITAL RESERVE

	<u>2015</u>	<u>2014</u>
Balance: 31 December	\$ 57,503,266	\$ 57,503,266
Represented by:	<u>2015</u>	<u>2014</u>
Surplus on revaluation of fixed assets: 2011	\$ 38,314,594	\$ 38,314,594
Surplus on revaluation of fixed assets: 2012	19,188,672	19,188,672
	<u>57,503,266</u>	<u>57,503,266</u>

INVESTMENT RESERVE

	<u>2015</u>	<u>2014</u>
Opening balance: 1 January	\$ (40,000)	\$ -
Increase/(decrease) in revaluation of investments	654,000	(40,000)
Closing balance: 31 December	<u>614,000</u>	<u>(40,000)</u>

10. EARNINGS PER STOCK UNIT

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year.

	<u>2015</u>	<u>2014</u>
Net profit attributable to stockholders	\$ 88,130,313	\$ 51,606,721
Weighted average number of ordinary stock units in issue	273,336,067	273,336,067
Basic earnings per ordinary stock unit	<u>\$0.32</u>	<u>\$0.19</u>

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

11. PROPERTY, PLANT AND EQUIPMENT

2015

	<u>Furniture. & Equipment</u>	<u>Computer</u>	<u>Motor Vehicles</u>	<u>Building</u>	<u>Land</u>	<u>Lease hold Improvements</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
At Cost							
1 January 2015	112,622,422	9,959,043	26,796,665	49,499,997	12,520,000	9,574,485	220,972,612
Additions	22,484,541	841,768	7,000,000	-	-	6,158,303	36,484,612
31 December 2015	135,106,963	10,800,811	33,796,665	49,499,997	12,520,000	15,732,788	257,457,224
Acc. Depreciation							
1 January 2015	38,316,840	8,292,693	20,106,782	4,520,283	-	875,283	72,111,881
Charge for year	14,639,003	1,980,065	6,759,333	1,237,500	-	404,547	25,020,448
31 December 2015	52,955,843	10,272,758	26,866,115	5,757,783	-	1,279,830	97,132,329
Net book value							
31 December 2015	82,151,120	528,053	6,930,550	43,742,214	12,520,000	14,452,958	160,324,895

In December 2012 the land and buildings which were purchased in the prior year were professionally valued by independent valuers, E.B.I. and Associates Limited (professional evaluators and engineers), and the surplus on revaluation was transferred to capital reserve.

The directors have assessed the values of the land and buildings and are of the opinion that there is no significant change in the values at the reporting date.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>2014</u>						<u>Total</u>
	<u>Furniture. & Equipment</u>	<u>Computer</u>	<u>Motor Vehicles</u>	<u>Building</u>	<u>Land</u>	<u>Lease hold Improvements</u>	
	\$	\$	\$	\$	\$	\$	\$
At Cost							
1 January 2014	87,696,406	9,060,758	24,596,665	49,499,997	12,520,000	9,574,485	192,948,311
Additions	25,741,016	898,285	3,450,000	-	-	-	30,089,301
Disposals	(815,000)	-	(1,250,000)	-	-	-	(2,065,000)
31 December 2014	112,622,422	9,959,043	26,796,665	49,499,997	12,520,000	9,574,485	220,972,612
Acc. Depreciation							
1 January 2014	26,955,676	7,754,130	13,115,007	3,282,783	-	635,764	51,743,360
Charge for year	11,842,340	538,563	7,741,775	1,237,500	-	239,519	21,599,697
Disposals	(481,176)	-	(750,000)	-	-	-	(1,231,176)
31 December 2014	38,316,840	8,292,693	20,106,782	4,520,283	-	875,283	72,111,881
Net book value							
31 December 2014	74,305,582	1,666,350	6,689,883	44,979,714	12,520,000	8,699,202	148,860,731

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

12. GOODWILL

	<u>2015</u> \$	<u>2014</u> \$
Goodwill on acquisition	15,220,200	8,220,200

During the year ended 31 December 2009, the Company acquired the assets of a wholesale outlet, trading under the name Sampars Cash and Carry, paying \$3.75 million for the goodwill. The goodwill was built up by the former owners who operated the Company for many years and had a long list of loyal customers and suppliers. During the year, the Company continued to use the name to brand its retail outlets. After their review, management is of the opinion, that there is no impairment in the value of goodwill and therefore no write down of the amount is considered necessary at year end.

During the year ended 31 December 2014, the Company acquired the assets of My Neighbourhood Supermarket and rebranded it Sampars Old Harbour. The Company paid \$4.47 million for goodwill on acquisition.

During the year ended 31 December 2015, the Company acquired the assets of Northern Cash'N'Carry Supermarket and rebranded it Sampars St. Ann's Bay. The Company paid \$7 million for goodwill on acquisition

13. INVENTORIES

	<u>2015</u> \$	<u>2014</u> \$
Sampars' wholesale outlets; grocery and household items	279,485,932	263,768,115
Wholesale bulk commodity food items	313,329,070	340,909,955
	<u>592,815,002</u>	<u>604,678,070</u>

14. RECEIVABLES

	<u>2015</u> \$	<u>2014</u> \$
Trade receivables	332,609,014	358,577,790
Provision for bad debts	(6,079,046)	-
	<u>326,529,968</u>	<u>358,577,790</u>
GCT recoverable	128,578,189	84,997,404
Staff advances	9,088,155	9,468,632
Other receivables	41,532,954	41,744,419
	<u>505,729,266</u>	<u>494,788,245</u>

The following are the trade receivables aging as of 31 December 2015 and 2014.

Past due but not impaired

<u>Year</u>	<u>0-30 days</u> \$	<u>31-59 days</u> \$	<u>60-90 days</u> \$	<u>Over 90 days</u> \$	<u>Total</u> \$
2015	264,991,923	25,564,875	11,927,566	30,124,650	332,609,014
2014	266,770,259	39,317,551	9,090,075	43,399,905	358,577,790

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

14. RECEIVABLES (Continued)

Movement in provision for bad debts against trade receivables:

	<u>2015</u>	<u>2014</u>
	\$	\$
At the start of the year	-	-
Amounts provided for during the year	6,079,046	-
At the end of the year	<u>6,079,046</u>	<u>-</u>

During 2015 \$1,713,201 (2014 - \$26,956) was written off to profit and loss after repeated attempts were made to collect long outstanding amounts. Management has deemed the current receivable balance to be collectable, as all doubtful amounts were written off during the year. All doubtful debts over 90 days were reviewed and strategies and agreements implemented with debtors.

15. RELATED PARTIES

Related party balances consist of the following:

(a) Due from related party

	<u>2015</u>	<u>2014</u>
	\$	\$
Cotterell's Texaco Gas Station:		
Opening balance	3,915,387	6,860,583
Amounts advanced during the year	24,507,539	11,027,804
Amounts repaid based on invoices	<u>(13,888,047)</u>	<u>(13,973,000)</u>
Balance at the end of the year	<u>14,534,879</u>	<u>3,915,387</u>

The Managing Director has significant interest in the related party, Cotterell's Texaco Gas Station. The amount due from the related party at the end of the financial year is interest free and has no fixed terms of repayment.

The Managing Director and major shareholder of the Company has given assurance that this amount is recoverable and no provision is necessary against this balance.

(b) Key management personnel

During the year the Company paid salaries (see note 23) and repaid loans (see note 22) from key management personnel.

(c) As at the year end there were no balances due to or from the Associated Company Caribbean Flavours & Fragrances Limited. See Note 19 for details on the amount due to the Associated Company in the prior year.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

16. INVESTMENTS

	<u>2015</u>	<u>2014</u>
	\$	\$
Available-for-Sale:		
4.4% National Commercial Bank (NCB) Capital Markets	1,547,015	1,547,015
3.9 - 5% Jamaica Money Market Brokers (JMMB)	-	9,689,184
Caribbean Cream Limited , quoted shares	804,000	150,000
	<u>2,351,015</u>	<u>11,386,199</u>

17. CASH AND BANK

	<u>2015</u>	<u>2014</u>
	\$	\$
Foreign currency bank accounts	9,883,249	10,419,622
Jamaican dollar bank accounts	-	15,746,240
Jamaican dollar overdraft	(19,184,705)	-
Cash in hand	69,504,490	23,468,895
	<u>60,203,034</u>	<u>49,634,757</u>

18. PAYABLES

	<u>2015</u>	<u>2014</u>
	\$	\$
Staff related payables	503,236	973,806
Foreign payables	107,844,260	100,722,730
Local payables and accruals	447,342,470	493,362,610
Statutory liabilities	4,852,707	3,526,862
	<u>560,542,673</u>	<u>598,586,008</u>

19. SHORT TERM LOANS

	<u>2015</u>	<u>2014</u>
	\$	\$
(i) 12% Vendor's mortgage	-	61,167,244
(ii) Caribbean Flavours & Fragrances Limited (CFFL)	-	50,000,000
	<u>-</u>	<u>111,167,244</u>

- (i) This loan was provided by the former majority shareholders of CFFL to be used towards the purchase of 49% of it's shares. The loan was secured by a lien on the shares and was repaid in September 2015 at an interest rate of 12%.
- (ii) This represents a promissory note paid on March 2015 at 10.25%. This loan was unsecured.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2015

20. BORROWINGS

	<u>2015</u>	<u>2014</u>
	\$	\$
i) 12.25% Private Placement Notes	-	200,000,000
ii) 11.75% Private Placement Notes	198,094,481	
iii) 17% National Commercial Bank Credit Line	-	90,000,000
iv) 11% Promissory Notes	-	25,600,000
v) 10% First Global Bank	6,640,015	-
vi) 10.5% Jamaica Money Market Brokers	43,622,857	-
vii) 11.75% Redeemable Preference Shares	246,555,695	-
viii) 12% National Commercial Bank	-	10,720,219
ix) 9.25% National Commercial Bank	2,527,488	3,541,903
x) 11% National Commercial Bank	1,130,215	1,675,354
	<u>498,570,751</u>	<u>331,537,476</u>
Less current portion payable within 12 months	(6,658,984)	(318,022,612)
	<u>491,911,767</u>	<u>13,514,864</u>

- i) On 6 February 2014 the Company finalized an agreement with JCSD Trustee Services Limited for the private placement of notes amounting to \$200 Million for 18 months at an interest rate of 12.25%. The money raised was used to retire certain high interest rate liabilities, provide working capital support and fund capital expansion. The notes are secured over fixed and floating assets of the Company.
- ii) On 12 August 2015 the Company finalized an agreement with JCSD Trustee Services Limited for the private placement of notes amounting to \$200 Million for 18 months at an interest rate of 11.75%. The money raised was used to retire the previous bond of the same principal amount. The notes are secured over fixed and floating assets of the Company.
- iii) The NCB \$90 million Credit Line is a revolving line that allows for direct drawdown and repayment without any penalty being applied for early payment. The line is priced at 17% per annum. The principal was paid in full in March 2015.
- iv) The 11% Promissory note was obtained during the year ended 31 December 2013 to assist with working capital support. The collateral for the loan is real estate along with cold storage and office equipment at 8-10 Brome Close. The loan ranks pari-passu with the existing debts of the Company according to the executed loan agreement, and the principal was paid in full on 24 May, 2015.
- v) The 10% loan was utilized to purchase a motor car. The loan is repayable by monthly installment of \$148,770 and the final payment is scheduled for September 2020.
- vi) The 10.5% was used to assist with paying out the 12% Vendor's Mortgage shown in note. 19. The loan is payable in monthly installments of \$741,870 and the final payment is scheduled for December 2022.
- vii) The 11.75% Redeemable Preference shares were issued in March 2015 and are to be redeemed in full in March 2018. The funds raised were used to pay off the 17% NCB credit line along with certain Shareholder loans. The balance was used to buy foreign exchange and provide working capital support.

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20. BORROWINGS (Continued)

- viii) The 12% loan was secured to assist with the purchase of equipment and machinery and the said assets are used to secure this facility. The loan is payable by monthly installments of \$195,034 and was paid in full in June 2015.
- ix) The 9.25% NCB loan was used to purchase a motor car. The loan is repayable by monthly installments of \$77,470, and the final payment is scheduled for February 2017.
- x) The 11% NCB loan was utilized to purchase a delivery van and is secured by the said van. The loan is repayable by monthly installments of \$41,921 and the final payment is scheduled for July 2017

21. SHARE CAPITAL

	<u>2015</u>	<u>2014</u>
	\$	\$
<u>Authorized:</u>		
400,400,000 (2014 – 400,400,000) ordinary shares of no par value		
<u>Issued and fully paid:</u>		
273,336,067 shares net of transaction costs	140,044,436	140,044,436

On 20 November 2013, the ordinary shareholders of the Company unanimously passed a resolution in accordance with the Articles of Association to be registered as a public company under Section 34 of the Companies Act 2004 and the authorized and issued share capital were subsequently increased.

22. SHAREHOLDERS' LOANS

	<u>2015</u>	<u>2014</u>
	\$	\$
Opening balance: 1 January	49,898,289	4,889,198
Monies repaid net of advances during the year	(49,898,289)	45,009,091
Balance at the end of the year, 31 December	-	49,898,289

The shareholders' loans principally represent monies advanced to the Company to assist with working capital.

23. OPERATING PROFIT BEFORE TAXATION

The following items have been charged in arriving at operating profit before taxation:

	<u>2015</u>	<u>2014</u>
	\$	\$
Auditors' remuneration	2,950,000	2,650,000
Directors' emoluments:		
Fees	500,000	441,000
Management remuneration	24,702,452	21,711,000
Bad debts written off	1,713,201	26,956
Inventory written off during the year	8,271,994	10,277,509
Depreciation	25,020,448	21,599,697
Staff costs (including management remuneration)	<u>250,226,460</u>	<u>214,185,423</u>

24. RISK MANAGEMENT AND POLICIES

The Company's activities expose it to a variety of financial risks: market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. This note presents information about the Company's exposure to each of the above risks as well as its objectives, policies and processes for measuring and managing risk.

The Directors have overall responsibility for the establishment and oversight of the Company's risk management framework. They are responsible for developing and monitoring the Company's risk management policies and through training to develop standards and procedures and a disciplined and constructive control environment in which all employees understand their roles and obligations.

a) Market risk

The Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks principally arise from changes in foreign currency exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing returns. This risk is principally monitored by the finance director along with guidelines from the board of directors.

i. Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The movement in market prices are not expected to have a significant impact on the net results or stockholders' equity as the Company does not hold significant equity securities.

ii. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

24. RISK MANAGEMENT AND POLICIES (Continued)

a) Market risk (Continued)

ii. Currency risk (Continued)

The Company is exposed to foreign exchange risk, due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaican dollar. The Company is exposed to foreign exchange risk, arising primarily with respect to the US dollar, from commercial transactions such as the importation and sale of bulk rice that represents a significant percentage of the Company's overall purchase figure. To manage currency risk on imported rice, the Company enters into short and medium term arrangements with millers and producers at agreed terms primarily in producing countries.

Foreign currency bank accounts are maintained at levels which will meet foreign currency obligations and management also has access to purchase foreign currencies at market or close to market rates thereby reducing or mitigating the Company's exposure to sudden exchange rate fluctuations. The Company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by closely monitoring currency positions.

As at 31 December 2015, the Company had net foreign currency liabilities of US\$813,494 (2014-US\$786,573) which were subject to foreign exchange rate changes as follows:

Concentrations of currency risks

	<u>2015</u> <u>US\$</u>	<u>2014</u> <u>US\$</u>
Foreign currency financial assets		
Cash equivalents and investments	82,073	90,874
	<u>82,073</u>	<u>90,874</u>
Foreign currency financial liabilities		
Payables and accruals	(895,567)	(877,447)
Total net foreign currency liabilities	<u>(813,494)</u>	<u>(786,573)</u>

A significant portion of the Company's purchases are made using United States (US) dollars. The Company hedges against movement in the United States dollar principally by holding cash resources in that currency and prompt payment of foreign currency bills as they become due.

In accordance with accounting policies applied consistently, exchange gains and losses are recognized in the income statement when incurred.

	<u>2015</u> <u>J\$</u>	<u>2014</u> <u>J\$</u>
31 December 2015 : exchange rate 1US\$	<u>120.42</u>	<u>114.66</u>

24. RISK MANAGEMENT AND POLICIES (Continued)

a) Market risk (Continued)

Foreign currency sensitivity analysis

The sensitivity analysis represents the impact on the profit or loss due to the movement in the US dollar exchange rate relative to the Jamaican dollar.

Due to the nature of the Company's operations and the very short term nature of balances denominated in currencies other than the Jamaican dollar, in the opinion of management there should be no material impact on the results of the Company's operations as a result of changes in foreign currency rates as sudden changes are promptly adjusted in the selling prices of the Company's imported products, especially bulk rice and red kidney beans that forms a significant percentage of the Company's overall purchases.

A 10% (2014-10%) weakening of the Jamaican dollar, with all other variables remaining constant, in particular interest rates, would result in a loss of approximately \$9.8 million (2014-\$9 million) if all outstanding foreign liabilities are settled at the depreciated rate of the Jamaican dollar.

As at the date of approval and signature of the financial statements, a significant portion of the liability was already settled at rates approximating to that at the end of the reporting year.

iii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company invests excess cash in short-term deposits and maintains interest-earning bank accounts with licensed and reputable financial institutions. Short-term deposits are invested for periods of three (3) months or less at fixed rates and are not affected by fluctuations in market interest rates up to the date of maturity. Due to the fact that interest rates on the Company's short-term deposits are fixed up to maturity and interest earned from the Company's interest-earning bank accounts is immaterial, management is of the opinion there would be no material impact on the results of the Company's operations as a result of fluctuations in interest rates.

The Company incurs interest on its borrowings. These borrowings are at fixed rates and expose the Company to fair value interest rate risk. Interest rate fluctuations are not expected to have a material effect on the net results or stockholders' equity. The Company reviews its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing. Management, as a policy, avoids variable rate borrowing instruments.

24. RISK MANAGEMENT AND POLICIES (Continued)

a) Market risk (Continued)

iii. Interest rate risk (continued)

Interest rate sensitivity

The Company's interest rate risk arises from long-term borrowings and available-for-sale debt instruments. The sensitivity of the profit or loss is the effect of the assumed changes in the interest rates on profit before taxation based on floating rate borrowing and available-for-sale debt instruments.

The Company does not have any significant exposure to floating rate borrowings or on investments because the majority of the financial instruments carry fixed rates of interest to maturity.

b) Credit risk

Credit risk is the risk that one party, which includes customers clients and counterparties, to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is an important financial risk for the Company's business and therefore management meticulously manages the Company's exposure to this risk.

The Company faces credit risk in respect of its receivables from customers and investment activities.

i. Cash, deposits and investments

Credit risk for cash, deposits and investments is managed by maintaining these balances with licensed financial institutions considered to be reputable and stable. Accordingly, management does not expect any counterparty to fail to meet its obligations. The Finance Director along with the Board of Directors performs monthly reviews of the investments and securities held as a part of their assessment of the Company's credit risk.

The maximum credit risk faced by the Company is the total of these balances reflected in the financial statements. No provision for impairment is deemed necessary.

ii. Receivables

Credit risk for receivables is mitigated by stringent credit reviews and approval of limits to customers as well as regular credit evaluation of customers. Appropriate credit checks, references and analyses are undertaken in order to assess customers' credit risk prior to offering new credit or increasing existing credit limits. Many of the customers who are experiencing cash flow difficulties and are exceeding their credit limits are identified and the appropriate actions taken. Key performance indicators are reviewed regularly, including cash collected, average debt collection period, percentage of customers with overdue balances and debts deemed uncollectible. Credit limits for all customers inclusive of payment history and risk profile, are reviewed annually before renewal of credit facilities.

24. RISK MANAGEMENT AND POLICIES (Continued)

b) Credit risk (Continued)

ii. Receivables (Continued)

Aging analysis of trade receivables that are past due but not impaired

Trade receivables that are less than 90 days past due are not considered impaired. As of 31 December 2015, trade receivables of \$67,617,091 (2014 - \$91,807,531) were reviewed for impairment and a provision of \$6,079,046 was considered necessary. Management continues to critically review this position as they are aware that many of their customers who are retailers and wholesalers are experiencing difficult economic circumstances. The ageing analysis of these trade receivables is as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Past due 31 to 60 days	25,564,875	39,317,551
Past due 61 to 90 days	11,927,566	9,090,075
Past due over 90 days	30,124,650	43,399,905
	<u>67,617,091</u>	<u>91,807,531</u>

Exposure to credit risk for trade receivables

The following table summarizes the Company's credit exposure for trade receivables at their carrying amounts, as categorized by customer sector.

	<u>2015</u>	<u>2014</u>
	\$	\$
Supermarket chains	41,334,126	45,006,704
Wholesale and retail distributors	178,563,429	192,657,109
Government entities	1,653,365	945,185
Other	109,122,094	119,448,792
	<u>330,673,014</u>	<u>358,057,790</u>
Overseas	1,936,000	520,000
Total (see note 14)	<u>332,609,014</u>	<u>358,577,790</u>

Overseas customers mainly relate to customers in the United States and United Kingdom. The currencies of these countries are considered stable and consistently appreciate against the Jamaican dollar and no risk of loss is anticipated in this category of overseas customers.

iii. Total exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was \$568,283,315 (2014- \$555,809,201) representing the balances as at 31 December 2015 for cash and short term deposits, investments and receivables.

24. RISK MANAGEMENT AND POLICIES (Continued)

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by maintaining an appropriate level of resources in liquid or near liquid form to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity management process, as carried out within the Company and monitored by the Finance Director and Board of Directors, includes:

- i. Monitoring future cash flows and liquidity on an ongoing basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.
- ii. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.
- iii. Maintaining committed lines of credit.
- iv. Managing the concentration and profile of debt maturities while optimizing cash returns on investments.

At 31 December, 2015, the Company had three (3) major credit suppliers' relationships which did not exceed 25% (2014 26%) of the total annual purchases of the Company for the year ended 31 December 2015. Management continues to diversify the base of its credit suppliers on a regional basis as well as within intra-geographical regions within the markets in which the Company's major suppliers operate. In addition, the Company's supply chain has been expanded through forging of a new relationship with a major international commodity broker who helps to reduce the risk of depending on a few major suppliers.

The Company also has access to lines of secured credit to facilitate payments to major suppliers according to agreed credit terms should the Company at any time have insufficient cash resources to settle its obligations as they fall due.

Undiscounted contractual cash flows of financial liabilities

The Company's financial liabilities comprise long-term loans, payables and accruals, based on contractual undiscounted payments which are due as follows:

	Maturity Profile of the Company					
	Within 1 year		Within 1 to 5 years		Over 5 years	
	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$
Long-term loans	64,619,602	468,802,581	522,200,359	21,822,132	17,804,871	-
Payables and accruals	560,542,673	598,586,008	-	-	-	-
Total	625,162,275	1,067,388,589	522,200,359	21,822,132	17,804,871	-

Assets available to cover financial liabilities include cash, short term deposits and available-for-sale investments.

24. RISK MANAGEMENT AND POLICIES (Continued)

d) Reputational Risk

The Company is engaged in a business that principally distributes basic food items, and its reputation is critical within the market place. The Company's management endeavors at all times to be ethical and adopts international best practices especially with regard to bulk frozen meats and other bulk commodities such as rice and red kidney beans.

The Company also ensures that the necessary sanitary standards are maintained to guarantee that regular audits by the Bureau of Standards are successfully undertaken. In addition, customer audits are undertaken to facilitate continuous improvement and efficient customer delivery services.

Customer complaints are promptly and properly investigated and appropriately assessed and transparency is maintained; where necessary customers are promptly compensated if they have suffered loss. Management considers the Company's reputation secured as they ensure that events that may damage the Company's reputation are immediately investigated and the appropriate action taken to deal with the matter in a manner that satisfies the complainant.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into level 1 to 3 based on the degree to which the fair value is observable. The fair value of a liability reflects its non-performance risk.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the yearend, 31 December 2015. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency. and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. At 31 December 2015, these instruments are quoted investment securities (Note 7) which are grouped in level 1.

At the reporting date, the Company's financial assets and liabilities were reported at fair values and there was no necessity to estimate values using present value or other estimation and valuation techniques based on market conditions existing at balance sheet date.

The Company has no financial assets group in levels 2 and 3.

The following methods and assumptions have been used in determining fair values:

- i. The face value, less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These assets and liabilities include cash and bank balances, short term investments, trade receivables and payables.
- ii. The carrying values of long term loans approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates reflective of current market rates for similar transactions.

26. COMMITMENTS

As at the date of the signing of the financial statements, there has not been any approval for any material committed capital expenditure. These financial statements do not include any provision for capital expenditure commitments.

27. CONTINGENT LIABILITY

In the normal course of business, the Company is subject to various claims, disputes and legal proceedings. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Company, and the amount can be reasonably estimated.

At the year end, the Company had no significant outstanding legal matters being pursued in the Courts. In addition, representations from the Managing Director along with the Company's attorneys indicated that they were not aware of any potential contingent liability that may negatively affect the Company.

28. SUBSEQUENT EVENTS

The directors of the Company were not aware of any material subsequent event up to the date of the signing of these financial statements that should be disclosed in the financial statements. The Company's attorneys also did not report any significant matter at the reporting date, December 31 2015.