



McKENLEY
& ASSOCIATES
CHARTERED ACCOUNTANTS

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

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Financial Statements

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To the Members of
Paramount Trading (Jamaica) Limited

Independent Auditor's Report

Our opinion

We have audited the financial statements of Paramount Trading (Jamaica) Limited ("the Company") which comprise the statement of comprehensive income, the statement of financial position as at 31 May 2017, the statement of cash flows and the statement of changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 May 2017, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under these standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the Audit Committee members (those charged with Governance) but are not intended to represent all matters that were discussed with them. These matters are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. During our work, we encountered one key audit matter that required disclosure.

- **Impairment provision for receivables**

See notes 2 (h), 4 and 17 to the financial statements for management's disclosures of related accounting policies, judgments and estimates.

As at 31 May 2017, receivables amounted to \$227 Million with an impairment provision of \$10 Million representing 4.6% of the balance. With a net profit of \$101 Million, the accounts receivable represent a credit risk. We have recognized from our Audit that there has been an increase in the credit risk in this regard over the prior year.



McKENLEY
& ASSOCIATES
CHARTERED ACCOUNTANTS

2 Seymour Avenue, Unit 11
Seymour Park, Kingston 6
Phone: (876) 978-3129 / (876) 978-9789
Fax: (876) 927-6409
Website: www.wmckenley.com

To the Members of
Paramount Trading (Jamaica) Limited

Independent Auditor's Report (continued)

Key Audit Matters (continued)

- **Impairment provision for receivables (continued)**

We focused on the method used by management to determine the necessity for a provision against long outstanding debts and customers who are experiencing financial difficulties. We discussed and reviewed the impaired balances and reviewed correspondence with the customers along with agreements reached and the level of subsequent payments after the year-end.

We assessed and tested the fairness of the receivable balances by positive confirmation of certain customers along with reviewing payment pattern and determined that the reported balances were fairly stated. We reviewed subsequent payments and evaluated the payment arrangements with customers with balances over 90 days. The total balances owing to the Company over ninety (90) days amounted to \$64 Million and additional amounts provided against possible bad debts amounted to \$1.1 Million during the year.

We also queried certain assumptions by management as to why no additional increase in the provision is necessary, especially in regards to dormant receivable balances and those customers who continue to access credit from the Company while having significant balances over 90 days. We also evaluated the historical experience for customers within the industry with similar risk characteristics who have long outstanding balances.

Management has implemented a number of measures to enhance the Company's credit strategy including a zero-credit policy in their retail division. We evaluated the performance of the receivables, had discussions with management and reviewed the new policies established along with assessing subsequent receipts to determine whether there was any requirement for further adjustment to the impairment provision.

Based on our work we consider the impairment provision to be reasonable and no additional provision was considered to be necessary.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

To the Members of
Paramount Trading (Jamaica) Limited

Independent Auditor's Report (continued)

Responsibilities of Management and the Board of Directors for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

To the Members of
Paramount Trading (Jamaica) Limited

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- We are responsible for the direction, supervision and performance of the Company. We remain solely responsible for our audit opinion.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the Board of Directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosures about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information

Management is responsible for the other information. The other information comprises the Annual Report inclusive of the Director's, Chairman of the Board and the Chief Executive Officer Reports but does not include the financial statements and the Auditor's Report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our report on the financial statements does not cover the other information and we do not express any form of assurance thereon.



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To the Members of
Paramount Trading (Jamaica) Limited

Independent Auditor's Report (continued)

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appear to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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.

The engagement partner on the audit resulting in this independent auditor's report is Wilfred McKenley.

Chartered Accountants
25 July 2017
Kingston, Jamaica

Wilfred M. McKenley, F.C.C.A., F.C.A., M.B.A., Janice E. McKenley, B.Sc., EMBA., F.C.C.A., F.C.A. (Partner on Leave)

Paramount Trading (Jamaica) Limited
Statement of Comprehensive Income
Year ended 31 May 2017

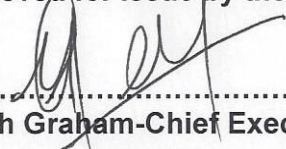
	Note	<u>2017</u> <u>\$</u>	<u>2016</u> <u>\$</u>
Operating revenue	8(i)	1,155,871,702	1,024,351,766
Less direct expenses	9	801,829,362	688,557,566
Gross profit		354,042,340	335,794,200
Other operating income	8(ii)	11,670,425	38,821,358
		365,712,765	374,615,558
Less operating expenses:			
Administrative	9	220,280,014	180,968,801
Selling & distribution	9	34,788,739	12,842,557
		255,068,753	193,811,358
Profit before finance income and costs		110,644,012	180,804,200
Finance income	10	1,105,807	1,722,647
Finance costs	10	(10,747,259)	(9,483,834)
Net finance costs		(9,641,452)	(7,761,187)
Profit before taxation		101,002,560	173,043,013
Taxation	11	-	-
Profit for year being total comprehensive income		101,002,560	173,043,013
		<u>\$</u>	<u>\$</u>
Earnings per share	12	0.065	0.112*

*restated for comparative purposes as a result of 10 to1 stock split.

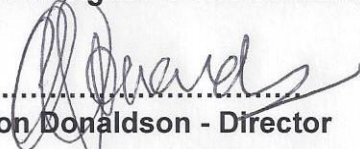
Paramount Trading (Jamaica) Limited
Statement of Financial Position
31 May 2017

Assets	Note	2017 \$	2016 \$
Non-current assets			
Property, plant and equipment	14	239,971,127	126,571,503
Investments	15	58,905,511	57,474,298
Current assets			
Inventories	16	367,058,842	336,321,271
Taxation recoverable		1,081,764	852,171
Receivables and prepayments	17	304,621,787	257,550,343
Cash and cash equivalents	18	49,633,811	80,920,662
		722,396,204	675,644,447
Current liabilities			
Payables	19	280,781,174	260,600,624
Current portion of long term borrowings	20	12,595,751	7,630,027
		293,376,925	268,230,651
Net current assets		429,019,279	407,413,796
Total assets less current liabilities		727,895,917	591,459,597
Equity			
Issued capital	21	77,492,243	77,492,243
Retained earnings		604,288,099	503,285,539
		681,780,342	580,777,782
Non-current liabilities:			
Long term borrowings	20	46,115,575	10,681,815
Total equity and non-current liabilities		727,895,917	591,459,597

Approved for issue by the Board of Directors on 25 July 2017 and signed on its behalf by:



 Hugh Graham-Chief Executive Officer



 Sharon Donaldson - Director

Paramount Trading (Jamaica) Limited
Statement of Cash Flows
Year ended 31 May 2017

	Note	<u>2017</u> \$	<u>2016</u> \$
Cash flows from operating activities			
Profit for the year		101,002,560	173,043,013
Adjustments for:			
Gain on disposal of property, plant & equipment	8	(4,721,030)	(5,044,206)
Depreciation	14	20,915,943	11,567,739
Interest expense		1,479,349	4,536,312
Operating cash flows before movements in working capital		118,676,822	184,102,858
Changes in operating assets and liabilities:			
Inventories		(30,737,571)	(57,967,653)
Receivables		(47,071,444)	(110,230,232)
Payables		20,180,550	150,204,987
Taxation		(229,593)	(519,091)
		(57,858,058)	(18,511,989)
Cash generated from operations		60,818,764	165,590,869
Interest paid		(1,479,349)	(4,536,312)
Net cash flow provided by operating activities		59,339,415	161,054,557
Cash Flows from Investing Activities:			
Purchase of property, plant & equipment	14	(134,315,567)	(44,554,979)
Proceeds from disposal of property, plant & equipment		4,721,030	5,044,206
Net cash used in investing activities		(129,594,537)	(39,510,773)
Cash Flows from Financing Activities:			
Dividend paid		-	(60,156,216)
Loans received		49,680,495	-
Loans repaid		(9,281,011)	(17,916,246)
Net cash provided by/(used in) financing activities		40,399,484	(78,072,462)
Net (decrease)/increase in cash resources		(29,855,638)	43,471,322
Cash resources at beginning of year		138,394,960	94,923,638
Cash resources at end of year		108,539,322	138,394,960
Represented by:			
Investments	15	58,905,511	57,474,298
Cash and cash equivalents	18	49,633,811	80,920,662
		108,539,322	138,394,960

Paramount Trading (Jamaica) Limited
Statement of Changes in Equity
31 May 2017

	<u>Note</u>	<u>No. of Shares</u>	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
			\$	\$	\$
Balances at 31 May 2014		154,246,708	77,492,243	267,666,672	345,158,915
Profit for the year		-	-	146,023,323	146,023,323
Dividend paid		-	-	(23,291,253)	(23,291,253)
Balances at 31 May 2015		154,246,708	77,492,243	390,398,742	467,890,985
Profit for the year		-	-	173,043,013	173,043,013
Dividend paid	13	-	-	(60,156,216)	(60,156,216)
Balances at 31 May 2016		154,246,708	77,492,243	503,285,539	580,777,782
Profit for the year		-	-	101,002,560	101,002,560
Dividend paid	13	-	-	-	-
Balances at 31 May 2017		154,246,708	77,492,243	604,288,099	681,780,342

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

Paramount Trading (Jamaica) Limited was a private company limited by shares, incorporated in 1991 and domiciled in Jamaica. Effective 31 December 2012, the Company's shares were listed on the Junior Market of the Jamaica Stock Exchange (JSE). The registered office of the Company is located at 39 Waltham Park Road, Kingston 13.

The principal activity of the Company is importation and distribution of chemicals and other related products. During the year ended 31 May 2010, the Company acquired a franchise with a recognized brand to manufacture chemicals on behalf of an international company. In addition, the Company also entered into arrangements with another international company to distribute "SIKA" branded hardware products. The products include anchoring adhesives and sealants principally distributed to the commercial hardware market.

Items included in the financials are measured using the functional currency of the primary economic environment in which the Company operates. The financial statements are presented in Jamaican dollars, which is the Company's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using the accounting policies described herein. These policies have been consistently applied for all the years presented, unless otherwise stated.

Going concern

The preparation of financial statements in accordance with IFRS assumes that the Company will continue in operation for the foreseeable future. This means, in part, that the statements of profit or loss and comprehensive income and the statement of financial position assume no intention or necessity to liquidate or curtail operations. This is commonly referred to as the going concern basis. Management believes that the preparation of the financial statements on the going concern basis continues to be appropriate.

Basis of presentation

The financial statements have been prepared on the historical cost basis, except for the following items, which are measured at fair value:

- Financial instruments at fair value through profit or loss;
- Available-for-sale financial assets;
- Revaluation of certain property, plant and equipment; and
- Initial recognition of assets acquired and liabilities assumed in a joint venture.

Revenues and expenses

Revenues and expenses are recorded on the accrual basis, whereby transactions and events are recognized in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Judgments and estimates

The preparation of the financial statements in accordance with IFRS requires Management to make judgments and estimates that affect:

- The application of accounting policies;
- The reported amounts of assets and liabilities;
- Disclosures of contingent assets and liabilities; and
- The reported amounts of revenue and expenses during the reporting periods.

Actual results may differ from estimates made in the financial statements.

Judgments are made in the selection and assessment of the Company's accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances. Judgments and estimates are interrelated. The Management's judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revision to accounting estimates are recognized in the period in which the estimates are revised and in the future periods affected.

The following are the accounting policies that are subject to judgments and estimates that the Management believes could have the most significant impact on the amounts recognized in the financial statements.

Impairment of assets

Judgment – Management uses judgment in determining the grouping of assets to identify the Cash-Generating Units ("CGUs") for the purposes of testing for impairment of property, plant and equipment ("PPE"). Management has determined that its five (5) strategic business units are its CGUs, which comprise Distribution (Imported chemicals and SIKA branded construction and adhesive products), Manufacturing (Branded chemical products and Manufacturing of lubricants) and Haulage (Haulage services provided to external customers). In testing for impairment of PPE, these assets are allocated to the CGUs to which they relate.

Judgment has been used, at each reporting date, in determining whether there has been an indication of impairment, which would require the completion of impairment testing.

Estimation – Management's estimates of a CGUs' recoverable based on value-in-use involves estimating future cash flows before taxes. Future cash flows are estimated based on a multi-year extrapolation of the last five years actual historical results and a terminal value by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on the Bank of Jamaica's target inflation rate or Management's estimate of the growth rate specific to the individual item being tested. The future cash flow estimates are then discounted to their present value using the appropriate pre-tax discount rate, which includes a risk premium specific to the business. The final determination of a CGUs' recoverable amount is based on fair value less cost to sell and its value-in-use.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in comprehensive income. This is reversed only if there has been a change in the estimates used to determine the recoverable amount and not to exceed the original carrying amount before its impairment. The reversal is also recognized in the statement of comprehensive income.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Judgments and estimates (continued)

Inventories

Estimation – Inventories are carried at the lower of cost and net realized value. The estimation of net realized value is based on the most reliable evidence available, at the time the estimates are made, of the amount the inventories are expected to realize. Additionally, estimation is required for inventory provision due to shrinkage, slow-moving and obsolescence.

Income and other taxes

Judgment – Income and other taxes are subject to Government policies. In calculating current and recoverable income and other taxes, Management uses judgment when interpreting the tax rules and in determining the tax position. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business

Estimation – Income and other taxes are subject to Government policies, and estimates are required in determining the provision. Management recognizes liabilities for possible tax issues based on estimates of whether additional taxes may be due.

Receivables

Estimation – Management's estimate of allowance on accounts receivable is based on analysis of the Aged Receivables and historical experience with delinquency and default. Default rates and the allowance amount are regularly reviewed against the actual outcomes to ensure that they remain appropriate.

Post-employment benefits

Estimation – The accounting for the Company's post-employment benefit plan requires the use of assumptions. The Individual Retirement Account ("IRA") requires the Company to match the employees' contributions to the plan. Management's best estimates of future salary escalations, retirement ages of employees, employees' turnover and contribution rates by employees are required.

Joint arrangement

Judgment – Management applies judgment in determining the type of joint arrangement in which it is involved. The classification of the joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement, its structure and legal form, the terms agreed by the parties in the contractual arrangement, and when relevant, other facts and circumstances

Investment property

Judgment – Management applies judgment in determining whether a property qualifies as an investment property. Criteria are developed to allow management to exercise that judgment consistently.

Others

Estimation – Other estimates include determining the useful lives of PPE for depreciation; in accounting for and measuring payables and accruals and in measuring fair values of financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in the current year.

Certain amendments and clarifications to existing standards have been published that became effective during the current financial year. The Company has assessed the relevance of all such new amendments and clarifications and has put into effect the following, which are immediately relevant to its operations.

- **Annual improvements to IFRSs 2012-2014 cycles, effective for periods beginning on or after 1 January 2016.** There was no impact from the adoption of these amendments and clarifications.
- **Amendment to IFRS 11, 'Joint arrangements', effective for the periods beginning on or after 1 January 2016,** clarifies the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. This amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. There was no significant impact of adopting this amendment, as the acquisition of a joint arrangement during the year was not totally completed as at 31 May 2017.
- **Amendment to IAS 16, 'Property, Plant and Equipment' and IAS 38 'Intangible Assets', effective for the periods beginning on or after 1 January 2016.** In these amendments, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of assets is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. There was no impact from the adoption of this amendment, as the Company does not use revenue-based depreciation or amortisation methods.
- **Amendments to IAS 27, 'Separate Financial Statements', effective for annual accounting periods beginning on or after 1 January 2016.** This amendment allows entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in its separate financial statements at (i) cost, (ii) in accordance with IFRS 9 or (iii) using the equity method as described in IAS 28. The IASB has also clarified the definition of separate financial statements. There was no impact from adoption of this amendment, as no such situation existed at the end of the reporting period, 31 May 2017.
- **Amendments to IFRS 10 and IAS 28, Consolidated Financial Statements, effective for accounting periods beginning on or after 1 January 2016.** The amendments clarify the relief from consolidation, which is available to entities in-group structures involving investment entities, and are likely to reduce the number of entities, which produce, consolidated financial statements. The amendments also provide relief to non-investment entity investors in associates and joint ventures, who would otherwise incur practical difficulties or additional costs in unwinding fair value measurements and performing additional consolidations. There was no impact from adoption of this amendment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in the current year (continued).

- **Amendment to IAS 1, 'Presentation of financial statements', effective for accounting periods beginning on or after 1 January 2016.** This amendment forms part of the IASB's Disclosure Initiative, which explores how financial statements disclosures can be improved.

These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments were effective for annual periods beginning on or after 1 January 2016, and were applied prospectively, where applicable.

It clarifies guidance in IAS 1 on:

- (i) the structure of financial statements and that the order of notes is not prescribed
- (ii) presenting subtotals on the statement of financial position and in the statement of profit or loss and other comprehensive income (OCI)
- (iii) the presentation in the statement of OCI of items arising from joint ventures and associates should be accounted for according to the equity method and follows IAS 1 approach of splitting items into those that may be reclassified to profit or loss and those that will never be reclassified
- (iv) materiality and aggregation

These changes had no significant effect on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continue)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

The following new standards, amendments and interpretations have been issued and may impact the financial statements, but are not effective for the fiscal year ended 31 May 2017, and, accordingly, have not been applied in preparing the financial statements.

- **IFRS 9 'Financial Instruments', which is effective for accounting periods beginning on or after 1 January 2018**, replaces the existing guideline in *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS9 principal focus 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. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

IFRS 9 will be applied retrospectively for annual periods beginning on or after 1 January 2018.

- **IFRS 15, 'Revenue from Contracts with Customers', effective for accounting periods beginning on or after 1 January 2018**. This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus can direct the use and obtain the benefits from the good or service. Contracts that are within the scope of the standards on leases, insurance contracts and financial instruments are exceptions. This standard also contains enhanced disclosure requirements.

This standard replaces IAS 11 – Construction contracts, IAS 18 – Revenue and International Financial Reporting Interpretation Committee ("IFRIC") 13 – Customer loyalty program (IFRIC 13), as well as various other interpretations regarding revenue.

In April 2016, the IASB published clarifications to IFRS 15, which address three topics (identifying performance obligations, principal versus agent considerations and licensing) and provided some transition relief for modified contracts and completed contracts.

IFRS 15 and the amendments will be applied retrospectively for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

- **IFRS 16 'leases', which is effective for accounting periods beginning on or after 1 January 2019**. This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use,' for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets: however, this exemption can only be applied by lessees.

For lessors, the accounting treatment remains similar to current practice, as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17, lease accounting, with recognition of the net investment in lease comprising receivable and residual asset. Operating lease accounting will continue to be based on IAS 17.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (continued)

IFRS 16 will be applied retrospectively for annual periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 has also been applied.

- **Amendments to IFRS 4 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2018.** This standard addresses the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial Instruments', and the forthcoming new insurance contracts standard. The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional. IFRS 4 will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standard becomes effective.
- **Amendments to IAS 12, 'Income Taxes', effective for annual periods on or after 1 January 2017.** In January 2016, the IASB amended IAS 12 – *Income taxes* by issuing *Recognition of deferred tax assets for unrealized losses*. The amendments clarify the accounting for deferred tax where the asset is measured at fair value and that fair value is below the asset's tax base. The amendments also address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after 1 January 2017.

- **Amendments to IAS 7, 'Statement of Cash Flows' effective for annual periods beginning on or after 1 January 2017.** The amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdown and repayments of borrowings and non-cash changes, such as acquisitions, disposals and unrealised exchange differences. The adoption of this amendment is expected to impact the nature and extent of the Company's disclosures.
- **Amendments to IFRS 2, 'Share-Based Payment', effective for annual periods on or after 1 January 2018.** The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employees tax obligations associated with a share -based payment and pay that amount to the tax authorities. The Company is currently assessing the impact of this amendment.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (continued)

- **Amendment to IAS 40, 'Investment property', effective for annual periods beginning on or after 1 January 2018.** These amendments clarify that to transfer to, or from investment properties, there must be a change in use. To conclude, if a property has changed use there should be an assessment of whether the property meets the definition. The change must be supported by evidence.
- **IFRIC 22 'Foreign currency transactions and advance consideration', effective for annual periods beginning on or after 1 January 2018.** In January 2016, the IASB amended IAS 21 – The effects of changes in foreign exchange rates by issuing IFRIC 22 – Foreign currency transactions and advance consideration. These amendments clarified how to determine the date of the transaction to determine the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the de-recognition of a non-monetary asset or non-monetary liability arising from payment or receipt of advance consideration in a foreign currency.

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted and the Company is required to disclose that fact.

- **Annual Improvements to IFRSs 2014 - 2016 cycles.** These amendments impact two standards which are relevant to the Company's operations as follows:
- **IAS 28 'Investment in Associates and Joint Ventures', effective 1 January 2018,**
In December 2016, the IASB amended IAS 28 – Investments in associates and joint ventures. These amendments clarify the accounting policy choice available for electing to measure the investments at fair value through profit or loss in accordance with IFRS 9.

These amendments are effective for annual periods beginning on or after 1 January 2018.

- **IFRS 12 'Disclosure of Interests in Other Entities',**
In December 2016, the IASB amended IFRS 12 – Disclosure of interest in other entities. The objective of these amendments is to require an entity to disclose information that enables users of the financial statements to evaluate the nature of and risk associated with its interest in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

These amendments should be applied retrospectively and effective for annual periods beginning on or after 1 January 2017.

Management is currently assessing the likely impact of these standards and amendments on the Company's financial statements but they do not anticipate any material impact on the accounting policies or financial disclosures of the Company.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transaction and balances

Foreign currency transactions that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in currencies other than Jamaican dollars are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary assets and liabilities measured at historical cost denominated in currencies other than Jamaican dollars are translated at the rate of exchange in effect at the date of the transactions or initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Gains and losses arising from fluctuations in exchange rates are generally included in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity investments are recognised in other comprehensive income, except on impairment, in which case the foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

Exchange rates are determined by the published weighted average rate at which commercial banks trade in foreign currencies.

(c) Consolidation

A subsidiary is an enterprise controlled by the Company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements of companies from the date control commences until the date that control ceases.

At the reporting date:

- (i) The Company has no subsidiaries.
- (ii) The Company entered into a joint venture agreement with another entity to partner in manufacturing lubricants for the motor industry. As at 31 May 2017, the financial statements of this entity will not be consolidated with that of the Company. See note 23 for further details.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. Land is carried at cost and is not depreciated.

Depreciation is calculated on a straight-line method at such rates as will write off the carrying value of the assets over the period of their expected useful lives. Current annual rates of depreciation are:

Buildings	2-6%
Plant, machinery and equipment	10%
Furniture and fixtures	10%
Mobile equipment and motor vehicles	20%
Computer software and equipment	10%

The assets' residual values and useful lives are reviewed periodically for impairment. Where the assets' carrying amount is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

Repairs and maintenance expenditure are included in the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company.

The cost of self-constructed assets includes the cost of materials, direct labour and related cost to put the asset into service. Borrowing costs, including but not limited to, interest on borrowings and exchange differences arising on such borrowings, that are directly attributable to the acquisition and/or construction of a qualifying asset are capitalized as part of the cost of that asset. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its use are complete. Thereafter, borrowing costs are recognised in profit or loss when they are incurred.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Inventories

Inventories are stated at the lower of cost, determined consistently on the same bases, and net realizable value. The cost of inventories is determined based on weighted average cost and includes costs incurred in bringing the inventories to their present location and condition. Inventories comprised finished goods, work-in-progress, and raw and packaging materials.

Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank, plus highly liquid instruments including certificates of deposits, where the original maturities of such instruments usually do not exceed three (3) months.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management activities, are included as a component of net cash resources for the statement of cash flows along with investments that are highly liquid.

(g) Financial instruments – recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument. All financial instruments are required to be measured at fair value on initial recognition. Subsequent measurement of these assets and liabilities is based on fair value or amortized cost using the effective interest method.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, except those classified as *fair value through profit or loss ("FVTPL")*, are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition.

The Company classifies financial instruments, at the time of initial recognition, according to their characteristic and management's choice and intentions related to it for ongoing measurement. Classification choices for financial assets include:

- Fair value through profit or loss (FVTPL)
- Held-to-maturity investments and
- Loans and receivables

Classification choices for financial liabilities include:

- FVTPL; and
- Other liabilities

The Company's financial assets and financial liabilities are generally classified as loans and receivables and investments while other liabilities are generally measured at fair value.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments – recognition and measurement (continued)

Financial instruments at fair value through profit or loss (FVTPL)

Financial instruments are classified as FVTPL when the instrument is either held for trading or designed as such upon initial recognition. Financial instruments are classified as held for trading if acquired principally for selling in the near future or if part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit making.

Financial instruments classified as FVTPL are measured at fair value, with changes in fair value recorded in net income in the period in which they arise.

Held-to-maturity investments

Financial assets are classified as held-to-maturity investments on initial recognition when the entity has a positive intention and ability to hold to maturity. These financial assets have fixed or determinable payments and fixed maturity.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at fair value less any impairment, with gains and losses recognized in net income in the period that the asset is de-recognized or impaired.

Other liabilities

The other financial liabilities are measured at cost less any impairment, with gains and losses recognized in net income in the period that the liability is derecognized.

Derecognition of financial instruments

A financial asset is derecognized when the contractual rights to the cash flow from the assets expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the contractual obligations are discharged, cancelled or expires.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Trade receivables

Trade and other receivables are carried at anticipated realizable value. An allowance for impairment of trade and other 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 receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in bad debt expense in the statement of comprehensive income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as recovery and credited to bad debt expense in the statement of comprehensive income.

(i) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

(j) Debt: borrowings and borrowing costs

Debt is classified as current when the Company expects to settle the liability in its normal operating cycle, it holds the liability primarily for trading, the liability is due to be settled within 12 months after the date of the statement of financial position, or it does not have an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position; Otherwise, it is classified as long-term. After initial recognition, Debt is measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the liability is derecognized.

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 recognized in profit or loss in the period in which they are incurred.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue recognition

Revenue is recognized when the amount can be reliably measured when it is probable that future economic benefits will flow to the Company, and when specific criteria have been met for each of the activities described below:

- (i) **Sale of goods**
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration that is due to the delivery and supply of goods.
- (ii) **Services rendered**
Revenue from the provision of services is recognised when the service has been provided to customers.
- (iii) **Finance income**
Finance income comprises interest-earned on funds invested and foreign exchange gains recognised in profit or loss. Interest income is recognised in profit or loss as it accrues, taking into account the effective yield on the asset
- (iv) **Other operating income**
Other operating income includes gains on disposal of assets, recognized when the asset is sold and miscellaneous inflows recognized when received.

(l) Leases

Leases of property, plant and equipment where the Company has substantially taken over all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged to comprehensive income over the lease period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to comprehensive income on a straight-line basis over the period of the lease.

(m) Dividends

Dividends declared and payable to the Company's ordinary shareholders are recognised as liability in the statement of financial position in the period in which the Company's Board of Directors approves the dividends.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the statement of comprehensive income net of any reimbursement.

(o) Impairment

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units fair value less costs to sell and its value in use and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in comprehensive income.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

(p) Pension and employee benefits

The Company does not have a Pension Plan but it has implemented an Individual Retirement Account (IRA) scheme for some categories of staff operated by Sagicor Limited, a licensed Investment management entity. The Company contributes 5% to the IRA for each participating individual based on their gross salary. The Company recognizes a liability and an expense for its contribution to the IRA.

Employees' benefits include current or short-term benefits such as salaries, statutory contributions paid, annual vacation and sick leave, non-monetary benefits such as medical care. Entitlement to annual leave and other benefits are recognized when they accrue to employees.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Related party disclosure

Related parties are identified and disclosed to allow users of the financial statements to be aware of the possibilities that the financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the “reporting entity”)

(a) A person or close member of that person’s family is related to a reporting entity if that person:

- (i) Has control or joint control over the reporting entity;
- (ii) Has significant influence over the reporting entity; or
- (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions apply:

- The Company and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One company is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both companies are joint ventures of the same third party.
- One company is a joint venture of a third entity and the other entity is an associate of the third entity.
- The company is a post-employment benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity.
- The company is controlled, or jointly controlled by a person identified in (a) above.
- A person identified in ((a) (i)) above has significant influence over the company or is a member of the key management personnel of the company (or of a parent of the company).

A related party transaction involves transfer of resources, services or obligations between a reporting company and a related party, regardless of whether a price is charged.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income taxes

The income tax expense for the year comprises current and deferred tax. Income tax expense is recognized in net income, except to the extent that it relates to items recognized either in OCI or directly in equity.

I. Current taxation

The current tax charge is the expected tax payable on the taxable income for the year, using tax rates in effect at the reporting date plus any over or under provision of tax in respect of previous years.

II. Deferred taxation

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

The Company's shares were listed on the Junior Market of the Jamaica Stock Exchange (JSE) on 31 December 2012. As a result of the tax-free status that was granted to the Company, entries relating to deferred taxation were reversed as at 31 May 2013. See note 11 for further information on taxation as it relates to the Junior Market of the JSE.

During the subsequent year, the relevant deferred tax liability or assets will be booked as the 100% income tax free status of the Company will expire 31 December 2017.

(s) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Management considers the Company to have five (5) (2016- five (5) strategic business units, which offer different products and services and principally require different technology and marketing strategies.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Segment reporting (continued)

The primary reportable business units are:

Distribution

- (i) of imported chemicals and lubricants
- (ii) of SIKA branded construction and adhesive products

Manufacturing

- (iii) of branded chemical products
- (iv) manufacturing of lubricants

Haulage

- (i) haulage services provided to external customers

The manufacturing operations are conducted at 8 East Bell Road, Kingston 11 and the distribution of chemicals is done from both the Company's warehouses at East Bell Road and at 39 Waltham Park Road, Kingston 13.

Financial and other transactions between business units have been eliminated, where necessary in preparing the financial statements.

(t) Expenses

- (i) Expenses are recognised on the accrual basis.
- (ii) Finance costs comprise interest incurred on borrowings, calculated using the effective interest method, foreign exchange losses and bank related charges.
- (iii) Payments under leases are recognised in profit or loss on the straight-line basis over the term of the lease.

(u) Share capital

Ordinary shares are classified as equity and carried at cost. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

(w) Interest bearing borrowings

Interest bearing borrowings are recognised at cost. After initial recognition, interest bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowing on an effective interest basis.

(x) Investments

Investments are classified as loans and receivables. Loans and receivables are those that have a fixed or determinable payment and which are not quoted in an active market.

Held-to-maturity investments are certificate of deposits and are recognised at fair value. . Incomes from these investments are accounted for based on the accrual basis.

3. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- Ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- Maintaining healthy liquidity reserves and access to capital;
- Optimizing the cost of capital while taking into consideration current and future industry, market, and economic risks and conditions; and
- To safeguard its ability to continue as a going concern in order to provide returns for its stockholders and benefits for other stakeholders

The definition of capital varies from company to company, industry to industry, and for different purposes. In the process of managing the Company's capital, Management includes the following items in its definition of capital: total long term debt plus total equity.

The Company has a policy in place to manage capital. As part of the overall management of capital, management and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, the policy. In addition, periodic review of the policy is performed to endure consistency with the risk tolerance.

The Company monitors its capital structure through measuring the gearing ratio. This ratio is calculated as total long term debt divided by total capital under management.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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3. CAPITAL MANAGEMENT (continued)

The Company also monitors the return on capital, which is defined as net operating income divided by total stockholders' equity plus long term debt, and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other coverage ratios and forecasting cash flows. Management reviews financial and other covenants of the existing debt agreements on an ongoing basis to monitor compliance with the agreements.

During 2017, the Company's strategy, which was in principle unchanged from 2016, was to maintain the gearing ratio below 1:1. The gearing ratios at 31 May 2017 and 31 May 2016 were as follows:

	<u>31 May</u> <u>2017</u>	<u>31 May</u> <u>2016</u>
	\$	\$
Net borrowings	58,711,326	18,311,842
Total capital	740,491,668	599,089,624
	0.08	0.03

There are no externally imposed capital requirements and there have been no changes to the Company's approach to capital management during the year.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview and risk management framework

The Company's overall risk management policies are established to identify and analyze the risks faced by the Company and to set appropriate risk levels and controls and to monitor risk and adherence to limits. Derivative financial instruments are not used to reduce exposure to any of the risks.

The Board of Directors is ultimately responsible for the oversight of the Company's risk management and has established committees such as audit and treasury to monitor risks. The Company seeks to minimize potential adverse effects on the Company's financial performance and to manage these risks by close monitoring of each risk factor as follows:

The Company has exposure to the following risks from the use of financial instruments:

- Market risk (including foreign currency and interest rate risk)
- Credit risk;
- Liquidity risk; and

The Company has exposure to the following risks from its operations:

- Operational risk; and
- Reputational risk

The following presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout the financial statements and notes thereof.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management

(i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risk exposures within acceptable parameters while optimizing the return. The Company's financial risk management policy establishes guidelines on how the Company is to manage the market risk inherent in the business and provides mechanisms to ensure business transactions are executed in accordance with established limits, processes and procedures.

All such transactions are carried out within the established guidelines. The Company does not use derivatives in order to manage volatility of market risk.

• **Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company conducts business globally and is exposed to these risks arising from various transactions denominated in foreign currencies, primarily United States (US\$) dollar.

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 monitoring currency positions. The Company further manages this risk by maximizing foreign currency earnings and holding foreign currency balances.

The Company's statement of financial position as at 31 May 2017 includes aggregate net foreign liabilities of approximately US\$994,057 (2016-US\$600,028) in respect of transactions arising in the ordinary course of business which was subject to foreign exchange rate changes as follows

Concentration of currency risks

	<u>2017</u> <u>US\$</u>	<u>2016</u> <u>US\$</u>
Financial assets		
- Cash and cash equivalents	645,452	918,035
	<u>645,452</u>	<u>918,035</u>
Financial liabilities		
- Payables and accruals	(1,639,509)	(1,518,063)
Net total assets/(liabilities)	<u>(994,057)</u>	<u>(600,028)</u>
Equivalent to	<u>(J\$129,366,578)</u>	<u>(J\$75,249,511)</u>

The above assets/ (liabilities) are receivable/ (payable) in United States dollars. The average of the Bank of Jamaica (BOJ) buying and selling rate of exchange applicable at 31 May 2017 is J\$130.14 to US\$1 (2016 - J\$125.41 to US\$1)

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management (continued)

(i) Market risk (continued)

- Foreign currency risk (continued)**

Foreign currency sensitivity

A 5% (2016-5%) weakening of the Jamaican dollar would have decreased profit for the year by approximately \$6.4 Million (2016 - \$3.8Million), assuming all other variables, in particular, interest rates, remain constant.

- 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. Interest –bearing financial assets are primarily cash and cash equivalent, securities purchased under resale agreements and investments. Interests bearing financial liabilities are represented by loans and bank overdrafts.

The Company attempts to manage the risk relating to financial liabilities by procuring the most advantageous rates under contracts with interest rates that are fixed for the life of the contract, where possible. A financial asset is primarily managed by investing excess cash in short-term deposits and maintains interest-earning bank accounts with licensed financial institutions.

During the year, the Company experienced a reduction in the rates on certain of its loans. At the reporting date the interest profile of the Company's interest bearing financial instruments was:

	<u>2017</u> <u>\$</u>	<u>2016</u> <u>\$</u>
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	58,711,326	18,311,842
	<u>58,711,326</u>	<u>18,311,842</u>
Variable rate instruments		
Financial assets	89,959,638	126,966,493
Financial liabilities	-	-
	<u>89,959,638</u>	<u>126,966,493</u>

Fair value sensitivity analysis for fixed rate instruments:

The Company does not hold any financial instruments that are carried at fair value. As a consequence, at the reporting date, fluctuation in interest rates, would not affect the profit or other comprehensive income recognized for the year.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management (continued)

(i) Market risk (continued)

- **Interest rate risk (continued)**

Cash flow sensitivity analysis for variable rate instruments:

At the reporting date, a 2% (2016 - 2%) increase/(decrease) in interest rates would have increased/(decreased) profit by approximately \$1.8 Million (2016 - \$2.5 Million) assuming that all other variables, in particular, foreign currency rates, in both the current and prior years remained constant.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company faces credit risk principally in respect of its receivables from customers and to a lesser extent cash at bank and short term deposits held with financial institutions and investments with non- bank counterparties.

There were no significant changes in the Company's approach to managing credit risk during the year.

Cash and cash equivalent

Cash and cash equivalent and investments are managed by maintaining these balances with licensed financial institutions considered to be stable and are deemed to have low risk of default.

Trade receivables credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit risk for receivables is mitigated by stringent credit reviews and approval of limits to customers. The Company also structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted about a single counterparty. The Company has an established credit process, which involves regular analysis of the ability of customers and other counterparties to meet repayment obligations.

The credit quality of the customer is assessed, taking into account its financial position, experience and other factors. The utilization of credit limits is regularly monitored.

Customers of the Company principally include wholesalers, retailers, bauxite companies and bakeries. The Company has procedures in place to restrict customer orders if the orders exceed their credit limits. Customers that fail to meet the Company's benchmark creditworthiness may transact business with the Company on a prepayment or cash basis.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

• **Financial risk management (continued)**

(ii) Credit risk (continued)

Impairment:

The Company establishes a provision for impairment that represents its estimate of possible incurred losses in respect of trade receivables. Impairment is assessed for each customer balance over 90 days. The Company's exposure to this risk is moderate because approximately 72% (2016-90%) of its trade debtors are under 90 days.

The Company's credit period on the sale of goods ranges from 7 to 30 days. The Company has provided fully for all receivables where collectability is deemed doubtful.

Maximum exposure to trade receivables credit risk

	<u>2017</u> \$	<u>2016</u> \$
Credit risk exposures are as follows:		
Receivables (inclusive of prepayments and other receivables)	<u>304,621,787</u>	<u>257,550,343</u>

Exposure to credit risk by customer sector

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

	<u>Note</u>	<u>31 May</u> <u>2017</u> \$	<u>31 May</u> <u>2016</u> \$
Manufacturing, wholesalers and retailers		201,074,895	192,306,941
Sugar industry		292,833	340,180
Government		20,085,255	13,245,190
Bauxite sector		5,902,842	28,878,275
	17	<u>227,355,825</u>	<u>234,770,586</u>
Less: provision for impairment		<u>(10,465,496)</u>	<u>(9,345,300)</u>
		<u>216,890,329</u>	<u>225,425,286</u>

As at 31 May 2017, the reporting date, there were significant concentration of credit risk in respect of fourteen (14) major receivable customers of the Company who in aggregate accounted for approximately \$97 Million (2016 - \$103.8Million), representing approximately 48% (2016 45%) of trade receivables for the Company.

No amounts were considered necessary for doubtful debts in respect to these balances as the amounts were deemed to be collectible.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Movement on the provision for impairment of trade receivables

The movement on the provision for impairment of trade receivables was as follows:

	<u>31 May</u> <u>2017</u> <u>\$</u>	<u>31 May</u> <u>2016</u> <u>\$</u>
Balance at 1 June 2016	9,345,300	6,704,202
Increase in provision for receivables impairment	1,120,196	2,641,098
Balance at 31 May 2017	<u>10,465,496</u>	<u>9,345,300</u>

The creation of a provision for impaired receivables has been included in expenses in the profit or loss account. Amounts charged to the allowance account are written off when there is no expectation of recovering the additional cash.

Aging analysis of trade receivables that are past due and impaired

Trade receivables over 90 days overdue are considered impaired and are reviewed for any necessary provision. The impairment recognized represents an estimate of possible incurred losses in respect of trade receivables over 90 days. The impaired receivables mainly relate to customers who are in unexpected difficult economic situations. It was assessed that a portion of the impaired receivables is expected to be recovered.

	<u>31 May</u> <u>2017</u> <u>\$</u>		<u>31 May</u> <u>2016</u> <u>\$</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Past due 0 to 60 days	143,247,091	-	155,653,697	-
Past due 61 to 90 days	19,404,642	-	31,864,727	-
Past due over 91 days	64,704,092	10,465,496	47,252,162	9,345,300
	<u>227,355,825</u>	<u>10,465,496</u>	<u>234,770,586</u>	<u>9,345,300</u>

As of 31 May 2017, trade receivables of \$64,704,092 (2016 - \$47,252,162) for the Company were considered impaired and the amount of the provision was \$10,465,496 (2016 - \$9,345,300).

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2017

(4) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Financial instruments counterparty credit risk

The Company exposure to financial instruments counterparty credit risk is related to its activities with cash and cash equivalent balances amounts due from related parties and investments. The Company manages this exposure by maintaining these balances with licensed financial institutions considered to be stable and are deemed to have low risk of default and to transact only with highly rated counterparties.

Maximum exposure to financial instruments counterparty credit risk

	<u>2017</u> \$	<u>2016</u> \$
Credit risk exposures are as follows:		
Investments	58,905,511	57,474,298
Cash and short term equivalents	49,633,811	80,920,662
	<u>108,539,322</u>	<u>138,394,960</u>

Due from related parties

At the reporting date, there were no significant concentrations in respect of amounts due from related parties.

(iii) Liquidity risk

Liquidity risk is the risk that the Company might encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

Liquidity risk management process

The Company manages its liquidity risk by maintaining an appropriate level of resources in liquid or near liquid form. The Company maintains cash and short-term deposits for up to 90-day periods to meet its liquidity requirements.

The Company's liquidity management process, as carried out within the Company and monitored by the Treasury function, includes:

- i. Monitoring future cash flows and liquidity on an ongoing basis. This incorporates an assessment of expected cash flows
- 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
- v. Optimizing cash returns on investments.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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(d) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

Cash flows of financial liabilities

The Company's financial liabilities comprise long-term loans and payables and accruals. The table below shows the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Company can be required to settle its liabilities. These amounts are due as follows:

2017

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 year or less</u>	<u>1-2 yrs</u>	<u>2-5 yrs</u>
	\$	\$	\$	\$	\$
Accounts payable	280,781,174	280,781,174	280,781,174	-	-
Long-term liabilities	58,711,324	75,660,838	17,382,780	13,062,891	45,215,167
Total financial liabilities	339,492,498	356,442,012	298,163,954	13,062,891	45,215,167

2016

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 year or less</u>	<u>1-2 yrs</u>	<u>2-5 yrs</u>
	\$	\$	\$	\$	\$
Accounts payable	260,600,624	260,600,624	260,600,624	-	-
Long-term liabilities	18,311,842	*21,650,896	9,503,046	7,883,063	4,264,787
Total financial liabilities	278,912,466	282,251,520	270,103,670	7,883,063	4,264,787

- Reclassified for comparative purposes

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

Determination and disclosure of fair value of financial instruments

Fair value is considered as the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Market price is used to determine fair value where an active market, such as a recognized stock exchange exists, as it is the best evidence of the fair value of a financial instrument.

Financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observed, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical instruments. The available-for-sale instruments in financial repurchase agreement (repos) are classified as level 1.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument either directly (i.e., as prices) or indirectly (i.e., derived from prices). There were no financial instruments held by the Company in this category.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instruments that are not based on observable market data (unobservable inputs). There were no financial instruments held by the Company in this category.

The following methods and assumptions have been used in preparing the financial statements at the reporting date:

- (i) The carrying value of cash and cash equivalents, accounts receivable and accounts payable are assumed to approximate to their carrying values due to their short-term nature
- (ii) Long term liabilities carrying values approximate fair values as the loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of market rates for similar loans
- (iii) Related party balances are carried at their contracted settlement values due to their short-term nature.
- (iv) Investments classified as available-for-sale are measured at fair value by reference to price quotes as published by established and reputable managers of these instruments.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

- **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes such as personnel, technology and infrastructure, as well as from external factors, other than financial risks, such as those arising from legal, regulatory requirements and natural disasters.

The management of the Company is responsible for managing operational risk so as to avoid financial loss and damage to the Company's reputation while at the same time balancing the control procedures to allow innovation and creativity to facilitate growth of the Company. Management is aware of the many operational risks and continues to implement the necessary strategies to mitigate the negative impact of the different risks associated with the operation of the Company.

(c) Reputational risk

The Company is engaged in a business that distributes chemical raw materials to various industries and manufactures basic inputs for food processing and industrial applications. Its reputation is critical within the market place and the Company's management endeavors at all times to be ethical and adopts international best practices in the storage, manufacturing and distribution of its products.

The Company ensures that the necessary sanitary and quality standards are maintained and has regular audits from the government bodies responsible for the Company's portfolio of products including the government's Bureau of Standards, Public Health Department, Jamaica Customs Department and the Ministry of Industry and Commerce. Also, as a supplier to several multinational and reputable local companies, the Company adheres and complies with their quality standards and when potential customers conduct their independent audits, the Company is usually approved as a certified distributor to their respective plants.

Rigorous quality checks are integrated in the Company's receiving and delivery process of its products and this reduces the level of customer complaints. Management considers the Company's reputation secured as events that may damage the Company's reputation are immediately investigated and the appropriate action taken in a manner that satisfies the complainant.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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5. OPERATING SEGMENTS

The Company has five reportable operating segments: Chemicals, Construction and Adhesive, Manufacturing, Transportation and Lubricants. The reportable operating segments are strategic business units offering different products and services. They are separately managed due to their distinct nature. The following summary describes the operations in each of the Company's reportable segments:

- The distribution of chemicals and chemical products for food and pharmaceutical additives and ingredients.
- The construction and adhesive business is the distribution of the SIKA branded products and adhesive and hardware supplies i.e., concrete admixtures, water-proofing/moisture protection, sealants, floor and protective coating, and more.
- The manufacturing of technical and industrial grade chemicals for direct use or as raw materials; solvents, disinfectants, germicides, household laundry and cleaning products, paints resin, and many more.
- Transportation/Haulage business is conducted through the Stamina Trucking & Transport company, a fully owned and maintained haulage and delivery fleet. It offers island-wide delivery solutions.
- The distributions of oils and lubricants; engine oils and fluids, industrial oils and greases, hydraulic, transmission and other fluids.

Performance is measured based on segment gross profit as included in the internal management reports. Management has determined that this measure is the most relevant in evaluating segment results and allocating resources. Information regarding the results of each reportable operating segment is as follows:

- Chemicals located at 39 Waltham Park Road and 8 East Bell Road, account for over 81% (2016 - 82%) of revenue.
- Construction and Adhesives is a wholesale distribution outlet, trading under the SIKA brand and is located on Bell Road, in Kingston; and accounts for approximately 9% (2016-8%) of revenue.
- Manufacturing operates from both the 39 Waltham Park Road (food grade) and 8 East Bell Road (technical grade) locations and accounts for approximately 2% (2016-3%) of revenue.
- Transportation division operates from 39 Waltham Park Road and accounts for approximately 2%(2016-3%) of revenue.
- Lubricants division began operating from 44 Waltham Park Road and accounts for approximately 6% (2016-4%) of revenue.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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5. OPERATING SEGMENTS (continued)

	<u>Chemicals</u>	<u>Constructi on and Adhesives</u>	<u>Manufacturin g</u>	<u>2017</u> <u>Transport</u>	<u>Lubricants</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
Revenues	912,565,526	109,916,222	27,996,869	33,012,751	72,380,334	1,155,871,702
Cost of sales	643,158,771	68,079,182	13,667,401	27,399,431	49,524,577	801,829,362
Gross profit	269,406,755	41,837,040	14,329,468	5,613,320	22,855,757	354,042,340
Gross profit %	30%	38%	51%	17%	32%	31%

	<u>Chemicals</u>	<u>Constructi on and Adhesives</u>	<u>Manufacturin g</u>	<u>2016</u> <u>Transport</u>	<u>Lubricants</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
Revenues	842,596,033	81,372,414	26,386,171	28,566,152	45,430,996	1,024,351,766
Cost of sales	567,103,561	52,907,504	13,873,274	24,200,654	30,472,573	688,557,566
Gross profit	275,492,472	28,464,910	12,512,897	4,365,498	14,958,423	335,794,200
Gross profit %	33%	35%	47%	15%	33%	33%

The segment information presented by management to the COM does not provide a detailed analysis of the assets and liabilities related to the operations of the respective segments. Assets and liabilities are not assigned to each segment in the preparation of the Company's financial statements.

6. OPERATING PROFIT BEFORE TAXATION

The following have been charged in arriving at operating profit:

	<u>2017</u> <u>\$</u>	<u>2016</u> <u>\$</u>
Auditors' remuneration	2,950,000	1,967,500
Directors' emoluments:		
Fees	390,506	540,000
Executive management remuneration	10,000,000	10,000,000
Bad debts expensed	1,120,197	2,641,097
Foreign exchange losses	3,564,339	1,251,172
Depreciation	20,915,943	11,567,739
Staff costs (including management remuneration)	103,794,797	74,764,712

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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7. STAFF COSTS

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Salaries (excluding managements' remuneration)	78,392,808	56,728,539
Executive management remuneration	10,000,000	10,000,000
Employers payroll taxes	7,679,396	5,816,546
Staff welfare	7,722,593	2,219,627
	<u>103,794,797</u>	<u>74,764,712</u>

The average number of persons employed full-time by the Company during the year was 69 (2016-57)

8. OPERATING REVENUE AND OTHER OPERATING INCOME

(i) Operating revenue consists of the following:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Sale of goods	1,122,858,951	995,785,614
Services rendered	33,012,751	28,566,152
	<u>1,155,871,702</u>	<u>1,024,351,766</u>

The Company does not rely on any one customer or sector to generate the majority of its revenue.

(ii) Other operating income consists of the following:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Gain on disposal of fixed assets	4,721,030	5,044,206
Rental income – warehousing	6,919,895	11,553,388
Other	29,500	22,223,764
	<u>11,670,425</u>	<u>38,821,358</u>

Warehouse rental income is obtained from the Company's property located at Bell Road, which was used by a 3rd party for storage of certain items. Other income includes balances listed below.

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Other rental	29,500	-
Special cleaning project	-	27,715,449
Less cost of cleaning project	-	(6,375,694)
Recycling export	-	1,136,360
Less cost of recycling	-	(252,351)
	<u>29,500</u>	<u>22,223,764</u>

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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9. EXPENSES BY NATURE

	<u>2017</u>	<u>2016</u>
	\$	\$
Cost of inventories recognized as expense	801,829,362	688,557,566
Subtotal: direct expenses	801,829,362	688,557,566
Selling, advertising, promotion and distribution	33,668,543	10,201,460
Bad debts expenses	1,120,196	2,641,097
Subtotal: selling and distribution	34,788,739	12,842,557
Audit fee	2,300,833	1,967,500
Depreciation	20,915,943	11,567,739
Repairs and maintenance	3,721,858	2,239,021
Staff costs	93,794,797	74,764,712
Motor vehicle expenses	3,298,334	2,961,707
Utilities	12,213,684	10,144,378
Insurance	16,852,200	13,465,498
Security	6,162,097	5,510,532
Rental	24,904,132	13,697,815
Other expenses	36,116,136	44,649,899
Subtotal: administrative	220,280,014	180,968,801
	1,056,898,115	882,368,924

10. FINANCE INCOME AND COSTS

	<u>2017</u>	<u>2016</u>
	\$	\$
Finance income -		
Interest income	1,105,807	1,722,647
Finance costs -		
Interest expenses	1,479,349	4,446,847
Debt financing fees and expenses	5,703,571	3,785,815
Foreign exchange losses	3,564,339	1,251,172
	10,747,259	9,483,834

11. TAXATION

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

	<u>2017</u>	<u>2016</u>
	\$	\$
Income tax @ 25%	-	-

The tax charge on the Company's profit differs from the theoretical amount that arose using the statutory tax rate of 25% as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Profits before taxation	101,002,560	173,043,013
Tax calculation at 25 %	25,250,640	43,260,753
Adjustment for depreciation and capital allowance	(7,455,403)	(2,684,508)
Net income allowed for tax purposes	(180,742)	(774,146)
Remission of tax: listing on the Junior Market of the JSE	(17,614,495)	(39,802,099)
Current year taxation charge	-	-

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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11. TAXATION (continued)

Deferred taxation

No account is taken of deferred taxation during the year ended 31 May 2017 because the Company was granted a remission of income tax as a result of listing on the Junior Market of the JSE, effective 31 December 2012. The potential deferred tax liability as at 31 May 2017 amount to approximately \$11 Million. Upon, the expiration of the tax-free status at the end of December 2017, management will book the necessary potential liability or asset. Due to the continuous expansion of the Company, management does not anticipate that any deferred tax liability will crystallize in the near future.

Remission of income tax

By notice dated 13th August 2009, the Minister of Finance and the Public Service issued and gazetted the Income Tax (Jamaica Stock Exchange Junior Market) (Remission) Notice, 2009. The Notice effectively granted a remission of income tax to eligible companies that were admitted to the Junior Market of the Jamaica Stock Exchange (JSE) if certain conditions were achieved after the date of initial admission. Effective 31 December 2012, the Company's shares were listed on the Junior Market of the JSE. Consequently, the Company is entitled to a remission of income taxes for ten years in the following proportion:

Years 1 to 5: (1 January 2013 - 31 December 2017) – 100%

Years 6 to 10: (1 January 2018 - 31 December 2023) – 50%

Provided the following conditions are met:

- (i) The Company remains listed for at least 15 years and is not suspended from the JSE for any breaches of its rules.
- (ii) The Subscribed Participating Voting Share Capital of the Company does not exceed J\$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.

12. EARNINGS PER SHARE

Basic EPS is computed by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue for the year. During the year, the directors approved a 10 for 1 stock split, at the Annual General Meeting on 29 October 2016, effective 14 November 2016.

Net profit attributable to shareholders (J\$)
 Weighted average number of ordinary shares in issue
 Basic earnings per share

<u>2017</u>	<u>2016</u>
\$	\$
101,002,560	173,043,013
1,542,467,080	1,542,467,080*
0.065	0.112*

*Restated for comparative purposes

Paramount Trading (Jamaica) Limited
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13. DIVIDENDS

During the year, no ordinary dividends were proposed or paid (2016 - \$60,156,216 was proposed and paid).

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14. PROPERTY, PLANT AND EQUIPMENT

2017

	<u>Equipment</u>	<u>Capital Work-in- progress</u>	<u>Computer Equipment</u>	<u>Furniture & Fixtures</u>	<u>Buildings</u>	<u>Motor Vehicles</u>	<u>Forklift</u>	<u>Leased Vehicles</u>	<u>Total</u>
	<u>\$</u>		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
At cost:									
1 June 2016	70,051,340	-	4,800,475	7,544,720	67,567,046	39,600,255	3,309,666	19,696,663	212,570,165
Additions	17,916,901	57,910,006	3,649,530	575,378	-	51,584,245	2,679,507	-	134,315,567
Disposals	-	-	-	-	-	-	-	(9,934,043)	(9,934,043)
31 May 2017	87,968,241	57,910,006	8,450,005	8,120,098	67,567,046	91,184,500	5,989,173	9,762,620	336,951,689
Depreciation:									
1 June 2016	23,221,090	-	1,918,070	1,967,665	16,917,507	24,250,241	1,224,816	16,499,273	85,998,662
Charge for the year	9,078,193	-	536,077	734,420	1,689,176	7,031,240	954,543	892,294	20,915,943
Relieved on disposal	-	-	-	-	-	-	-	(9,934,043)	(9,934,043)
31 May 2017	32,299,283	-	2,454,147	2,702,085	18,606,683	31,281,481	2,179,359	7,457,524	96,980,562
NET BOOK VALUE									
31 May 2017	55,668,958	57,910,006	5,995,858	5,418,013	48,960,363	59,903,019	3,809,814	2,305,096	239,971,127

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
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14. PROPERTY, PLANT AND EQUIPMENT (continued)

2016

	<u>Equipment</u>	<u>Computer Equipment</u>	<u>Furniture & Fixtures</u>	<u>Buildings</u>	<u>Motor Vehicles</u>	<u>Forklift</u>	<u>Leased Vehicles</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
At cost:								
1 June 2015	43,884,832	4,153,991	3,169,152	67,567,046	30,643,676	993,166	30,631,138	181,043,001
Additions	26,166,508	646,484	4,375,568	-	11,049,919	2,316,500	-	44,554,979
Disposals	-	-	-	-	(2,093,340)	-	(10,934,475)	(13,027,815)
31 May 2016	70,051,340	4,800,475	7,544,720	67,567,046	39,600,255	3,309,666	19,696,663	212,570,165
Depreciation:								
1 June 2015	18,965,167	1,467,837	1,542,834	15,228,331	23,178,228	993,166	26,083,175	87,458,738
Charge for the year	4,256,523	449,633	424,831	1,689,176	3,165,353	231,650	1,350,573	11,567,739
Relieved on disposal	-	-	-	-	(2,093,340)	-	(10,934,475)	(13,027,815)
31 May 2016	23,221,690	1,917,470	1,967,665	16,917,507	24,250,241	1,224,816	16,499,273	85,998,662
NET BOOK VALUE								
31 May 2016	46,829,650	2,883,005	5,577,055	50,649,539	15,350,014	2,084,850	3,197,390	126,571,503

Paramount Trading (Jamaica) Limited
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15. INVESTMENTS

	<u>2017</u> <u>\$</u>	<u>2016</u> <u>\$</u>
Held-to- Maturity		
1.3% (2016- 2% - 2.35%) US\$ Certificate of Deposits	57,969,414	55,166,683
J\$ Securities purchased under resale agreements	936,097	2,307,615
	<u>58,905,511</u>	<u>57,474,298</u>

The Company has entered into a collateralized reverse repurchase agreement (securities purchased under agreement to resell), which may result in credit exposure if the counterparty to the transaction is unable to fulfill its contractual obligations.

Securities purchased under agreement to resell are regarded as cash and cash equivalents for the statement of cash flows. The average effective interest rate at the year-end was approximately 3% (2016 -5.5%).

16. INVENTORIES

	<u>2017</u> <u>\$</u>	<u>2016</u> <u>\$</u>
Chemicals	311,141,699	270,684,131
Construction and adhesives	32,842,265	39,612,339
Manufacturing raw materials	943,515	1,432,338
	344,927,479	311,728,808
Goods – in-transit	30,005,285	30,569,925
Less: provision for obsolete stock	(7,873,922)	(5,977,462)
	<u>367,058,842</u>	<u>336,321,271</u>

17. RECEIVABLES

	<u>2017</u> <u>\$</u>	<u>2016</u> <u>\$</u>
Trade receivables	227,355,825	234,770,586
Refundable general consumption tax	42,816,079	18,833,745
Other receivables and prepayments	30,851,276	13,291,312
Prepayments :joint venture (see note 26 (i))	14,064,103	-
-	315,087,283	266,895,643
Less provision for bad debts	(10,465,496)	(9,345,300)
Total financial assets	<u>304,621,787</u>	<u>257,550,343</u>

Trade receivables balance at the end of the year includes \$53,953,502 (2016 - \$54,227,709) from the Company's five (5) largest customers and the balances were all within the approved credit limits. There are no other customers who represent more than 5% of the total trade receivables balance. The Company does not hold any collateral over trade receivables balances.

Other receivables mainly comprise amounts recoverable from a supplier and deposits in relation to acquisition of assets.

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18. CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Cash	110,000	110,000
Cash equivalents - US\$ bank accounts	26,029,726	61,002,210
Cash equivalents - JA. \$ bank accounts	23,494,085	19,808,452
	<u>49,633,811</u>	<u>80,920,662</u>

19. PAYABLES

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Foreign payables	243,661,641	190,380,283
Local payables and accruals	31,241,429	68,996,341
Other payables	5,878,104	1,224,000
	<u>280,781,174</u>	<u>260,600,624</u>

20. LONG TERM BORROWINGS

	<u>2016</u>	<u>2015</u>
	<u>\$</u>	<u>\$</u>
(i) 8.95 % Sagicor Bank	8,107,094	13,577,282
(ii) 8.39% National Commercial Bank (NCB)	35,167,112	-
(iii) 8.49% Sagicor Bank	12,862,399	-
(iv) 12.5% -16.75% finance lease obligations [see (iv) below]	2,574,721	4,734,560
	<u>58,711,326</u>	<u>18,311,842</u>
Less current portion due within 12 months	(12,595,751)	(7,630,027)
Non-current balance	<u>46,115,575</u>	<u>10,681,815</u>

The details of the loan are as follows:

- (i) This represents the principal loan balance, which is repayable in monthly installments of principal and interest of \$539,986. The loan was renegotiated at a lower interest rate and will mature in September 2018. The loan is secured by a legal mortgage over commercial properties located at 39 and 44b Waltham Park Road, Lot # 8 Bell Road and other real estate along with a personal guarantee of the Managing Director.
- (ii) This loan represents the principal balance which is repayable in monthly installments of \$ 527,813 over 96 months. The loan is secured by a lien on a motor vehicle.
- (iii) This represents the principal loan balance which is repayable in monthly installments of \$ 263,829 over sixty (60) months. The loan is secured by a lien on a motor vehicle.
- (iv) The lease obligations relate to motor vehicles and are payable as follows:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Due from the reporting date as follows:		
Within one (1) year	1,403,228	2,595,030
Within two to five (2-5) years	2,104,830	3,046,880
Total future minimum lease payments	3,508,058	5,641,910
Less: future interest charges	(933,337)	(907,350)
Present value of minimum lease payments	<u>2,574,721</u>	<u>4,734,560</u>

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21. SHARE CAPITAL

	<u>2017</u> \$	<u>2016</u> \$
<u>Authorized:</u>		
1,620,000,000 (2016 - 162,000,000) ordinary shares of no par value		
<u>Issued and fully paid:</u>		
1,542,467,080 (2016 – 154,246,708) shares of no par value	<u>77,492,243</u>	<u>77,492,243</u>

During the year the Directors approved a 10 for 1 stock split at the Annual General Meeting held on 29 October 2016. This was effective 14 November 2016

22. RELATED PARTIES TRANSACTIONS AND BALANCES

The statement of comprehensive income includes the following related party transactions

	<u>2017</u> \$	<u>2016</u> \$
Key management compensation:		
Salaries:	<u>13,792,000</u>	<u>13,792,000</u>
Rental of premises:		
Director	<u>3,540,000</u>	<u>3,540,000</u>
Interest expense:		
Director	<u>-</u>	<u>1,289,458</u>
Motor vehicle rental expense		
Director	<u>8,334,954</u>	<u>-</u>

23. COMMITMENTS AND CONTINGENCIES

The Company has the following commitments and contingencies:

(i) Joint Venture

A joint arrangement is an arrangement in which two or more parties have joint control.

Joint control is the contractually agreed sharing of control whereby decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is classified as a *joint venture* when the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company entered into a joint venture partnership agreement with an associated entity to manufacture and distribute lubricants for the local market. The Company holds a 50% shareholding in the new company and is responsible for providing the real estate to house the manufacturing facilities while the other entity is required to provide the manufacturing equipment and other practical knowledge to produce the associated products.

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23. COMMITMENTS AND CONTINGENCIES (continued)

(i) Joint Venture (continue)

We examined the Partnership Agreement and the details of the contract and considered the regulatory environment and the disclosure requirements relating to control and the interaction between IFRS 10, 11, 12 and IAS 28 and determined that based on the agreement and substance of the inter-action between both entities, the amounts advanced of \$14 Million to facilitate the manufacturing process may be treated as a prepayment until the project is complete and the entity starts to operate.

We challenged management's position through inquiry and by considering the guidance in IFRS 10, Consolidated Financial Statements, and based on our independent evaluation; we determined that management's conclusion to account for \$14 Million spent to date on the project as a prepayment based on their strategic objectives, is satisfactory.

At the reporting date, 31 May 2017, the joint venture arrangement was not in operation, but management expects that after the year end, the manufacturing facilities will be fully established and operation should commence.

(ii) Commitments to financial institutions are detailed in Note 20 of the financial statements

The Company's attorneys in their letter dated 1 June 2017 reported as follows:

- they were not instructed by the Company or were not aware of any significant judgments rendered for or against the Company
- they were not aware of any pending liabilities, direct claims or contingent liabilities
- they were not aware of any other information of a similar nature which have come to their attention and which, in the firm's opinion, requires disclosure in the Company's financial statements.

24. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

Management, based on our discussions with them, stated that they are not aware of any other significant commitments or contingencies that require disclosure as at the date of this audit report.