LASCO MANUFACTURING LIMITED

FINANCIAL STATEMENTS

31 MARCH 2020

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I N D E X

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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
Lasco Manufacturing Limited

Report on the Financial Statements

Opinion

We have audited the financial statements of Lasco Manufacturing Limited set out on pages 6 to 41, which comprise the statement of financial position at 31 March 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 March 2020, and of its financial performance and its cash flows for the year 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 those standards are further described in the *Auditors' 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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Lasco Manufacturing Limited

Key audit matters (cont'd)

Key audit matter	How the matter was addressed in our audit
Expected credit losses in relation to financial assets. See notes 3(m)(iii), 5(c)(ii) and 17 to the financial statements for management's related policies and disclosures. At 31 March 2020, trade receivables, net of expected credit losses represented \$1.65 billion or 17% of the total assets of the company. \$1.63 billion of trade receivables is due from Lasco Distributors Limited, a related company of which only \$206 million is over 30 days. No impairment provision was deemed necessary on the related party balance. For the remainder of the receivables, which represents 0.01% of the overall balance, no amounts were past due, however, the expected credit loss provision matrix was applied and the amount was not considered material. Management makes judgement regarding the collectability of receivables by making certain assumptions and judgements in arriving at the provision for impairment. The company estimates expected credit losses (ECL) on trade receivables using a provision matrix based on historical credit loss experience. Customers were placed in aging buckets and a default risk percentage calculated using the incurred loss analyses over delinquent accounts, the credit history, risk profile of each customer and the aging of receivables.	The company's accounting policy as it relates to the impairment provision for trade receivables was obtained and the reasonableness of the accounting policy assessed in relation to the requirements of the relevant standard. This was achieved by: • We established an understanding of management's ECL model including source data, the effectiveness of the implementation and the mathematical accuracy of the model. We tested the reliability of the source data used in the design of the model by confirming a sample to the historical data. • Testing manual and automated controls over the aging of receivables. Our testing of automated controls involved using our own information technology specialist to test the design, implementation and operating effectiveness of the automated controls. • We evaluated the appropriateness of management's assumptions and judgement in arriving at the forward looking multiple, by assessing the basis of the multiple economic scenarios used and the weighting assigned by management. The main macro factors used were compared to external public information and calculations tested through recomputation. • We determined whether the default risk percentage was accurately calculated and correctly applied to the relevant buckets of accounts receivable. Based on the audit procedures performed, no adjustments to the financial statements were deemed necessary.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Lasco Manufacturing Limited

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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 the 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.

Auditors' 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 auditors' 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 AUDITORS' REPORT (CONT'D)

To the Members of
Lasco Manufacturing Limited

Auditors' 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 scepticism 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 auditors' 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 auditors' 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 achieves fair presentation.

We communicate with those charged with governance 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Lasco Manufacturing Limited

Auditors' 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 these matters 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.

Report on additional matters 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 financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Donna Hobson.

BDO

Chartered Accountants

27 May 2020

LASCO MANUFACTURING LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2020

	Note	2020 $'000	2019 $'000
REVENUE	6	7,886,142	7,565,672
COST OF SALES		(4,968,748)	(4,886,306)
GROSS PROFIT		2,917,394	2,679,366
Other operating income	7	30,016	1,836
		2,947,410	2,681,202
EXPENSES:			
Administrative and other expenses		(1,363,994)	(1,137,364)
Selling and promotion expenses		(291,011)	(285,959)
	8	(1,655,005)	(1,423,323)
OPERATING PROFIT		1,292,405	1,257,879
Finance costs	10	(93,615)	(107,426)
PROFIT BEFORE TAXATION		1,198,790	1,150,453
Taxation	11	(217,113)	(73,674)
NET PROFIT		981,677	1,076,779
OTHER COMPREHENSIVE INCOME:			
Item that will or may not be reclassified to profit or loss –			
Share option plan	22(c)	185,406	-
Unrealized losses on financial instruments		(148,690)	-
TOTAL COMPREHENSIVE INCOME		1,018,393	1,076,779
EARNINGS PER STOCK UNIT	12		
Basic		23.85¢	26.32¢
Diluted		23.67¢	26.24¢

LASCO MANUFACTURING LIMITED

STATEMENT OF FINANCIAL POSITION

31 MARCH 2020

	Note	2020 $'000	2019 $'000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	4,971,070	5,047,512
Investment property	14	-	25,711
Financial assets at fair value through other comprehensive income	15	170,690	-
		5,141,760	5,073,223
CURRENT ASSETS:			
Inventories	16	1,082,440	899,894
Receivables	17	2,044,181	1,793,374
Tax recoverable		2,971	1,202
Related companies	18	10,264	8,285
Directors' current account	18	4,449	3,022
Short term investments	19	97,937	91,083
Cash and bank balances	20	1,354,148	918,722
		4,596,390	3,715,582
		9,738,150	8,788,805
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	550,887	327,874
Other reserve	22(c)	186,828	87,607
Fair value reserve	23	(148,690)	-
Retained earnings		6,162,040	5,430,333
		6,751,065	5,845,814
NON-CURRENT LIABILITIES:			
Deferred taxation	24	651,345	550,336
Long term loans	25	548,695	931,758
		1,200,040	1,482,094
CURRENT LIABILITIES:			
Payables	26	1,081,072	812,886
Related companies	18	112,852	139,947
Current portion of long term loans	25	496,230	463,928
Taxation		96,891	44,136
		1,787,045	1,460,897
		9,738,150	8,788,805

Approved for issue by the Board of Directors on 27 May 2020 and signed on its behalf by:

Hon. Lascelles A. Chin, O.J, C.D, LLD (Hon. Causa)
Chairman

James E.D. Rawle
Director

LASCO MANUFACTURING LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2020

	Note	Share Capital $'000	Other Reserve $'000	Fair Value Reserve $'000	Retained Earnings $'000	Total $'000
BALANCE AT 1 APRIL 2018		324,890	89,045	-	4,509,018	4,922,953
TOTAL COMPREHENSIVE INCOME						
Net profit		-	-	-	1,076,779	1,076,779
TRANSACTIONS WITH OWNERS						
Issue of shares	21	1,546	-	-	-	1,546
Transfer from other reserves	22 (c)	1,438	(1,438)	-	-	-
Dividends	27	-	-	-	(155,464)	(155,464)
		2,984	(1,438)	-	(155,464)	(153,918)
BALANCE AT 31 MARCH 2019		327,874	87,607	-	5,430,333	5,845,814
TOTAL COMPREHENSIVE INCOME						
Net profit		-	-	-	981,677	981,677
Other comprehensive income		-	185,406	(148,690)	-	36,716
		-	185,406	(148,690)	981,677	1,018,393
TRANSACTIONS WITH OWNERS						
Issue of shares	21	136,828	-	-	-	136,828
Transfer from other reserves	22(c)	86,185	(86,185)	-	-	-
Dividends	27	-	-	-	(249,970)	(249,970)
		223,013	(86,185)	-	(249,970)	(113,142)
BALANCE AT 31 MARCH 2020		550,887	186,828	(148,690)	6,162,040	6,751,065

LASCO MANUFACTURING LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 31 MARCH 2020

	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	981,677	1,076,779
Items not affecting cash resources:		
Depreciation	272,137	229,461
Effect of exchange rate translation	6,371	(2,297)
Interest income	(6,068)	(487)
Stock options – value of services expensed	185,406	-
(Gain)/loss on disposal of investment property/ property, plant and equipment	(12,569)	7,648
Interest expense	93,615	107,426
Taxation expense	217,113	73,674
	1,737,682	1,492,204
Changes in operating assets and liabilities:		
Inventories	(182,546)	(61,688)
Receivables	(256,486)	74,707
Related companies	(29,074)	129,905
Taxation recoverable	(1,769)	88
Payables	266,762	234,471
Directors' current account	(1,427)	(185)
	1,533,142	1,869,502
Taxation paid	(63,349)	(52,229)
Cash provided by operating activities	1,469,793	1,817,273
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	6,055	626
Short term investments (Note 20b)	(6,854)	557
Purchase of investments	(319,380)	-
Purchase of property, plant and equipment	(195,721)	(588,398)
Proceeds from disposal of investment property	38,306	-
Cash used in investing activities	(477,594)	(587,215)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest paid	(97,364)	(109,385)
Loan received	109,546	470,000
Loan paid	(460,307)	(335,734)
Dividends paid	(249,970)	(155,464)
Issue of shares	136,828	1,546
Cash used in financing activities	(561,267)	(129,037)
Increase in cash and cash equivalents	430,932	1,101,021
Exchange effects on foreign cash balances	4,494	(1,739)
Cash and cash equivalents at beginning of year	918,722	(180,560)
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 20)	1,354,148	918,722

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

1. **IDENTIFICATION AND PRINCIPAL ACTIVITIES:**

(a) Lasco Manufacturing Limited is a limited liability company incorporated and domiciled in Jamaica. The registered office of the company is 27 Red Hills Road, Kingston 10 and it currently operates from premises at White Marl, St. Catherine. The company is listed on the Junior Market of the Jamaica Stock Exchange.

(b) The principal activities of the company are the manufacturing of soy based products, juice drinks, water and packaging of milk based products. Distribution of these products is done in the local market.

2. **REPORTING CURRENCY:**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (‘the functional currency’). These financial statements are presented in Jamaican dollars, which is considered the company’s functional and presentation currency.

3. **SIGNIFICANT ACCOUNTING POLICIES:**

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented. Amounts are rounded to the nearest thousand, unless otherwise stated. Where necessary, prior year comparatives have been reclassified to conform to current year presentation.

(a) **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board, and have been prepared under the historical cost convention. They are also prepared in accordance with requirements of the Jamaican Companies Act.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company’s accounting policies. Although these estimates are based on management’s best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

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

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following new standards, interpretations and amendments are immediately relevant to its operations.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(a) **Basis of preparation (cont'd)**

New, revised and amended standards and interpretations that became effective during the year (cont'd)

The company has adopted the following new and amended standards and interpretations as of 1 January 2019:

IFRS 16, 'Leases', (effective for accounting periods beginning on or after 1 January 2019). The new standard eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17. Leases are now recorded in the statement of financial position by recognizing a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of the lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognized lease assets and financial liabilities. An optional exemption exists for short term and low-value leases. The accounting by lessors will not significantly change. There was no impact on the company's financial statements from the adoption of this standard.

IFRIC 23, 'Uncertainty over Income Tax Treatments,' (effective for accounting periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes', are applied where there is uncertainty over income tax treatments. The IFRIC had clarified previously that IAS 12, not IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over tax treatments. There was no impact on the company's financial statements from the adoption of this interpretation.

New standards, amendments and interpretations not yet effective and not early adopted

At the date of authorization of these financial statements, there were certain new standards, amendments and interpretations to existing standards which were in issue but not yet effective and which the company has not early adopted.

The standards which management considered may be relevant to the company are as follows:

Amendments to IAS 1 and IAS 8 on the definition of material (effective for accounting periods beginning on or after 1 January 2020). These amendments to IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The adoption of this standard is not expected to have a significant impact on the company.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(a) **Basis of preparation (cont'd)**

New standards, amendments and interpretations not yet effective and not early adopted (cont'd)

The standards which management considered may be relevant to the company are as follows (cont'd):

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform (effective for accounting periods beginning on or after 1 January 2020). These amendments provide certain reliefs in connection with interest rate benchmark reform. These reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries. The adoption of this standard is not expected to have a significant impact on the company.

(b) **Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated to Jamaican dollars using the closing rate as at the reporting date.

Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in profit or loss.

(c) **Property, plant and equipment**

Items of property, plant and equipment are recorded at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(c) **Property, plant and equipment (cont'd)**

Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation on all other items of property, plant and equipment is calculated on the straight-line basis at annual rates estimated to write off the carrying value of the assets over the period of their estimated useful lives. Land is not depreciated. The expected useful lives of the other property, plant and equipment are as follows:

Buildings	40 years
Furniture and fixtures	10 years
Machinery and equipment	10 to 20 years
Computer equipment	5 years
Motor vehicles	5 years
Leasehold improvements	5 years

(d) **Investments**

The fair values of quoted instruments are based on the spread between the bid and ask prices at valuation date. Upon initial recognition, the company irrevocably classifies its equity instruments at fair value through other comprehensive income (FVOCI) when they meet the definition of equity under IAS 32, Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Equity instruments at FVOCI are not subject to an impairment assessment.

(e) **Inventories**

Inventories are stated at the lower of cost and fair value less costs to sell. Cost is determined as follows:

Finished goods	-	Cost of product plus all indirect costs to bring the item to a saleable condition.
Raw material	-	Cost of product plus duty and related cost in bringing the inventories to their present location.
Goods-in-transit	-	Cost of goods converted at the year end exchange rate.

Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

(f) **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 will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(f) **Provisions (cont'd)**

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(g) **Revenue recognition**

Sale of goods

Revenue is recognised at a point in time in the amount of the price, before tax on sales, expected to be received by the company for goods supplied as a result of their ordinary activities, as contractual performance obligations are fulfilled, and control of goods passes to the customer. Revenue is decreased by any trade discounts granted to customers.

For contracts that permit return of goods, revenue is recognised to the extent that it is highly probable that a significant reversal will not occur.

The right to recover returned goods is measured at the former carrying amount of inventory less any expected cost to recover.

Interest income

Interest income is recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

(h) **Impairment of non-current assets**

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(i) **Borrowings**

Borrowings are recognized initially at the proceeds received, net of transaction costs Incurred. Borrowings are subsequently stated at amortized cost.

Borrowing costs incurred for the construction of the qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(j) **Current and deferred income taxes**

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because taxable profits exclude items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is charged or credited to profit or loss, except where it relates to items charged or credited to other comprehensive income or equity, in which case deferred tax is also dealt with in other comprehensive income or equity.

(k) **Trade and other payables**

Trade payables are stated at amortized cost.

(l) **Employee benefits**

(i) Defined contribution plan

The company operates a defined contribution pension plan which is funded by employees' contribution of 5% of salary and employer's contribution of 5%. Once the contributions have been paid, the company has no further obligations. Contributions are charged to the statement of profit or loss, in the year to which they relate.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(l) **Employee benefits (cont'd)**

(ii) Profit-sharing and bonus plan

The company recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's stockholders after certain adjustments. The company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Other employee benefits

Employee entitlement to annual leave and other benefits are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and other benefits as a result of services rendered by employees up to the end of the reporting period.

(iv) Share-based compensation

The company operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense, with corresponding increase in equity, over the period in which the employee becomes vested to the company. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At the end of each reporting period, the company revises its estimates of the number of options that are expected to become exercisable.

It recognizes the impact of the revision of original estimates, if any, in the statement of profit or loss, and a corresponding adjustment to equity over the remaining vesting period.

The fair value of employee stock options is measured using a Black-Scholes-Merton formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviours), expected dividends, and the risk-free interest rate (based on treasury bill rates). Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

(m) **Financial instruments**

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

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(m) **Financial instruments (cont'd)**

Financial assets

(i) **Classification**

The company classifies its financial assets as amortised cost and fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest (SPPI). They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The company's financial assets measured at amortised cost comprise cash and cash equivalents, receivables, due from related company and short term deposits.

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short term deposits with original maturity of three months or less, and bank overdraft.

Fair value through other comprehensive income (FVOCI)

The company has made an irrevocable election to classify its investments at fair value through other comprehensive income rather than through profit or loss as the company considers this measurement to be the most representative of the business model for those assets. They are carried at fair value with changes in fair value recognized in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

The company's financial assets measured at FVOCI are its investments securities which includes equity instruments in the statement of financial position.

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(m) **Financial instruments (cont'd)**

Financial assets (cont'd)

(ii) **Recognition and Measurement**

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

The company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss.

(iii) **Impairment**

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with its instruments carried at amortised cost.

Instruments carried at amortised cost

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- Stage 1 – This category comprises instruments which are performing in accordance with the contractual terms and conditions and display no deterioration in credit risk since initial recognition. This category also includes those financial instruments with low credit risk.
- Stage 2 – This category includes instruments which display a significant increase in credit risk (SICR) since initial recognition but have not yet defaulted.
- Stage 3 – This category includes instruments that are in default.

The above categories exclude purchased or originated credit-impaired (POCI) financial assets. A financial asset is considered credit-impaired on purchase or origination if there is evidence of impairment at the point of initial recognition (for instance, if it is acquired at a deep discount). POCI financial assets are not included in Stages 1, 2 or 3 and are instead shown as a separate category.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(m) **Financial instruments (cont'd)**

(iii) **Impairment (cont'd)**

Instruments carried at amortised cost (cont'd)

Expected credit loss (ECL) is measured as follows:

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

- Instruments in Stages 2 or 3 that are POCI have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. The company utilized a probability-weighted assessment of the factors which it believes will have an impact on forward looking rates.

  The formula for ECL is generally the 'Probability of Default' (PD) multiplied by the 'Exposure at Default' (EAD) multiplied by the 'Loss Given Default' (LGD). An adjustment is made to reflect the time value of money by considering the original effective interest rate on the individual instruments. The overall models involved the use of various PD, EAD and LGD tables which were then applied to individual instruments based on several pre-determined criteria, including type, original tenor, time to maturity, whether they are Stages 1, 2 or 3 and other indicators.

  The process in arriving at the individual components of ECL and the forward-looking adjustments involved critical estimates and judgements. This is discussed further in Note 4.

Financial liabilities

The company's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. At the reporting date, the following were classified as financial liabilities: long term loans, due to related companies, bank overdraft and payables.

(n) **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; whose operating results are regularly reviewed by the entity's Chief Operation 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.

Based on the information presented to and reviewed by the CODM, the entire operations of the company are considered as one operating segment.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(o) **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognized as a deduction from equity.

(p) **Other receivables**

Other receivables are stated at amortized cost less impairment losses, if any.

(q) **Dividend distribution**

Dividend distribution to the company's shareholders is recognized as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders. In the case of interim dividends, this is recognized when declared by the directors.

Dividend for the year that are declared after the reporting date are dealt with in the subsequent events note.

(r) **Leases**

(i) As lessee:

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 the statement of income on a straight-line basis over the period of the lease.

(ii) As lessor:

Where assets are leased under finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

4. **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES:**

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) **Critical judgements in applying the company's accounting policies**

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

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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4. **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):**

(b) **Key sources of estimation uncertainty**

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

(i) **Income taxes**

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

(ii) **Depreciable assets**

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

(iii) **Net realizable value of inventories**

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. The estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realizable value also take into consideration the purpose for which the inventory is held.

(iv) **Measurement of the expected credit loss allowance**

Allowances are determined upon origination of the trade receivable based on a model that calculates the expected credit loss (ECL) of the trade receivables.

Under this ECL model, the company segments its trade receivables in a matrix by days past due and determined for each age bracket an average rate of ECL, considering actual loss experience over the last 12 months and analysis of future default, that is applied to the balance of the trade receivables.

The average ECL rate increases in each segment of days past due until the rate is 100% for the segment of 365 days or more past due. The use of assumptions make uncertainty inherent in such estimates.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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5. **FINANCIAL RISK MANAGEMENT:**

The company is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price, and
- Liquidity risk

In common with all other businesses, the company is exposed to risks that that arise from its use of financial instruments. This note describes the company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(a) **Principal financial instruments**

The principal financial instruments used by the company, from which financial instrument risk arises, are as follows:

- Receivables
- Cash and bank balances
- Financial assets at fair value through other comprehensive income
- Payables
- Long term loans
- Bank overdraft
- Short term investments
- Related companies

(b) **Financial instruments by category**

Financial assets

	Amortised cost		Fair value through other comprehensive income	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash and bank balances	1,354,148	918,722	-	-
Short term investments	97,937	91,083	-	-
Receivables	1,661,031	1,456,750	-	-
Due from related companies	10,264	8,285	-	-
Investments (equity)	-	-	170,690	-
Total financial assets	3,123,380	2,474,840	170,690	-

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(b) **Financial instruments by category (cont'd)**

Financial liabilities

	Financial liabilities at amortized cost	
	2020	2019
	$'000	$'000
Payables	801,246	590,879
Long term loans	1,044,925	1,395,686
Due to related companies	112,852	139,947
Total financial liabilities	1,959,023	2,126,512

(c) **Financial risk factors**

The Board has overall responsibility for the determination of the company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing operating processes that ensure the effective implementation of the objectives and policies to the company's finance function. The Board receives monthly reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The company's internal auditors also review the risk management policies and processes and report their findings to the Audit and Risk Management Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the company's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) **Market risk**

Market risk arises from the company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risk arises from transactions for sales, purchases and US Dollar denominated investments. The company manages this 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 maximising foreign currency earnings.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(c) **Financial risk factors (cont'd)**

(i) **Market risk (cont'd)**

Concentration of currency risk

The company's exposure to foreign currency risk was as follows:

	2020 $'000	2019 $'000
Cash and bank balances	406,933	349,667
Short term investments	97,937	91,083
Receivables	97,494	106,257
Payables	(695,808)	(469,483)
	(93,444)	77,524

Foreign currency sensitivity

The following table indicates the sensitivity of profit before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank, accounts receivable balances and accounts payable balances, and adjusts their translation at the year-end for 6% (2019 – 6%) depreciation and a 4% (2019 – 4%) appreciation of the Jamaican dollar against the US dollar. The changes below would have no impact on other components of equity.

	% Change in Currency Rate 2020	Effect on Profit before Tax 31 March 2020 $'000	% Change in Currency Rate 2019	Effect on Profit before Tax 31 March 2019 $'000
Currency:				
USD	+4	3,738	+4	(3,101)
USD	-6	(5,607)	-6	4,651

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company is exposed to the equity securities price risk arising from its holding in financial assets at fair value through other comprehensive income. A 10% increase/decrease in the price of equity stocks will result in a $17,069,000 increase/decrease in net results or stockholders equity.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(c) **Financial risk factors (cont'd)**

(i) **Market risk (cont'd)**

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Floating rate instruments expose the company to cash flow interest rate risk, whereas fixed rate instruments expose the company to fair value interest rate risk.

The company is primarily exposed to cash flow interest rate risk on its variable rate borrowings. The company analyses its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing.

Short term investments, fixed deposits and borrowings are the only interest bearing assets and liabilities respectively, within the company. The company's short term investments and fixed deposits are due to mature and re-price respectively, within three months to one year of the reporting date and the company's borrowings are fixed for a period and then revised.

Interest rate sensitivity

There is no significant exposure to interest rate risk on short term deposits, as these deposits have a short term to maturity and are constantly reinvested at current market rates.

There is no significant exposure to interest rate risk on borrowings. A 1% increase/1% decrease (2019 – 1% increase/1% decrease) in interest rates on Jamaican dollar borrowings would result in a $13,957,000 decrease/increase (2019 - $12,614,000 decrease/increase) in profit before tax for the company.

(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. Credit risk arises from trade receivables, short term investments, due from related companies and cash and bank balances.

Trade receivables

Revenue transactions in respect of the company's primary operations are done on a credit basis. The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(c) **Financial risk factors (cont'd)**

(ii) **Credit risk (cont'd)**

Cash and bank balances

Cash transactions are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any one financial institution.

Maximum exposure to credit risk

The maximum exposure to credit risk is equal to the carrying amount of trade and other receivables and cash and cash equivalents in the statement of financial position.

The aging of trade receivables is:

	2020 $'000	2019 $'000
0-30 days	1,554,006	1,432,727
31-60 days	(112,578)	(1,897)
Over 60 days	205,621	68,266
	1,647,049	1,499,096

Trade receivables that are past due but not impaired

At as 31 March 2020, trade receivables of $206,000 (2019 - $14,244,000) were past due but not impaired. These relate to customers for whom there is no recent history of default.

Trade receivables that are past due and impaired

At as 31 March 2020, trade receivables of $nil (2019 - $54,011,000) were impaired. The amount of the provision was $nil (2019 – $54,011,000). These receivables were aged over 60 days.

Movements in the provision for expected credit losses are as follows:

	2020 $'000	2019 $'000
At 1 April	54,011	43,177
Provision for expected credit losses	-	10,834
Bad debts recovered previously provided for	(7,594)	-
Bad debt written off	(46,417)	-
At 31 March	-	54,011

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(c) **Financial risk factors (cont'd)**

(ii) **Credit risk (cont'd)**

Trade receivables that are past due and impaired (cont'd)

The majority of the sales are made to a related company and based on payment patterns, no history of default was identified as all payments are made within the year.

The creation and release of provision for expected credit losses have been included in expenses in profit or loss. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(iii) **Liquidity risk**

Liquidity risk is the risk that the company will be unable to meet its payment obligations associated with its financial liabilities when they fall due. 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's liquidity risk management process, as carried out within the company and monitored by the Finance Department, includes:

(i) Monitoring future cash flows and liquidity on a daily basis.
(ii) Maintaining a portfolio of short term deposit balances that can easily be liquidated as protection against any unforeseen interruption to cash flow.
(iii) Maintaining committed lines of credit.
(iv) Optimising cash returns on investments.

Cash flows of financial liabilities

The maturity profile of the company's financial liabilities, based on contractual undiscounted payments, is as follows:

	Within 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Total $'000
31 March 2020				
Related companies	112,852	-	-	112,852
Payables	801,246	-	-	801,246
Long term loans	558,508	337,030	256,748	1,152,286
Total financial liabilities (contractual maturity dates)	1,472,606	337,030	256,748	2,066,384

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2020

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(c) **Financial risk factors (cont'd)**

(iii) **Liquidity risk (cont'd)**

	Within 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Total $'000
31 March 2019				
Related companies	139,947	-	-	139,947
Payables	590,879	-	-	590,879
Long term loans	563,754	553,728	383,833	1,501,315
Total financial liabilities (contractual maturity dates)	1,294,580	553,728	383,833	2,232,141

(d) **Capital management**

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders. The Board of Directors monitors the return on capital, which the company defines as net operating income, excluding non-recurring items, divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to stockholders.

There are no particular strategies to determine the optimal capital structure. There are also no external capital maintenance requirements to which the company is subject.

6. **REVENUE:**

Revenue represents the price of goods sold and transferred to customers at a point in time, after discounts and allowances.

7. **OTHER OPERATING INCOME:**

	2020 $'000	2019 $'000
Gain on disposal of investment property	12,569	-
Dividend	1,700	-
Interest income	6,068	487
Bad debt recovery	7,594	-
Other income	2,085	1,349
	30,016	1,836

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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8. EXPENSES BY NATURE:

Total administrative, selling and other expenses:

	2020 $'000	2019 $'000
Staff costs (note 9)	717,433	500,163
Directors' fees	15,410	13,358
Auditors' remuneration	6,500	6,000
Legal and professional fees	27,438	39,227
Security	46,027	42,977
Insurance	97,625	88,105
Building rental and equipment	6,250	7,600
Advertising and promotion	291,012	285,959
Foreign exchange loss	21,198	8,595
Travelling and entertainment	35,990	45,994
Depreciation	272,137	229,461
Donations and subscriptions	39,557	44,287
Printing and stationery	6,106	8,146
Bank charges	7,513	6,217
Utilities	27,174	26,543
Bad debts provision	-	11,322
Cleaning and sanitation	21,763	22,918
Other operating expenses	15,872	36,451
	1,655,005	1,423,323

Included in other operating expenses are expense categories amounting to less than $5 million.

9. STAFF COSTS:

	2020 $'000	2019 $'000
Salaries and related costs	344,573	339,024
Directors' remuneration	70,682	69,359
Pension costs	8,241	7,964
Staff welfare	108,531	83,816
Share options – managers	185,406	-
	717,433	500,163

The average number of persons employed by the company during the year was eighty three (83), (2019 – eighty-eight (88).

Also included in cost of sales is an amount of $243,784,000 (2019 - $231,966,000) representing production workers' staff costs.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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10. FINANCE COSTS:

	2020 $'000	2019 $'000
Interest expense	93,615	107,426

11. TAXATION EXPENSE:

(a) Taxation is computed on the profit for the year, adjusted for tax purposes, and comprises income tax at 25%.

	2020 $'000	2019 $'000
Current taxation	111,641	56,130
Under provision in prior year	4,463	587
Deferred taxation (note 24)	101,009	16,957
	217,113	73,674

(b) The tax on the profit before taxation differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2020 $'000	2019 $'000
Profit before taxation	1,198,790	1,150,453
Taxation calculated at 25%	299,698	287,613
Adjusted for the effects of:		
Expenses not deducted for tax purposes	189,916	130,898
Net effect of other charges and allowances	(114,664)	(245,450)
Employment tax credit	(46,195)	(43,257)
	328,755	129,804
Adjustment for the effect of tax remission:		
Current tax	(111,642)	(56,130)
Taxation charge in income statement	217,113	73,674

(c) Remission of income tax:

The company's shares were listed on the Jamaica Stock Exchange Junior Market, effective 12 October 2010. Consequently, the company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least 15 years.

Years 1 to 5	100%
Years 6 to 10	50%

The financial statements have been prepared on the basis that the company will have the full benefit of the tax remissions.

LASCO MANUFACTURING LIMITED

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12. **EARNINGS PER STOCK UNIT:**

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the number of ordinary stock units in issue at year-end.

	2020	2019
Net profit attributable to stockholders ($'000)	981,677	1,076,779
Weighted average number of ordinary stock units ('000)	4,116,444	4,091,138
Basic earnings per stock unit (¢ per share)	23.85	26.32

The diluted earnings per stock unit is calculated by adjusting the number of ordinary stock units in issue at the year end to assume conversion of all dilutive potential ordinary stock units.

	2020	2019
Net profit attributable to stockholders ($'000)	981,677	1,076,779
Weighted average number of ordinary stocks units ('000)	4,116,444	4,091,138
Adjusted for share options ('000)	30,256	13,155
	4,146,700	4,104,293
Diluted earnings per stock unit (¢ per share)	23.67	26.24

LASCO MANUFACTURING LIMITED

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13. **PROPERTY, PLANT AND EQUIPMENT:**

	Land & Buildings $'000	Machinery & Equipment $'000	Leasehold Improvement $'000	Assets under Construction $'000	Motor Vehicles $'000	Furniture & Fixtures $'000	Computer Equipment & Accessories $'000	Total $'000
At cost:								
1 April 2018	2,232,162	2,440,676	6,579	654,960	30,433	11,722	277,138	5,653,670
Transfer	560,436	-	-	(697,622)	-	-	137,186	-
Additions	21,925	207,295	-	354,968	-	797	3,413	588,398
Disposal	-	(13,483)	-	-	-	-	(25)	(13,508)
31 March 2019	2,814,523	2,634,488	6,579	312,306	30,433	12,519	417,712	6,228,560
Transfer	19,030	102,101	-	(121,131)	-	-	-	-
Additions	24,778	8,291	-	150,719	10,074	631	1,228	195,721
Disposal	-	(18)	-	-	-	-	(52)	(70)
31 March 2020	2,858,331	2,744,862	6,579	341,894	40,507	13,150	418,888	6,424,211
Depreciation:								
1 April 2018	197,377	467,370	5,496	-	22,132	6,672	258,400	957,447
Charge for the year	57,588	149,837	260	-	3,178	845	17,753	229,461
Disposal	-	(5,843)	-	-	-	-	(17)	(5,860)
31 March 2019	254,965	611,364	5,756	-	25,310	7,517	276,136	1,181,048
Charge for the year	72,590	162,370	260	-	4,341	790	31,786	272,137
Disposal	-	(3)	-	-	-	-	(41)	(44)
31 March 2020	327,555	773,731	6,016	-	29,651	8,307	307,881	1,453,141
Net Book Value:								
31 March 2020	2,530,776	1,971,131	563	341,894	10,856	4,843	111,007	4,971,070
31 March 2019	2,559,558	2,023,124	823	312,306	5,123	5,002	141,576	5,047,512

Included in land and buildings is a property located at White Marl, St. Catherine which is owned as Tenants in Common in equal shares with a related company.

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14. INVESTMENT PROPERTY:

	2020 $'000	2019 $'000
Investment property	-	25,711

During the year expenses in relation to investment property were recognized in profit or loss in the amount of $nil (2019 -$5,855,000). No income was recognized.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME:

	2020 $'000	2019 $'000
Quoted equities	170,690	-

Financial assets at fair value through other comprehensive income represent quoted equities held in Supreme Ventures Limited and Lasco Distributors Limited.

16. INVENTORIES:

	2020 $'000	2019 $'000
Raw materials	572,100	565,673
Finished goods	65,006	190,403
Goods in transit	445,334	143,818
	1,082,440	899,894

17. RECEIVABLES:

	2020 $'000	2019 $'000
Trade receivables	1,647,049	1,499,096
Provision for expected credit losses	-	(54,011)
Net trade receivables	1,647,049	1,445,085
Other receivables	397,132	348,289
	2,044,181	1,793,374

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18. **RELATED PARTY TRANSACTIONS AND BALANCES:**

	2020 $'000	2019 $'000
Transactions during the year		
Purchase of goods/foreign currency:		
Lasco Financial Services Limited	3,824,346	3,783,370
Sale of goods/services:		
Lasco Distributors Limited	7,787,368	7,476,799
Building rental expense	3,087	2,830

	2020 $'000	2019 $'000
Loan to related company		
Lasvac Limited	5,399	4,038
Key management compensation (included in staff costs – note 9):		
Key management includes directors (executive) and senior managers -		
Salaries and other short-term employee benefits	129,672	118,699
Share based payment	16,927	-
Directors' emoluments:		
Fees	15,410	13,358
Management remuneration (included above)	70,682	69,359
Year end balances		
With related companies:		
Due from –		
Lasco Properties Limited	107	107
Lasco Foods Limited	4,140	4,140
Lasco Financial Services Limited	618	-
Lasvac Limited	5,399	4,038
	10,264	8,285
Lasco Distributors Limited (included in trade receivables)	1,631,407	1,429,777
Lasco Financial Services Limited (included in trade receivables)	4,722	-
Due to –		
Lasco Distributors Limited	109,728	136,823
Lasco Foods Limited	3,124	3,124
	112,852	139,947

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18. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D):

Year end balances (cont'd)

	2020 $'000	2019 $'000
Due to (cont'd) –		
Lasco Distributors Limited (included in payables)	20,244	57,410

There is a forty five (45) days repayment term of the amounts due to and from related companies.

Interest on Lasvac balance is charged at 9% per annum.

With directors and other key management:		
Directors' current account	4,449	3,022

19. SHORT TERM INVESTMENTS:

These represents US$ interest bearing deposits which have been invested for a period of one (1) year at a weighted average interest rate of 0.05% (2019 - 0.05%).

20. CASH AND CASH EQUIVALENTS:

	2020 $'000	2019 $'000
Cash and bank balances –		
Cash at bank and in hand	1,309,965	877,570
Short term deposits	44,183	41,152
	1,354,148	918,722

(a) The weighted average interest rate on short term deposits denominated in United States dollars was 0.05% and 0.00% (2019 – 0.05% and 0.00%) and these deposits mature within 30 days.

(b) Reconciliation of movements of assets to cash flows from investing activities:

Amounts represent short term investments.

	2020 $'000	2019 $'000
At 1 April	91,083	91,640
Interest earned	254	235
Non cash -		
Foreign exchange gain/(loss)	6,600	(792)
At 31 March	97,937	91,083

21. SHARE CAPITAL:

	2020 $'000	2019 $'000
Authorised - 4,427,500,000 ordinary shares of no par value		
Stated capital – Issued and fully paid – 4,130,913,000 (2019 - 4,091,163,000) ordinary shares of no par value	550,887	327,874

During the year, the company issued 39,750,000 (2019 – 533,000) shares to its directors and managers for cash of $136,828,000 (2019 - $1,546,000). The shares were issued under the company's stock option plan.

22. OTHER RESERVE:

Stock Option Reserve

(a) Stock option description and movement:

On 30 September 2013, the company obtained approval from stockholders at its annual general meeting for authorised but unissued shares up to a maximum of 5% of the total number of issued shares of no par value to be set aside for allocation and sale to the directors and key personnel of the company. Consequently, the company has set aside 204,356,000 of the authorised but unissued shares for the stock option plan.

(i) On 11 March 2016, under the rules of the stock option plan, the following allocations were made:

	No. of shares '000
Non-executive directors and professional service provider	26,000

	2020 $'000	2019 $'000
Movement on this option:		
At 1 April	26,000	-
Exercised	(6,000)	-
At 31 March	20,000	-

The options were granted at a subscription price of $2.90 and are exercisable over a period of four (4) years, at the end of which time unexercised options will expire. The total grant of each director and the professional service provider vested immediately on the grant date. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends and reclassifications or other similar corporate changes.

(ii) On 1 June 2017, under the rules of the stock option plan, the following allocations were made:

	No. of shares '000
Executive director and manager	30,000

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22. **OTHER RESERVE (CONT'D):**

Stock Option Reserve (cont'd)

(a) Stock option description and movement (cont'd):

(ii) The options were granted at a subscription price of $2.90 and are exercisable over a period of four (4) years, at the end of which time unexercised options will expire. The total grant of the director and the manager vested immediately on the grant date. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends and reclassifications or other similar corporate changes.

	2020 $'000	2019 $'000
Movement on this option:		
At 1 April	16,500	17,033
Exercised	(8,300)	(533)
Share option given up	(5,000)	-
At 31 March	3,200	16,500

Stock option description and movement:

The options were granted at a subscription price of $2.90 and are exercisable over a period of four (4) years, at the end of which time unexercised options will expire. The total grant of director and the manager vested immediately on the grant date. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends and reclassifications or other similar corporate changes.

(iii) On 3 June 2019, under the rules of the stock option plan, the following allocations were made:

	No. of shares '000
Executive director and managers	94,000

	2020 $'000	2019 $'000
Movement on this option:		
Options granted	94,000	-
Exercised	(25,450)	-
At 31 March	68,550	-

(b) Fair value of options granted:

The fair value of options granted determined using the Black-Scholes-Merton valuation model was $43,095,000 in 2016, $80,931,000 in 2018 and $198,895,000 in 2020. The significant inputs into the model were the share price of $3.45, $4.81 and $3.81 at the grant date, exercise price of $2.90, the risk free interest rate of 5.73%, 6.50% and 5.49%, standard deviation of expected share price returns of 75.12%, 66.44% and 64.68%, the option life of four (4) years and expected dividends of $0.025 and $0.030, respectively. It is expected that these options will be exercised within two (2) years and for 2020 immediately.

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22. **OTHER RESERVE (CONT'D):**

Stock Option Reserve (cont'd)

(b) Fair value of options granted (cont'd):

The breakdown of the fair value of options granted is as follows:

	$'000
Fair value of options granted	309,432
Expensed in 2016	(43,095)
Expensed in 2018	(55,392)
Forfeited in 2018	(25,539)
Expensed in 2020	(198,895)
Option given up in 2020	13,489
Amount to be expensed in future periods	-

(c) Movement on the share option reserve is as follows:

	2020 $'000	2019 $'000
At 1 April	87,607	89,045
Fair value of options recognized during the year	185,406	-
Fair value of options exercised transferred to share capital	(86,185)	(1,438)
31 March	186,828	87,607

23. **FAIR VALUE RESERVE:**

This represents the net unrealised deficit on revaluation of equity investments at fair value through other comprehensive income. The investments are not impaired and the recorded deficit is based on short term fluctuations in market prices.

24. **DEFERRED TAXES:**

Deferred taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

	2020 $'000	2019 $'000
Deferred tax liability	(651,345)	(550,336)

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24. **DEFERRED TAXES (CONT'D):**

The movement in deferred tax is as follows:

	2020 $'000	2019 $'000
Balance at start of year	(550,336)	(533,379)
Charge to profit or loss (note 11)	(101,009)	(16,957)
Balance at end of year	(651,345)	(550 336)

Deferred tax is due to the following temporary differences:

	2020 $'000	2019 $'000
Accelerated capital allowances	(656,639)	(554,332)
Interest receivable	(28)	(24)
Interest payable	-	937
Accrued vacation leave	3,729	3,657
Unrealized foreign exchange losses/(gains)	1,593	(574)
	(651,345)	(550,336)

Deferred tax credited/(charged) to profit or loss comprises the following temporary differences:

	2020 $'000	2019 $'000
Accelerated capital allowance	(102,307)	(14,921)
Interest receivable	(4)	35
Interest payable	(937)	(490)
Accrued vacation leave	72	2,576
Unrealized foreign exchange losses/(gains)	2,167	(4,157)
	(101,009)	(16,957)

25. **LONG TERM LOANS:**

	2020 $'000	2019 $'000
CIBC FirstCaribbean International (Jamaica) Limited -		
Expansion loan	350,765	575,425
Demand loan	57,002	138,113
Other loan	453,982	582,148
Sagicor Bank Jamaica Limited –		
Demand Loan	183,176	100,000
	1,044,925	1,395,686
Less: current portion	(496,230)	(463,928)
	548,695	931,758

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25. **LONG TERM LOANS (CONT'D):**

The expansion loan attracted interest at 8.4% per annum which was fixed for a period of three years. The facility was extended by thirty six months to a new maturity date of 31 August 2021. The loan interest was also revised to 7.7% per annum and the loan amortized over seventy seven months.

The CIBC demand loan attracted an interest rate of 8.7% per annum for three years. The loan interest was revised to 7.7% per annum effective 6 November 2018. The demand loan is amortized over sixty months.

The other loan attracted an interest rate of 8.7% per annum which was fixed for three years. The loan interest was revised to 7.5% per annum effective 8 March 2020. The loan is amortized over seventy-two months.

The Sagicor demand loan is unsecured and attracts interest of 7.5% per annum which is variable for a period of four years.

The loans and bank overdraft are secured by the following:

(i) First mortgage issued by Lasco Manufacturing Limited and Lasco Distributors Limited over each mortgagor's interest in commercial property located at White Marl, St. Catherine and registered at Volume 1092 Folio 796 ("White Marl") in the names of the mortgagors and which mortgage is to be issued by each mortgagor to secure:

(a) its indebtedness arising from its borrowing from and other direct liabilities incurred to the bank; and

(b) its indebtedness as guarantor of payment of the other mortgagor's indebtedness to the bank as at (a), such guarantee to be limited in each case to the value of the mortgagor's interest in White Marl. The said mortgage to be stamped to cover JMD$1.207 billion (with power to upstamp) and to be the principal security intended to secure indebtedness arising from advances to Lasco Manufacturing Limited pursuant to this facility letter as well as advances to Lasco Distributors Limited pursuant to a facility letter of even date hereto, issued to Lasco Distributors Limited and in the case of each company, such other indebtedness as may arise pursuant to other agreements with the bank.

(ii) First debenture over fixed and floating assets of the company.

(iii) Hypothecation of credit balances held, whether in foreign or local currencies or both, being not less than US$1.05 million or equivalent.

(iv) Fire or peril insurance including all risks over building, content (inventories, machinery, equipment) with the interest of the bank noted thereon.

(v) Overdraft lending agreement of JMD$579M.

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26. **PAYABLES:**

	2020 $'000	2019 $'000
Trade payables	762,471	528,536
Other payables and accruals	318,601	284,350
	1,081,072	812,886

27. **DIVIDENDS:**

	2020 $'000	2019 $'000
In respect of 2019	249,970	-
In respect of 2018	-	155,464

By Round Robin Resolution dated 11 June 2019 dividend payment of $0.0611¢ per share was approved by the Board of Directors.

28. **PENSION SCHEME:**

The company operates a defined contribution pension scheme which is administered by BPM Financial Limited and is open to all permanent employees.

The scheme is funded by the company's and employees' contributions. The company's contributions to the scheme are expensed and amounted to $8,241,000 (2019 - $7,965,000) for the year.

29. **LEASES:**

The company leases warehouse space under lease agreements with terms of one (1) year, payable monthly.

The leases are short term. The company has not recognised right-of use assets and lease liability for these leases as these leases are exempted based on the recognition criteria for IFRS 16, Leases, as well as management's intent.

30. **CONTINGENT LIABILITIES:**

The company's banker, CIBC First Caribbean International (Jamaica) Limited has issued guarantees in favour of third parties totalling $50,000,000 (2019 – $50,000,000).

31. **SUBSEQUENT EVENT:**

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on 11 March 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activities, business operations and asset prices. This could have a negative financial effect on the company, depending on factors such as the duration and spread of the outbreak, the effects on the economy overall and the effects on the financial markets, all of which are highly uncertain and cannot be estimated reliably.

The company has performed various assessments and stress testing of its business plans under different scenarios, as part of its business continuity and contingency planning. However, at the date of approval of these financial statements, the company is unable to determine a reliable estimate of the financial impact on the overall business operations.