Mair Russell
Grant Thornton

# Express Catering Limited

## Financial Statements

## May 31, 2018

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Mair Russell
Grant Thornton

# Independent auditor's report

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To the Members of
Express Catering Limited

## Report on the audit of the Financial Statements

### Opinion

We have audited the financial statements of Express Catering Limited ("the Company") which comprise the statement of financial position as at May 31, 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at May 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and 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 judgement; were of most significance in our audit of the financial statements of the current period. These matters are addressed in the context of our audit of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. We have determined that there are no key audit matters to communicate in our report.

### Other information

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

# Independent auditor's report (cont'd)

To the Members of
Express Catering Limited

## Report on the audit of the Financial Statements

### Other information (cont'd)

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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 appears 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.

### Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 to 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.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, 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 ISAs 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.

# Independent auditor's report (cont'd)

To the Members of
Express Catering Limited

## Report on the Financial Statements

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

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 and appropriate 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

- 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 presents a true and fair view.

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

Mair Russell Grant Thornton

# Independent auditor's report (cont'd)

To the Members of
Express Catering Limited

## Report on the Financial Statements

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

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 the matter in our auditors' report unless law or regulation precludes public disclosure 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.

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

Montego Bay, Jamaica

August 30, 2018

Mair Russell Grant Thornton
Chartered Accountants

# Statement of financial position
# May 31, 2018

| | Note | 2018 US$ | 2017 US$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current** | | | |
| Property, plant and equipment | (3) | **4,654,112** | 4,442,436 |
| Intangible assets | (4) | **900,130** | 651,911 |
| | | **5,554,242** | 5,094,347 |
| **Current** | | | |
| Inventories | (5) | **334,726** | 340,391 |
| Trade and other receivables | (6) | **131,522** | 96,106 |
| Owing by related companies | (7) | **5,998,558** | 3,644,225 |
| Cash and bank balances | (8) | **392,136** | 387,933 |
| | | **6,856,942** | 4,468,655 |
| **Total assets** | | **12,411,184** | 9,563,002 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | (9) | **73,861** | 73,861 |
| Capital reserve | (10) | **43,490** | 43,490 |
| Retained earnings | | **6,366,236** | 4,428,722 |
| **Total equity** | | **6,483,587** | 4,546,073 |
| **Liabilities** | | | |
| **Non-current** | | | |
| Preference shares | (11) | **3,500,000** | 3,500,000 |
| Lease obligations | (12) | **7,972** | 16,160 |
| Deferred tax liability | (13) | **89,150** | 88,190 |
| | | **3,597,122** | 3,604,350 |
| **Current** | | | |
| Bank overdraft | (14) | **178,991** | 108,721 |
| Trade and other payables | (15) | **2,051,198** | 1,095,718 |
| Current portion of lease obligation | (12) | **8,461** | 15,065 |
| Income tax payable | | **91,825** | 193,075 |
| | | **2,330,475** | 1,412,579 |
| **Total liabilities** | | **5,927,597** | 5,016,929 |
| **Total equity and liabilities** | | **12,411,184** | 9,563,002 |

The notes on the accompanying pages form an integral part of these financial statements.

Approved for issue by the Board of Directors on August 30, 2018 and signed on its behalf by:

_______________) Director      _______________) Director
John Byles      Ian Dear

# Statement of profit or loss and other comprehensive income
# Year ended May 31, 2018

| | Note | 2018 US$ | 2017 US$ |
|---|---|---|---|
| **Revenue** | | **15,705,421** | 14,232,136 |
| Cost of sales | | **(4,604,887)** | (4,081,825) |
| **Gross profit** | | **11,100,534** | 10,150,311 |
| Administrative expenses | (16) | **(6,605,341)** | (7,966,000) |
| Promotional expenses | | **(35,931)** | (20,762) |
| Depreciation and amortisation | | **(511,804)** | (525,418) |
| **Operating profit** | | **3,947,458** | 1,638,131 |
| Finance income | (17) | **812** | 7,272 |
| Finance costs | (17) | **(341,131)** | (362,347) |
| (Loss)/gain on foreign exchange | | **(44,379)** | 37,207 |
| **Profit before tax** | | **3,562,760** | 1,320,263 |
| Income tax expense | (18) | **(114,969)** | (240,774) |
| **Profit for the year being total comprehensive income for the year** | | **3,447,791** | 1,079,489 |
| **Earnings per share** | (19) | **0.0021** | 0.0006 |

The notes on the accompanying pages form an integral part of these financial statements.

# Statement of changes in equity
# Year ended May 31, 2018

| | Share Capital US$ | Capital Reserve US$ | Retained Earnings US$ | Total US$ |
|---|---|---|---|---|
| **Balance at June 1, 2016** | 73,861 | 43,490 | 3,349,233 | 3,466,584 |
| Profit for the year being total comprehensive income for the year | - | - | 1,079,489 | 1,079,489 |
| **Balance at May 31, 2017** | 73,861 | 43,490 | 4,428,722 | 4,546,073 |
| Dividends (Note 20) | - | - | (1,510,277) | (1,510,277) |
| Transaction with owners | - | - | (1,510,277) | (1,510,277) |
| Profit for the year being total comprehensive income for the year | - | - | 3,447,791 | 3,447,791 |
| **Balance at May 31, 2018** | **73,861** | **43,490** | **6,336,236** | **6,483,587** |

The notes on the accompanying pages form an integral part of these financial statements.

# Statement of cash flows
# Year ended May 31, 2018

| | 2018 US$ | 2017 US$ |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit before tax | **3,562,760** | 1,320,263 |
| Adjustments for: | | |
| Depreciation and amortisation | **511,743** | 525,418 |
| Interest expenses | **341,131** | 362,347 |
| Interest income | **(812)** | (7,272) |
| | **4,414,822** | 2,200,756 |
| Decrease/(increase) in inventories | **5,665** | (63,612) |
| (Increase)/decrease in receivables | **(35,416)** | 9,005 |
| Increase in owing by related companies | **(2,354,333)** | (4,309,808) |
| Increase/(decrease) in trade and other payables | **955,480** | (1,716) |
| **Cash generated from/(used in) operations** | **2,986,218** | (2,165,375) |
| Overdraft interest paid | **(6,028)** | (3,486) |
| Income tax paid | **(215,259)** | (235,587) |
| **Net cash provided by/(used in) operating activities** | **2,764,931** | (2,404,448) |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | **(636,481)** | (115,230) |
| Purchase of intangible assets | **(335,157)** | - |
| Interest received | **812** | 7,272 |
| **Net cash used in investing activities** | **(970,826)** | (107,958) |
| **Cash flows from financing activities** | | |
| Repayment of lease obligations | **(14,792)** | (15,262) |
| Repayment of long term loans | **-** | (404,622) |
| Proceeds from issue of preference shares | **-** | 3,500,000 |
| Interest and dividends on preference shares paid | **(335,103)** | (358,861) |
| Dividends paid | **(1,510,277)** | - |
| **Net cash (used in)/provided by financing activities** | **(1,860,172)** | 2,721,255 |
| **(Decrease)/increase in cash and cash equivalents** | **(66,067)** | 208,849 |
| **Cash and cash equivalents at beginning of year** | **279,212** | 70,363 |
| **Cash and cash equivalents at end of year (Note10)** | **213,145** | 279,212 |

The notes on the accompanying pages form an integral part of these financial statements.

# Notes to the financial statements
# Year ended May 31, 2018

## 1. Identification and nature of operations

The company was incorporated under the Laws of Jamaica on June 26, 2001. Its registered office is Unit 16 M19 Southern Cross Boulevard, Montego Freeport, Montego Bay.

Its main activities during the year were the operation of branded sports bars and restaurants at Sangster International Airport, Montego Bay. The company is a subsidiary of Margaritaville St. Lucia Inc, whose ultimate parent is Margaritaville Caribbean Limited, a company registered under the Bahamas IBC Act of 2000.

The company was listed on the Junior Market of the Stock Exchange in July 2018.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### a Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The measurement bases used are more fully described in the accounting policies below.

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements. These estimates are based on historical experience and management's best knowledge of current events and actions. Actual results may differ from these estimates and assumptions.

There were no critical judgements, apart from those involving estimation, that management has made in the process of applying the company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

The estimates and assumptions which have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Depreciation and amortisation of property, plant and equipment and intangible assets

Depreciation and amortisation are provided so as to write down the respective assets to their residual values over their expected useful lives and, as such, the selection of the estimated useful lives and the expected residual values of the assets requires the use of estimates and judgements. Details of the estimated useful lives are as shown in Note 2(c).

### i New and revised standards, interpretations and amendments to published standards effective in the current year

Certain new and revised standards became effective during the current year. The company has assessed the relevance of all such new interpretations and amendments and have adopted the following:

**Disclosure Initiative (Amendments to IAS 7)**
The amendments to IAS 7 'Statements of Cash Flows', effective January 1, 2017, require the company to provide disclosures about the changes in liabilities from financing activities. The company categorises those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7. This amendment had no impact on these financial statements.

**Amendments to IAS 12, 'Income Taxes (effective for annual periods beginning on or after January 1, 2017).**
The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Deferred tax assets are assessed in combination with other deferred tax assets where the tax does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. There was no impact from the adoption of this amendment.

***Annual Improvements 2014 - 2016***, (effective for annual periods beginning on or after January 1, 2017). These amendments had no impact on the company's financial statements.

### ii Standards, amendments and interpretations issued but not yet effective

At the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been early adopted by the company.

Management anticipates that all relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the company's financial statements are provided below:

***IFRS 9 Financial Instruments'***

IFRS 9 introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The company plans to adopt the new standards on the required effective date. The company does not expect any significant impact on its financial statement except for the effect of applying the impairment requirements of IFRS 9. The company will be required to recognise an expected credit loss-based impairment on its trade receivables.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The company's management has not yet assessed the impact of IFRS 15 on these financial statements.

**IFRS 16 Leases** ***(effective for annual reporting period beginning on or after January 1, 2019)***
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 recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included 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 stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

### b Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

### c Property, plant and equipment

(i) Carrying amount

Property, plant and equipment are carried at cost less accumulated depreciation.

(ii) Depreciation

Depreciation is provided on the straight line basis at such rates as will write off the cost of the various assets over the period of their expected useful lives. The useful lives approximate to forty (40) years for buildings, five to ten (5 - 10) years for furniture, fixtures, machinery and equipment, three (3) years for computers and five (5) years for motor vehicle.

Leasehold building and improvements are being amortised over twenty years.

(iii) Repairs and renewals

The costs of repairs and renewals which do not enhance the carrying value of existing assets are written off to profit or loss as they are incurred.

### d Intangible assets

These represent amounts spent on the development of new products, processes and systems which is being amortised over 6 years.

### e Functional and presentation currency

*Functional and presentation currency*

The financial statements are prepared and presented in United States dollars, which is the functional currency of the company.

*Foreign currency translations and balances*

(i) Foreign currency monetary balances at the end of the reporting period have been translated at the rates of exchange ruling at that date.

(ii) Foreign currency transactions are translated into the functional currency at the exchange rate ruling at the dates of those transactions.

(iii) Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items are included in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical rates except for those measured fair value which are translated using the exchange rates at the date when the fair value was determined.

### f Revenue recognition

Revenue comprises revenue from sale of goods to customers. Revenue is measured at the fair value of consideration received and receivable, net of rebates and discounts and is recognised when customers are invoiced.

### g Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or the receipt on the goods or as incurred.

### h Inventories

Inventories are stated at the lower of cost determined on the average cost basis, and net realisable value. Cost includes all supplier prices, freight and handling and other overhead costs directly related to goods sold. Net realisable value is the estimated selling price in the ordinary course of business less any related selling expenses.

### i Cash and bank

Cash and bank comprise amounts held in current and savings accounts with financial institutions and cash on hand balances net of bank overdraft.

### j Trade and other receivables

Trade and other receivables are classified as loans and receivables. These are initially recognised at original invoice amount (which represents fair value) and subsequently measured at amortised cost.

### k Owing to related company

Amounts owing to related company are carried at cost.

### l Financial instruments

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Financial assets and financial liabilities are measured subsequently as described below.

**Financial assets**

For the purpose of subsequent measurement, the company classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. A provision for doubtful debt is recognized when there is an indication that the debt is impaired. Impairment of trade receivables are presented within 'other operating expenses'.

**Financial liabilities**

The company's financial liabilities include shareholders' loans, interest-bearing borrowings and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

### m Trade and other payables

Trade and other payables are obligations to pay for goods or services that have acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### n Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### o Borrowings

Borrowings include bank loans and are classified as financial liabilities measured at amortised cost. Borrowings are recognised initially at fair value, being their issued proceeds net of transaction costs incurred. Subsequently, borrowings are measured at amortised cost using the effective interest method and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings. Interest expense is reported on the accruals basis and other borrowing costs, are expensed to profit or loss in the period which they are incurred and are reported in finance costs.

### p Leased assets

**Finance leases**

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the company obtains ownership of the asset at the end of the lease term.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

**Operating lease**

The company pays property lease annually based on revenue. The amount incurred is expensed in the period to which it relates. Associated costs such as insurance and maintenance are expensed as incurred.

### q Impairment

The company's assets are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

### r Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of shares are included in equity as a deduction from proceeds.

## 3. Property, plant and equipment comprise:

The carrying amounts for property, plant and equipment for the years included in the financial statements as at May 31, 2018, can be analysed as follows:

| | Leasehold Improvement US$ | Motor Vehicle US$ | Entertainment and PR Equipment US$ | Computer US$ | Furniture and Fixtures US$ | Bar and Kitchen Equipment US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | | | |
| Balance as at June 1, 2017 | 2,717,519 | 56,761 | 147,496 | 449,810 | 2,271,617 | 2,196,348 | 7,839,551 |
| Additions | 101,780 | - | 2,289 | 24,178 | 383,938 | 124,296 | 636,481 |
| **Balance as at May 31, 2018** | **2,819,299** | **56,761** | **149,785** | **473,988** | **2,655,555** | **2,320,644** | **8,476,032** |
| **Depreciation and impairment** | | | | | | | |
| Balance as at June 1, 2017 | (936,368) | (56,138) | (124,179) | (313,311) | (1,064,099) | (903,020) | (3,397,115) |
| Depreciation | (97,440) | - | (3,284) | (36,715) | (129,935) | (157,431) | (424,805) |
| **Balance as at May 31, 2018** | **(1,033,808)** | **(56,138)** | **(127,463)** | **(350,026)** | **(1,194,034)** | **(1,060,451)** | **(3,821,920)** |
| **Carrying amount as at May 31, 2018** | **1,785,491** | **623** | **22,322** | **123,962** | **1,461,521** | **1,260,193** | **4,654,112** |

| | Leasehold Improvement US$ | Motor Vehicle US$ | Entertainment and PR Equipment US$ | Computer US$ | Furniture and Fixtures US$ | Bar and Kitchen Equipment US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | | | |
| Balance as at June 1, 2016 | 2,715,767 | 56,761 | 147,496 | 417,689 | 2,233,016 | 2,153,592 | 7,724,321 |
| Additions | 1,752 | - | - | 32,121 | 38,601 | 42,756 | 115,230 |
| **Balance as at May 31, 2017** | 2,717,519 | 56,761 | 147,496 | 449,810 | 2,271,617 | 2,196,348 | 7,839,551 |
| **Depreciation and impairment** | | | | | | | |
| Balance as at June 1, 2016 | (840,071) | (56,138) | (120,930) | (260,125) | (939,432) | (751,572) | (2,968,268) |
| Depreciation | (96,297) | - | (3,249) | (53,186) | (124,667) | (151,448) | (428,847) |
| **Balance as at May 31, 2017** | (936,368) | (56,138) | (124,179) | (313,311) | (1,064,099) | (903,020) | (3,397,115) |
| **Carrying amount as at May 31, 2017** | 1,781,151 | 623 | 23,317 | 136,499 | 1,207,518 | 1,293,328 | 4,442,436 |

## 4. Intangible assets

These represents amounts spent on the development of new products, processes and systems and amounts paid for licenses and franchises are being amortised over 7 years.

| | Development Cost US$ | Licenses and Franchises US$ | Total US$ |
|---|---|---|---|
| **Gross carrying amount** | | | |
| Balance as at June 1, 2017 | 26,689 | 1,232,610 | 1,259,299 |
| Additions | 234,536 | 100,621 | 335,157 |
| **Balance as at May 31, 2018** | **261,225** | **1,333,231** | **1,594,456** |
| **Amortisation** | | | |
| Balance as at June 1, 2017 | (10,574) | (596,814) | (607,388) |
| Amortisation | - | (86,938) | (86,938) |
| **Balance as at May 31, 2018** | **(10,574)** | **(683,752)** | **(694,326)** |
| **Carrying amount as at May 31, 2018** | **250,651** | **649,479** | **900,130** |

| | Development Cost US$ | Licenses and Franchises US$ | Total US$ |
|---|---|---|---|
| **Gross carrying amount** | | | |
| Balance as at June 1, 2016 | 26,689 | 1,232,610 | 1,259,299 |
| **Balance as at May 31, 2017** | 26,689 | 1,232,610 | 1,259,299 |
| **Amortisation** | | | |
| Balance as at June 1, 2016 | - | (510,817) | (510,817) |
| Amortisation | (10,574) | (85,997) | (96,571) |
| **Balance as at May 31, 2017** | (10,574) | (596,814) | (607,388) |
| **Carrying amount as at May 31, 2017** | 16,115 | 635,796 | 651,911 |

## 5. Inventories

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Food | **113,185** | 137,685 |
| Beverage | **52,659** | 54,553 |
| Gift Shop | **77,740** | 71,706 |
| Other | **91,142** | 76,447 |
| **Total** | **334,726** | 340,391 |

## 6. Trade and other receivables

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Receivables | **42,659** | 35,912 |
| Staff loan | **2,696** | 5,225 |
| Deposit | **53,031** | 29,041 |
| Other receivables | **32,155** | 18,041 |
| Prepayments | **981** | 7,887 |
| **Total** | **131,522** | 96,106 |

## 7. Related party balances and transactions

The company is related to the various companies in the Caribbean operating under the Margaritaville franchise, by way of common shareholders and directors.

i The statement of financial position includes balances arising in the normal course of business, with related parties as follows:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Margaritaville Caribbean Limited | **3,500,000** | 3,500,000 |
| Margaritaville Limited | **6,449,308** | 4,094,975 |
| Margaritaville St. Lucia | **(3,950,750)** | (3,950,750) |
| | **5,998,558** | 3,644,225 |

ii Related party balances are unsecured. Amounts owing by related companies have no fixed repayment terms.

iii The company has a management agreement with Margaritaville Limited, a related company, to provide management services for the day to day operations of the company. Changes for the year are as follows:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Group charges | **-** | 1,400,886 |

## 8. Cash and cash equivalents

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Cash and bank balances | **392,136** | 387,933 |
| Bank overdraft | **(178,891)** | (108,721) |
| **Total** | **213,145** | 279,212 |

Bank overdraft is secured by a Director Guarantee.

## 9. Share capital

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Authorised | | |
| Issued and fully paid: | | |
| 1,637,500,000 (2017 – 6,550,000) ordinary shares | **73,861** | 73,861 |
| | **73,861** | 73,861 |

All shares in issue are deemed to be without par value.

On June 26, 2017, the company adopted new public company Articles of Incorporation and passed (amongst others) the following resolutions with the approval of its holding company, Margaritaville St. Lucia:

- The sub-division of each Share into 250 units, for the purposes of pricing the Sale Shares in the Invitation and for the creation of liquidity in the trading market for the Shares following a successful listing on the Junior Market of the Junior Stock Exchange (JSE).
- The conversion of each fully paid Share to stock for the purposes of the application proposed to be made to list the Shares on the Junior Market of the JSE.

## 10. Capital reserve

The above represents net income earned two months prior to the date of incorporation as follows:

| | US$ |
|---|---|
| Gross income | 159,538 |
| Less: Expenses | 94,303 |
| Taxation | 21,745 |
| | **43,490** |

## 11. Preference shares

These represent 35,000 9.5% Cumulative Redeemable United States Dollars Indexed Preference Shares with an issue price of US$100. These are redeemable on December 19, 2023. Dividend payment dates are March 31, July 31, October 31, and December 31 each year.

## 12. Lease obligations

The company leased equipment which has been accounted for as a finance lease. Future minimum payments are as follows:

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Within 1 year | **9,643** | 17,633 |
| 1-5 years | **8,698** | 18,025 |
| | **18,341** | 35,658 |
| Less amount representing interest | **(1908)** | (4,433) |
| | **16,433** | 31,225 |
| Less: Current portion | **(8,461)** | (15,065) |
| **Total** | **7,972** | 16,160 |

Reconciliation of liabilities arising from financing activities:

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Balance at beginning of year | **31,225** | 46,487 |
| Repayment | **(14,792)** | (15,262) |
| **Balance at end of year** | **16,433** | 31,225 |

## 13. Deferred tax liability

Deferred taxes are calculated on all temporary differences under the liability method using a tax rate of 25%. The movement on the deferred tax account is as follows:

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Balance at beginning of year | **88,190** | 124,193 |
| Changes during the year (Note 21) | **960** | (36,003) |
| Balance at end of year | **89,150** | 88,190 |

Deferred tax balance arose on temporary differences in respect of the following:

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Deferred tax on: | | |
| Property and equipment | **89,150** | 88,190 |
| **Deferred tax liability** | **89,150** | 88,190 |

## 14. Bank overdraft

This represents the excess of unpresented cheques over bank balances at the end of year. The company does not operate an overdraft facility.

## 15. Trade and other payables

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Trade payables | **1,538,826** | 769,331 |
| Accrued expenses | **111,913** | 80,567 |
| Other payables | **400,459** | 245,820 |
| **Total** | **2,051,198** | 1,095,718 |

## 16. Expenses by nature

Total direct, administrative and other operating expenses:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| **Direct expenses** | | |
| Cost of inventories recognised as expense | **4,604,887** | 4,081,825 |
| **Administrative expenses** | | |
| Group recoverable cost | **-** | 1,400,886 |
| Employee benefits (Note 21) | **1,794,618** | 1,575,990 |
| Rent | **3,145,697** | 2,884,901 |
| Franchise fees | **481,133** | 1,117,819 |
| Audit Fees | **14,400** | 12,853 |
| Other expenses | **1,169,493** | 973,549 |
| **Total** | **6,605,341** | 7,966,000 |
| **Promotional expenses** | | |
| Advertising | **35,931** | 20,762 |
| **Depreciation and amortisation** | | |
| Depreciation | **424,805** | 428,847 |
| Amortisation | **86,998** | 96,571 |
| **Total** | **511,804** | 525,418 |

## 17. Finance income and finance costs

Finance income includes all income from financial assets and comprises:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Interest income from financial assets | **812** | 7,272 |
| **Total** | **812** | 7,272 |

Finance cost includes all interest related expenses which have been included in the statement of profit or loss and comprises:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Preference dividends | **332,500** | 79,717 |
| Interest on loans and leases | **2,786** | 279,144 |
| Overdraft interest | **5,845** | 3,486 |
| **Total** | **341,131** | 362,347 |

## 18. Income taxes

i Income tax based on profit for the year and adjusted for tax purposes and computed at the rate of 25% comprises:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Current charge | **114,009** | 276,777 |
| Deferred tax charge/(credit) | **960** | (36,003) |
| **Total** | **114,969** | 240,774 |

ii Reconciliation of theoretical tax charge to effective tax charge:

| | 2018 US$ | 2017 US$ |
|---|---|---|
| **Profit before tax** | **3,562,760** | 1,320,263 |
| Tax at applicable tax rate of 25% | **890,690** | 330,065 |
| Expenses not deductible for tax purposes | **105,361** | 107,595 |
| Tax effect of allowances and credits | **(124,527)** | (196,886) |
| Remission of tax | **(756,555)** | - |
| **Income tax charge for the year** | **114,969** | 240,774 |

The Company will not be liable to pay corporate income tax in its first 5 years on the Junior Market. It will be liable to corporate income tax at half of the usual rate in years 6 to 10 on the Junior Market. If the Company breaches any Junior Market requirements, it may be liable to repay the tax that was remitted.

## 19. Earnings per share

Earnings per share is calculated by dividing profit for the year by the weighted average number of ordinary shares in issue for the year of 1,637,500,000 (2017 – 1,637,500,000).

The company subdivided its previously issued 6,550,000 shares into 250 units each.

## 20. Ordinary dividends

The Board declared dividends of US$0.000917 per ordinary share to all shareholders on record as at August 18, 2017. The dividends were paid in October 2017.

## 21. Employee benefits

| | 2018 US$ | 2017 US$ |
|---|---|---|
| Wages and taxes | **1,613,970** | 1,440,259 |
| Medical and other staff benefits | **180,648** | 135,731 |
| **Total** | **1,794,618** | 1,575,990 |

There were three hundred and twenty one (321) - (2017 - Three hundred and thirteen (313)) permanent employees at year end.

## 22. Risk management policies

The company's activities expose it to a variety of financial risks in respect of its financial instruments: market (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The company seeks to manage these risks by close monitoring of each class of its financial instruments as follows:

### a Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to market risk through it use of financial instruments and specifically to currency risk, interest rate risk and certain other price risk, which result from both operating and investing activities.

i Currency risk and sensitivity

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The currency giving rise to this is the Jamaican Dollar.

The company has certain obligation in foreign currency. It is however able to manage this risk by maintaining a foreign currency bank account.

Net foreign currency at exposure at date of the statement of financial position was as follows:

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Bank overdraft | **(178,991)** | (108,721) |
| **Total** | **(178,991)** | (108,721) |

**Foreign currency sensitivity**

The sensitivity analysis is based on the company's foreign currency financial instruments held at each reporting date.

If the value of the United States Dollar appreciated by 6% against the Jamaican Dollar this would have a negative impact on earnings of approximately US$11,424 (2017 - US$5,680), while if the rate of the United States Dollar depreciated it by 1% would increase earnings by US$1,772 (2017 – 1% US$1,739).

ii Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rate. The company's cash and cash equivalents are subject to interest rate risk. However, the company attempts to manage this risk by monitoring its interest-earning assets closely and procuring the most advantageous rates under contracts with interest rates that are fixed for the life of the contract, where possible.

The company is exposed to interest rate risk as follows:

Financial assets/(liabilities) :

| | **Range of interest rates %** | **Rate sensitive within one year US$** | **Non-rate sensitive within one year US$** | **Total US$** |
|---|---|---|---|---|
| Bank overdraft | | | | |
| Jamaican Dollars (J$) | 24.75-25.0 | (178,991) | - | (178,991) |
| Bank balances | 0.10-0.15 | 288,499 | - | 288,499 |

**Interest rate sensitivity**

A reduction in interest rates by 1% basis point would increase earnings by approximately $1,095 (2017 - $1,811).

iii Other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issue or factors affecting all instruments traded in the market.

The company is not exposed to other price risk as it has no investment in equity instruments.

## b Credit risk

The company faces credit risk in respect of its receivables and cash and cash equivalents. However, this risk is controlled by close monitoring of these assets by the company. In addition, cash and cash equivalents are maintained with licensed financial institutions considered to be stable. The maximum credit risk faced by the company is the total of these balances reflected in the financial statements.

Classes of financial assets – carrying amounts

| | **2018 US$** | 2017 US$ |
|---|---|---|
| Trade and other receivables | **131,522** | 96,106 |
| Cash and cash equivalents | **392,136** | 387,933 |
| | **523,658** | 484,039 |
| Less: Bank overdraft | **178,991** | 108,721 |
| **Total** | **344,667** | 375,318 |

## c Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its commitments associated with financial liabilities.

The company manages its liquidity risk by carefully monitoring its cash outflow needs for day-to-day business and maintaining an appropriate level of resources in liquid or near liquid form to meet its needs. The company maintains cash and savings deposits for up to 30-day periods to meet its liquidity requirements.

The company's financial liabilities comprise trade and other payables. These amounts are due as follows:

**May 31, 2018**

| | **Within 12 Months US$** |
|---|---|
| Trade and other payables | **2,051,198** |
| **Total** | **2,051,198** |

May 31, 2017

| | Within 12 Months US$ |
|---|---|
| Trade and other payables | 1,095,718 |
| **Total** | 1,095,718 |

## 23. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or 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 recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into levels 1 to 3 based on the degree to which the fair values are observable, as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities. (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices). (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). (Level 3).

The company's assets and liabilities are measured at amortised costs and the fair values for these are disclosed at Note 24.

## 24. Summary of financial assets and liabilities by category

The carrying amount of the company's financial assets and liabilities are recognised at the end of the reporting period under review may also be categorised as follows:

| | **2018 US$** | 2017 US$ |
|---|---|---|
| **Financial assets measured at amortised costs** | | |
| **Financial assets** | | |
| Loans and receivables | | |
| Trade and other receivables | **131,522** | 96,106 |
| Cash and cash equivalents | **392,136** | 387,933 |
| **Total** | **523,658** | 484,039 |
| **Financial liabilities** | | |
| **Non-current liabilities** | | |
| At amortised cost | | |
| Lease obligation | **7,972** | 16,160 |
| Preference shares | **3,500,000** | 3,500,000 |
| | **3,507,972** | 3,516,160 |
| **Current liabilities** | | |
| At amortised cost | | |
| Bank overdraft | **178,991** | 108,721 |
| Trade and other liabilities | **2,051,198** | 1,095,718 |
| Current portion of borrowing | **8,461** | 15,065 |
| | **2,238,650** | 1,219,504 |

## 25. Segment information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions.

The two operating segments are food and beverage which are normally priced together as a meal and therefore no segment reporting is disclosed in these financial statements.

## 26. Capital management, policies and procedures

The company's capital management objectives are to ensure the company's ability to continue as a going concern and to provide adequate return to shareholders by pricing products commensurately with the level of risk and current market conditions.

The company is not subject to any externally imposed capital requirements.

## 27. Operating leases

The Company operates under a Concession Licence Agreement granted to it in December 2011 by MBJ Airports Limited which operates Sangster International Airport. This Concession Licence Agreement permits the Company to develop and use 31,570.70 square feet of space for food and beverage concessions at the post- security screening area.

The initial term ending March 2022 is, capable of extension for up to ten further years if the Company meets certain stated financial and customer number targets.

The Agreement provides for payment of a Licence Fee for the period December 2012 to 31 March 2022 as follows: (a) Minimum Annual Guaranteed Fee ('MAG'); and (b) Percentage Fee based on gross sales on food, beverage and merchandise sales. In the event of an extension of the Term MAG will increase by the rate of the Consumer Price Index.

The Company also operates under a Food and Beverage Retail Space Sub- Licence Agreement with MBJ Airports Limited, which was granted to it by the latter as operator of Sangster Airport International. This licence is for 562.31 square feet of space at the pre-security screening area.

The original licence granted 2007 was extended to March 2022 (there is no written provision for further extension and this must be negotiated separately).

The Agreement provides for payment of a Licence Fee for the period December 2012 to 31 March 2022 as follows: (a) Minimum Annual Guaranteed Fee ('MAG'); and (b) Percentage Fee based on gross sales on food, beverage and merchandise sales.