



CARIBBEAN FLAVOURS AND FRAGRANCES LTD.

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"Tease the Senses"

Report on the 2020 Audited Financial Statements to our Shareholders

The Board of Directors is pleased to report on the performance of Caribbean Flavours and Fragrances Limited for the year ending 31 December 2020. Despite the impact of the COVID-19 pandemic, the 2020 financial results demonstrate Management's ability to make strategic decisions and to implement strategies geared towards growth and continuous support of the customers that we serve. COVID-19 accelerated the contraction of global and local markets, but we were able record significant improvements in our operational and financial performance at Caribbean Flavours and Fragrances (CFF). In seeking new ways to become more innovative and efficient and to diversify our product offerings, the company was able to respond to the need seen in the local market by developing and marketing its own hand sanitizer.

Despite the many challenges faced in the market, our Company outperformed expectations and produced its best financial results since listing on the Junior Market of the Jamaica Stock Exchange in 2013. The Company generated Revenue of \$593.753 million or 28% above the revenue reported in 2019. Despite the pandemic and the implementation of various strategies to reduce community spread and its potential impact on staff, our team ensured that the manufacturing plants of our many partners remained functional and that our trusted flavours and fragrances were available. Gross profit and net profit before taxes improved significantly with net profit before taxes reported of \$96.512 million, representing 162% growth over the \$36.807 million reported in 2019.

The Board of Directors continue to demonstrate its steadfast commitment to our shareholders by approving the payment of a gross dividend of \$22.480 million during the 2020 financial year.

The world is still experiencing the pandemic and many negative effects remain to be seen but the Management of CFF is confident that the Company will be able to overcome the unforeseen hurdles. We continue to look to the export market and we continue to explore opportunities within the region.

The Board wishes to thank the loyal management team and employees for their commitment and dedication during the year as well as our shareholders, customers and other stakeholders for their support. We continue to expand our business and live by our motto, to '*Tease the Senses*'.

Derrick F. Cotterell
Managing Director

Caribbean Flavours and Fragrances Limited

**Financial Statements
31 December 2020**

Caribbean Flavours and Fragrances Limited

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INDEPENDENT AUDITORS' REPORT

To the Members of
Caribbean Flavours and Fragrance Limited

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of Caribbean Flavours and Fragrances Limited ("the Company") set out on pages 1 to 42, which comprise the statement of financial position at 31 December 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants' (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other matter

The financial statements of Caribbean Flavours and Fragrances Limited for the year ended 31 December 2019, were audited by another firm of auditors whom expressed an unmodified opinion on those financial statements on 27 February 2020.

INDEPENDENT AUDITORS' REPORT

To the Members of
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Report on the audit of the Financial Statements

Our Audit Approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the Audit Committee members (those charged with Governance) but are not intended to represent all matters that were discussed with them. These matters are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. During the audit, we encountered no key audit matter for disclosure.

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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
Caribbean Flavour & Fragrances Limited
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Report on the audit of the Financial Statements (continued)

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 to cease operations, or has no realistic alternative but to do so.

Those charged with the 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.

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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
Caribbean Flavours and Fragrances Limited
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Report on the audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 presents a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the director, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those 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 the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matter communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstance, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
Caribbean Flavours and Fragrances Limited
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Report on the audit of the Financial Statements (continued)

Report on other legal and regulatory requirements

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

In our opinion, proper accounting records have been maintained, 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 Jamaica Companies Act, in the manner required.

The engagement partner on the audit resulting in this independent auditors' opinion is Wayne Strachan

Baker Tilly

Chartered Accountants
Kingston, Jamaica
25 February 2021


Caribbean Flavours and Fragrances Limited

Statement of Financial Position As at 31 December 2020

	Note	2020 \$'000	2019 \$'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	22,728	18,551
Right-of-use asset	6	83,208	81,083
		<u>105,936</u>	<u>99,634</u>
Current Assets			
Inventories	7	150,721	166,897
Receivables	8	79,711	66,366
Taxation recoverable		3,222	4,671
Cash and cash equivalents	9	295,426	225,653
		<u>529,080</u>	<u>463,587</u>
TOTAL ASSETS		<u><u>635,016</u></u>	<u><u>563,221</u></u>
EQUITY AND LIABILITIES			
Stockholders' Equity			
Share capital	10	56,200	56,200
Retained earnings		433,797	373,978
		<u>489,997</u>	<u>430,178</u>
Non-Current Liabilities			
Deferred tax liabilities	11	3,550	-
Long term loan	12	-	2,014
Lease liability	6	83,512	80,149
		<u>87,062</u>	<u>82,163</u>
Current Liabilities			
Payables	13	42,130	44,680
Taxation		9,102	-
Current portion of long term loan	12	2,077	2,819
Current portion of lease liability	6	4,648	3,381
		<u>57,957</u>	<u>50,880</u>
TOTAL EQUITY AND LIABILITIES		<u><u>635,016</u></u>	<u><u>563,221</u></u>

Approved for issue by the Board of Directors on 25 February 2021 and signed on its behalf by:


W. Billy Heaven Director


Clive Nicholas Director

Caribbean Flavours and Fragrances Limited

Statement of Comprehensive Income Year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
Revenue	14	593,753	462,462
Cost of sales		(403,172)	(323,302)
Gross profit		190,581	139,160
Unrealised gains on investments valued at fair value		2,860	-
Selling and distribution through profit and loss	15	(6,197)	(3,404)
Administrative expenses	15	(114,937)	(107,656)
Operating profit		72,307	28,100
Finance income, net	18	24,205	8,707
Profit before taxation		96,512	36,807
Taxation	19	(14,213)	(5,307)
Net profit for the year, being total comprehensive income		82,299	31,500
Earnings per share	20	\$0.09	\$0.04*

*Restated for comparative purposes

Caribbean Flavours and Fragrances Limited

Statement of Changes in Equity Year ended 31 December 2020

	Share capital	Retained earnings	Total
	\$'000	\$'000	\$'000
Balance at 31 December 2018	56,200	364,958	421,158
Total comprehensive income	-	31,500	31,500
Dividends (Note 21)	-	(22,480)	(22,480)
Balance at 31 December 2019	56,200	373,978	430,178
Total comprehensive income	-	82,299	82,299
Dividends (Note 21)	-	(22,480)	(22,480)
Balance at 31 December 2020	56,200	433,797	489,997

Caribbean Flavours and Fragrances Limited

Statement of Changes in Cash Flows Year ended 31 December 2020

	2020	2019
	\$	\$
CASH RESOURCES WERE PROVIDED BY/(USED IN)		
Cash Flows from Operating Activities		
Profit before taxation	96,512	36,807
Items not affecting cash:		
Prior year non cash adjustment	-	(2,812)
Depreciation	7,624	6,476
Amortization of right-of-use asset	6,345	5,592
Interest income	(1,206)	(1,579)
Interest expense	360	520
Lease interest expense	6,418	6,181
Foreign exchange gain	(29,777)	(13,829)
	86,276	37,356
Changes in operating assets and liabilities:		
Decrease/(increase) in inventories	16,176	(36,035)
(Increase)/decrease in receivables	(13,167)	29,998
Decrease in payables	(1,280)	(1,492)
Cash provided by operating activities	88,005	29,827
Taxation paid	(112)	(876)
Interest paid	(6,778)	(6,701)
Interest received	1,028	1,579
Net cash provided by operating activities	82,143	23,829
Cash Flows from Investing Activity		
Purchase of plant and equipment	(11,801)	(3,831)
Net cash used in investing activity	(11,801)	(3,831)
Cash flows from Financing Activities		
Loan repayments	(2,756)	(5,742)
Lease liability principal repayments	(3,840)	-
Dividends paid	(22,480)	(22,480)
Net cash used in investing activities	(29,076)	(28,222)
Increase/(decrease) in cash and cash equivalents	41,266	(8,224)
Net effect of foreign currency translation cash and cash equivalent	28,507	13,829
Cash and cash equivalents at the beginning of the year	225,653	220,048
CASH AND CASH EQUIVALENT AT END OF YEAR	295,426	225,653
Represented by:		
Cash at bank and in hand	57,231	11,546
Short term deposits	238,195	214,107
	295,426	225,653

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

1. Identification and Principal Activities

Caribbean Flavours and Fragrances Limited (“the Company”) was incorporated under the Companies Act of Jamaica and domiciled in Jamaica. The Company is listed on the Junior Market of the Jamaica Stock Exchange.

The company’s registered office is located at 226 Spanish Town Road, Kingston 11.

Its principal activity is the manufacture and distribution of flavours, mainly for the beverage, baking and confectionery industries. The Company also manufactures fragrances primarily for household and general cleaning and sanitation purposes.

These financial statements are presented in Jamaican dollars, which is the functional currency.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for all the years presented. Where necessary, prior year comparatives have been restated and 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 the provisions of the Jamaican Companies Act.

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and contingent liabilities at the end of the reporting period and the total comprehensive income during the reporting period. 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 underlying assumptions are reviewed on an ongoing basis and any adjustments that may be necessary would be reflected in the year in which actual results are known. The areas involving a higher degree of judgment in complexity or areas where assumptions or estimates are significant to the financial statements are discussed in Note 4.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards effective in the current year that are relevant to the company's operations**

The following standard have been adopted by the company for the first time which have been issued and are effective for mandatory adoption for the financial year beginning on or after 1 January 2020 and have a material impact on the company:

Definition of a Business – Amendments to IFRS 3 (effective for Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020). The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Definition of Material (Amendments to IAS 1 and IAS 8) The amendments clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The amendment further clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses material in the context of the financial statements as a whole. The standard also states that the meaning of 'primary users of general-purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards effective in the current year that are relevant to the Company's operations (continued)

Revised Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. These new standards include increasing the prominence of stewardship in the objective of financial reporting. It also includes changes in reinstating prudence as a component of neutrality. Further key changes include defining a reporting entity, which may be a legal entity, or a portion of an entity and revising the definitions of an asset and a liability as well as removing the probability threshold for recognition and adding guidance on de-recognition

The standard further includes changes to adding guidance on different measurement basis and stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements

The standard clarifies that no changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020.

Amendments to IAS 19, 'Employee benefits' on 'plan amendment, curtailment or settlement' (effective for annual period beginning on or after 1 January 2020). These amendments require an entity to: use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling. Entities should also separately recognise any changes in the asset ceiling through other comprehensive income.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards effective in the current year that are relevant to the company's operations (continued)**

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) Reporting (effective for annual periods beginning on or after 1 January 2020). The changes in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

- modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The amendments did not result in any material effect on the company's financial statements.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards that are not yet effective and have not been early adopted by the company**

Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022). In March 2018, the IASB issued the 2018 Conceptual Framework and most references to the Framework included in IFRSs were updated to the 2018 Framework at that time. However, paragraph 11 of IFRS 3 Business Combinations, which continued to refer to the 1989 Framework, was not updated as this could have caused conflicts for entities applying IFRS 3. IASB identified three possible amendments to IFRS 3 that would update IFRS 3 without significantly changing its requirements. The changes in Reference to the Conceptual Framework (Amendments to IFRS 3):

- update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards that are not yet effective and have not been early adopted by the company (continued)

The amendments in Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) (effective for annual periods beginning on or after 1 January 2022) amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37), (effective for annual periods beginning on or after 1 January 2022) specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards that are not yet effective and have not been early adopted by the company (continued)**

Annual Improvements to IFRS Standards 2018–2020 are effective for annual reporting periods beginning on or after 1 January 2022. The IASB issued its Annual Improvements to IFRSs 2015-2017 cycle amending a number of standards:

- IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ - Subsidiary as a first-time adopter. The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs.
- IFRS 9 ‘Financial Instruments’ - Fees in the ‘10 per cent’ test for derecognition of financial liabilities. The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.
- IFRS 16 ‘Leases’ - Lease incentives. The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41 ‘Agriculture’ - Taxation in fair value measurements. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(a) Basis of preparation (continued)****Standards and amendments to published standards that are not yet effective and have not been early adopted by the company (continued)**

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 June 2020). The International Accounting Standards Board (IASB) has published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in Covid-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a material impact on the operations of the company.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

2. Summary of significant accounting policies (continued)

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis at rates to write off the carrying value of the assets over their expected useful lives. The rates used to write off the cost of assets are as follows:

Leasehold property	10%
Leasehold improvements	10%
Plant and machinery, furniture and fixtures, office equipment	10%
Office computer and equipment	33 ^{1/3} %
Motor vehicle	25%

Leasehold improvements are classified as property, plant and equipment.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

Repairs and maintenances are charged to the statement of comprehensive income during the financial period in which they are incurred

(c) Right-of-use assets and lease liabilities

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- (i) Leases of low value assets; and
- (ii) Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(c) Right-of-use assets and lease liabilities (continued)**

On initial recognition, the carrying value of the lease liability also includes:

- (i) amounts expected to be payable under any residual value guarantee;
- (ii) the exercise price of any purchase option granted in favour of the company if it is reasonably certain to assess that option;
- (iii) any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

To determine the incremental borrowing rate, the company:

- (i) since it does not have recent third-party financing, uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, and
- (ii) makes adjustments specific to the lease, e.g. term, currency and security.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- (i) lease payments made at or before commencement of the lease;
- (ii) initial direct costs incurred; and
- (iii) the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets valued as US\$5,000 or less when new. The company has no short-term leases or leases for low valued assets at this time.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

2. Summary of significant accounting policies (continued)

(c) Right-of-use assets and lease liabilities (continued)

Extension and termination options

Extension and termination options are included for the property leased by the company. These are used to maximise operational flexibility in terms of managing the asset used in the company's operations. The extension option is exercisable by the lessee provided that thirty (30) days written notice is given prior to the expiration of the initial term. Either party may terminate the lease on the provision that not less than twelve (12) months' notice in writing is given to the other party.

When the company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.
- In all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is re-measured using the discount rate.
- Applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

For contracts that both convey a right to the company to use an identified asset and require services to be provided to the company by the lessor, the company has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(d) Inventories**

Estimation – Inventories are carried at the lower of cost or net realized value. The estimation of net realized value is based on the most reliable evidence available, at the time the estimates are made, of the amount the inventories are expected to realize.

Additionally, estimation is required for inventory provision due to shrinkage, slow-moving and obsolescence. It is possible, based on existing knowledge, that outcomes within the next financial year that are different from those assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

(e) Financial assets

The company classifies its financial assets into the category amortized cost. The classification depends on the purpose for which the financial assets were acquired.

Receivables, cash and equivalents and investments

The company's financial assets measured at amortized cost comprise trade receivables and cash and cash equivalents and investments in the statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturity of three months or less.

These assets arise principally from the provision of goods and services to customers 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. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within the statement of profit or loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

2. Summary of significant accounting policies (continued)

(f) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(g) Dividends

Dividends on ordinary shares are recognized in shareholder's equity in the period in which they become legally payable. Interim dividends are due when declared and approved by the directors while shareholders approve final dividends at the Annual General Meeting. Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

(h) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(i) Payables**

Payables, including provisions, are stated at their nominal value. A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money, and where appropriate, the risks specific to the liability.

(j) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be determined.

(k) Income taxes

Where applicable, taxation expense in the statement of comprehensive income comprises current and deferred tax charges.

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

Deferred tax is the tax 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 their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(l) Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, receivables, balances with related parties, payables, balances with directors, lease liabilities and borrowings.

The fair values of financial instruments and the associated risks are discussed in Note 3a.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(m) Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rate prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rate prevailing at the date of the statement of financial position, that is, in the case of each currency, the Bank of Jamaica weighted average buying and selling rates at that date. Gains and losses arising from fluctuations in exchange rates are reflected in the statement of comprehensive income.

(n) Revenue recognition**Sale of goods**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown net of returns, discounts and GCT. The company's revenue is generally derived from selling goods with revenue recognized at a point in time when control of the goods has been delivered to the customer and acceptance by them of the payment invoice. Once the physical delivery of the products to the agreed location and customer has occurred, and the Company is no longer liable for any of the goods, the transaction is considered complete.

Interest income

Interest income and expense are recognized in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price.

Other operating income

Other operating income, where applicable, includes gains on disposal of assets recognized when the transaction is complete, rental of investment property recognized when earned, and miscellaneous inflows recognized when received and monies lodged to the Company's bank account.

(o) Comparative information

Where necessary comparative figures have been reclassified to conform with changes in presentation.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

2. Summary of significant accounting policies (continued)**(p) Related party transactions**

A party is related to the company, if:

- (i) directly, or indirectly through one or more intermediaries, the party, is controlled by, or is under common control with, the company (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the company that gives it significant influence over the company; or has joint control over the company;
- (ii) the party is an associate of the company;
- (iii) the party is a joint venture in which the company is a venturer;
- (iv) the party is a member of the key management personnel of the company or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is the company that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the company, or of any company that is a related party of the company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. The company has a related party relationship with its directors and key management personnel, representing certain senior officers of the company.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

3. Financial Risk Management

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments carried on the statement of financial position include cash and cash equivalents, receivables, payables, related party balances, director's account, lease liabilities and borrowings.

a) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. The company's equities are the only financial instrument that is carried at fair value, also where fair value of financial instruments approximates carrying value, no fair value computation is done.

The carrying values reflected in the financial statements for cash and cash equivalent, trade and other receivables, and trade and other payables are assumed to approximate fair value due to their relatively short-term nature.

The fair value of long-term loans is assumed to approximate carrying value as the loans bear interest at market rates and all other conditions are at market terms.

Quoted equities fair values are based on the bid prices published by the Jamaica Stock Exchange *Determination of fair value and fair values hierarchy*:

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 -Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 -Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This includes financial assets with fair values based on broker quotes.

Level 3-Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The company considers relevant and observable market prices in its valuations where possible.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

3. Financial Risk Management

b) Credit risk:

The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is the most important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the company's receivables from customers. The company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit review process

Management performs ongoing analysis of the ability of customers and other counterparties to meet their obligations.

Impairment of financial assets

The company has one type of financial asset that is subject to the expected credit loss model which is trade receivables for sales of inventory.

While investment and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure expected credit losses on a collective basis, trade receivables is grouped based on similar credit risk and ageing.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2020, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

3. Financial Risk Management (continued)**b) Credit risk (continued)****Trade receivables**

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than 90 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2020, there were no lifetime expected credit losses in respect of the five (5) major customers that comprise 58% (2019 – 73%) of the trade receivables balance.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and balances due from related parties.

While the other financial assets at amortised cost are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than 90 days past due.

At the Statement of Financial Position date, except for cash and cash equivalents, there were no other significant concentration of credit risk and the exposure to credit risk of these financial assets were considered immaterial.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

3. Financial Risk Management (continued)

c) Liquidity risk:

Liquidity risk is the risk that the company is 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, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The company's liquidity management process includes:

- (i) Monitoring future cash flows and liquidity on a daily basis;
- (ii) Maintaining marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining a committed line of credit;
- (iv) Optimizing cash returns on investment.

Undiscounted cash flows of financial liabilities

The maturity profile of the company's financial liabilities at year end on contractual undiscounted payments was as follows:

	1 to 3 months \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Total \$'000	Carrying amount \$'000
31 December 2020					
Payables	41,235	-	-	41,235	41,235
Long-term liabilities	764	1,380	-	2,144	2,077
Lease liability	2,693	8,078	123,866	134,637	88,160
Total financial liabilities	44,692	9,458	123,866	178,016	131,472
31 December 2019					
Payables	44,680	-	-	44,680	44,680
Long-term liabilities	980	2,938	2,075	5,933	4,833
Lease liability	9,325	18,651	107,244	135,220	83,530
Total financial liabilities	54,985	21,589	109,319	185,833	133,043

Assets available to meet all of the liabilities and to cover financial liabilities include cash and cash equivalents.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

3. Financial Risk Management (continued)

d) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates (see 3d (i)), interest rates (see 3d (ii)). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Market risk exposures are measured using sensitivity analysis. There has been no significant change in exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

The company is exposed to foreign exchange risk arising from exposure primarily to the US dollar and Euro. Foreign exchange risk arises primarily from transactions for purchases, sales and investments. The Statement of Financial Position for the Company as at 31 December 2020 includes net foreign assets of US\$927,277 and €17,613 (2019: US\$857,453 and €17,022) in respect of such transactions.

The following table demonstrates the sensitivity to fluctuations in the exchange rates of the currencies held by the company before tax, with all other variables held constant.

	Change in exchange rate	2020	2019
		\$'000	\$'000
Revaluation	6% (2019 - (10%))	8,001	11,367
Devaluation	2% (2019 - (1%))	(2,667)	(1,137)

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

3. Financial Risk Management (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The company minimises interest rate risk by investing mainly in fixed rate instruments and contracting liabilities at fixed rates, where possible. The company's interest rate risk arises mainly from bank loans.

At the reporting date, the interest profile of the company's interest-bearing financial Instruments were:

	2020	2019
	\$'000	\$'000
Fixed rate:		
Financial assets	238,017	214,107
Financial liabilities	(90,237)	(88,363)
Financial assets	<u>147,780</u>	<u>125,744</u>

Fair value sensitivity analysis for financial instruments:

The company accounts for some interest bearing financial instrument at fair value, therefore a change in interest rates at the reporting date would affect the carrying value of the company's financial instruments.

Cash flow sensitivity analysis for financial instruments:

A change in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Increase/(decrease) in profit before tax	
	2020	2019
	\$'000	\$'000
1% (2019:1%) increase	<u>1,478</u>	<u>1,257</u>
1% (2019:1%) decrease	<u>(1,478)</u>	<u>(1,257)</u>

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

3. Financial Risk Management (continued)

e) Capital management:

The policy of the company's Board of Directors is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business and ensure it continues as a going concern.

The company considers its capital to be its total equity inclusive of unappropriated profits and capital reserves. The company's financial objective is to generate a targeted operating surplus, in order to strengthen and provide for the future continuity of the company as a going concern in order to provide returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Directors regularly review the financial position of the company at meetings and monitor the return on capital and the level of dividends to the ordinary shareholders. They seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Debt is the total of long-term loans and bank overdraft less related party loans, if any. Total capital is calculated as equity as shown in the company's statement of financial position plus debt. The gearing ratios at the year-end based on these calculations were as follows:

	2020	2019
	\$'000	\$'000
Debt: long-term loan	2,077	4,833
Equity	489,997	430,178
Total Capital	492,077	435,011
Gearing ratio	0.42%	1.11%

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

4. Critical accounting estimates and judgements in applying accounting policies

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. Estimates and judgements 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.

(i) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the Credit risk note.

(ii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain during the ordinary course of business. In cases of such uncertainty, the company recognises liabilities for possible additional taxes based on its judgement. Where, on the basis of subsequent determination, the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

(iii) Depreciable assets

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

(iv) Fair value of financial assets

The management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets adopting valuation techniques commonly used by market practitioners supported by appropriate assumptions (note 3(a)).

Caribbean Flavours and Fragrances Limited
**Notes to the Financial Statements
31 December 2020**
5. Property, plant and equipment

	Leasehold property \$'000	Leasehold Improvements \$'000	Plant, Machinery, Furniture & Fixtures \$'000	Office Computer & Equipment \$'000	Motor Vehicle \$'000	Total \$'000
Cost -						
1 January 2018	3,413	4,621	14,103	1,145	16,281	39,563
Additions	-	-	3,831	-	-	3,831
31 December 2019	3,413	4,621	17,934	1,145	16,281	43,394
Additions	-	1,831	9,524	446	-	11,801
31 December 2020	3,413	6,452	27,458	1,591	16,281	55,195
Depreciation -						
1 January 2018	3,413	493	7,322	479	6,660	18,367
Charge for year	-	462	1,787	157	4,070	6,476
31 December 2019	3,413	955	9,109	636	10,730	24,843
Charge for year	-	645	2,187	722	4,070	7,624
31 December 2020	3,413	1,600	11,296	1,358	14,800	32,467
Net book value -						
31 December 2020	-	4,852	16,162	233	1,481	22,728
31 December 2019	-	3,666	8,825	509	5,551	18,551

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

6. Right-of-use asset

(i) Amounts recognized in the Statement of Financial Position

The statement of financial position shows the following amounts relating to leases: -

Right-of-use asset

	2020	2019
	\$'000	\$'000
Balance as at beginning of the year	81,083	86,675
Re-measurement based on variable lease payment	8,470	-
Amortization	(6,345)	(5,592)
Balance as at end of year	<u>83,208</u>	<u>81,083</u>

Lease liability

	2020	2019
	\$'000	\$'000
Balance as at beginning of the year	83,530	-
Initial application of IFRS 16	-	86,675
Re-measurement based on variable lease payment	8,470	-
Lease payments	(10,258)	(9,326)
Interest expense	6,418	6,181
Balance as at end of the year	<u>88,160</u>	<u>83,530</u>

	2020	2019
	\$'000	\$'000
Current	4,648	3,381
Non-current	83,512	80,149
Balance as at end of year	<u>88,160</u>	<u>83,530</u>

(ii) Amounts recognized in the Statement of Comprehensive Income

The statement of profit or loss shows the following amounts relating to leases:

	2020	2019
	\$'000	\$'000
Amortization charge of right-of-use assets (included in administrative expenses)	6,345	5,592
Interest expense (included in finance cost)	<u>6,418</u>	<u>6,181</u>

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

6. Right-of-use asset (continued)

(iii) Amounts recognized in the Statement of Changes in Cash Flows

	<u>2020</u>	<u>2019</u>
	<u>\$'000</u>	<u>\$'000</u>
Total cash outflows for leases	<u>10,258</u>	<u>9,326</u>

7. Inventories

	<u>2020</u>	<u>2019</u>
	<u>\$'000</u>	<u>\$'000</u>
Raw materials	88,224	85,158
Manufactured finished goods	16,827	10,664
Imported goods for resale	<u>45,670</u>	<u>71,075</u>
	<u>150,721</u>	<u>166,897</u>

For the year ended 31 December 2020, inventories valuing \$22,300,000 (2019: \$1,200,000) were written off during the year.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

8. Receivables

	2020	2019
	\$'000	\$'000
Trade receivables	77,081	61,518
Less: Expected credit loss	(432)	(432)
	76,649	61,086
Prepayments	2,884	5,061
Other	178	219
	<u>79,711</u>	<u>66,366</u>

Movement of the expected credit loss provision is as follows:

	2020	2019
	\$'000	\$'000
Balance at beginning of year	432	853
Decrease in provision	-	(421)
Balance at end of year	<u>432</u>	<u>432</u>

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

9. Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash at bank and on hand		
Cash at bank	46,921	8,769
Cash on hand	10,310	2,777
	<u>57,231</u>	<u>11,546</u>
Short term deposits		
Jamaica Money Market Brokers Limited (a)	25,470	21,532
Mayberry Investments Limited (b)	-	5,000
Scotia Investments Jamaica Limited (c)	158,952	138,022
NCB Capital Markets Limited (d)	53,595	49,553
	<u>238,017</u>	<u>214,107</u>
Interest receivable	178	-
	<u>238,195</u>	<u>214,107</u>
	<u>295,426</u>	<u>225,653</u>

Cash at bank substantially comprise savings and operating accounts at licensed commercial banks in Jamaica. The rate of interest earned on the company's foreign currency savings accounts ranges from 0.0% to 0.1%.

- (a) This represents an investment in United States dominated fixed deposits, with maturity ranging between February 15, 2021 and March 22, 2021 and with interest rates ranging from 2.45% to 2.9%.
- (b) The represented investment in a Private Equity fund and was denominated in Jamaican dollars, this investment was liquidated during the year.
- (c) This represents United States and Jamaican dollar investments in money market funds.
- (d) This represents investment in repurchase agreements denominated in United States dollars with interest rates ranging from 1.05% and 1.55%.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

10. Share capital

	2020	2019
Authorised	No. of shares	No. of shares
Opening authorised ordinary shares of no par value	91,452,000	91,452,000
Authorised ordinary share capital created during the year	2,508,548,000	-
Closing authorised ordinary shares of no par value	(a) 2,600,000,000	91,452,000
Issued and fully paid		
Opening issued and fully paid ordinary shares	89,920,033	89,920,033
Issued during the year	809,280,297	-
Closing issued and fully paid ordinary shares	(b) 899,200,330	89,920,033
	\$'000	\$'000
Ordinary shares of no par value	56,200	56,200

On October 7, 2020, the Company held an Annual General Meeting which resulted in the following resolutions being approved:

- (a)** The authorized share capital of the Company was increased from 91,452,000 shares to 2,600,000,000 shares, by the creation of an additional 2,508,548,000 ordinary shares each ranking pari passu in all respects with the existing ordinary shares or stock units in the capital of the Company.
- (b)** The issued ordinary shares in the capital of the Company was subdivided into 10 ordinary shares with effect from the close of business on October 13, 2020 resulting in the total issued shares capital of the Company being increased from 89,920,033 ordinary shares of no par value to 899,200,330 ordinary shares of no par value.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

11. Deferred income taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using the applicable tax rate. Assets and liabilities recognised on the statement of financial position are as follows:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Deferred income tax liabilities	(3,550)	-

The movement on the net deferred income tax balance is as follows:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Net liabilities at beginning of year	-	-
Deferred tax credited the statement of comprehensive income (Note 19)	(3,550)	-
Net liabilities at end of year	(3,550)	-

Deferred income tax assets and liabilities are attributable to the following items:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Deferred income tax assets/(liabilities):		
Property, plant and equipment	(993)	-
Lease liability, net of right-of -use assets	1,238	-
Interest receivable	(44)	-
Unrealised foreign exchange gain	(3,751)	-
Net liabilities at end of year	(3,550)	-

The amounts shown in the statement of financial position include the following:

	<u>2020</u> \$,000	<u>2019</u> \$'000
Deferred tax liabilities to be recovered:		
- after more than 12 months	(3,550)	-

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

12. Long term loan

	<u>2020</u>	<u>2019</u>
	<u>\$'000</u>	<u>\$'000</u>
First Global Bank Limited	2,077	4,833
Less: Current portion	<u>(2,077)</u>	<u>(2,819)</u>
	<u>-</u>	<u>2,014</u>

This loan, which was received in August 2016, attracts interest of 8.35% per annum, repayable over 60 months in equal instalments and is secured by a lien on the motor vehicle.

13. Payables

	<u>2020</u>	<u>2019</u>
	<u>\$'000</u>	<u>\$'000</u>
Trade payables	26,498	25,628
Accrued charges	10,786	7,417
Other	<u>4,846</u>	<u>11,635</u>
	<u>42,130</u>	<u>44,680</u>

14. Revenue

Turnover represents the invoiced value of goods and services net of discounts allowed and General Consumption Tax.

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

15. Expenses by nature

	2020 \$'000	2019 \$'000
Administrative expenses		
Amortization of right of use asset	6,345	5,592
Audit fee	2,375	2,150
Bad debt	836	-
Bank charges	1,139	1,185
Depreciation	7,624	6,476
Directors' emoluments	21,573	18,203
Directors' fees	800	495
Donations and subscription	2,355	428
Entertainment	155	677
Equipment rent	960	960
Insurance	4,254	3,139
Legal and professional fees	4,889	6,393
Motor vehicle	1,050	2,828
Office and general	5,663	5,102
Printing and stationery	837	564
Repairs and maintenance	1,680	2,099
Staff costs (Note 17)	43,856	36,823
Security	1,645	1,500
Telephone and postage	2,381	2,383
Travelling	1,272	7,368
Utilities	3,248	3,291
	114,937	107,656
Selling and distribution		
Selling, advertising, promotion and distribution	5,328	2,888
Motor vehicle expense	869	516
	6,197	3,404
	121,134	111,060
Finance income, net (Note 18)	(24,205)	(8,707)
Cost of sales	403,172	323,302
	500,101	425,655

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

16. Operating profit

The following have been charged in arriving at operating profit:

	2020	2019
	\$'000	\$'000
Auditors' remuneration	2,375	2,150
Amortisation of right-of-use asset	6,345	5,592
Depreciation	7,624	6,476
Director's emoluments:-		
- Directors' remuneration	21,573	18,203
- Directors' fees	800	495
Staff costs (Note 17)	43,856	36,823

17. Staff costs

	2020	2019
	\$'000	\$'000
Salaries and wages	26,109	21,535
Statutory contributions	3,108	2,642
Casual labour	3,901	3,597
Travelling allowance	4,160	3,959
Staff welfare and training	5,338	3,897
Health and group life insurance	1,240	1,193
	43,856	36,823
Number of employees at the end of the year:		
Full-time	20	21

18. Finance income, net

	2020	2019
	\$'000	\$'000
Interest income	(1,206)	(1,579)
Net foreign exchange gains	(29,777)	(13,829)
Loan interest expense	360	520
Lease interest expense	6,418	6,181
	(24,205)	(8,707)

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

19. Taxation

Taxation is computed on profit for the year adjusted for taxation purposes and comprises income tax at the applicable rate

	2020	2019
	\$'000	\$'000
Current tax expenses		
Current taxation at 25%	21,326	10,614
Remission of income tax at 50%	(10,663)	(5,307)
	10,663	5,307
Deferred income taxes (Note 11)	3,550	-
	14,213	5,307

The taxation charged in the statement of comprehensive income differs from the theoretical amount that would arise using the applicable tax rate, as follows:

	2020	2019
	\$	\$
Profit before taxation	96,512	36,807
Tax calculated at a tax rate of 25%	24,128	9,201
Effect of permanent difference for private motor vehicle	(84)	1,413
Adjusted for the effects of:-		
Prior year temporary differences	832	-
Adjustment for the effect of remission of tax	(10,663)	(5,307)
	14,213	5,307

Remission of income tax

By notice dated 13 August 2009, the Minister of Finance and the Public Service, issued and gazette the Income Tax (Jamaica Stock Exchange Junior Market) (Remission) Notice, 2009. The Notice effectively granted a remission of income tax to eligible companies that were admitted to the Junior Market of the Jamaica Stock Exchange (JSE) if certain conditions were achieved after the date of initial admission.

Effective 2 October 2013, the Company's shares were listed on the Junior Market of the JSE. The Company is entitled to a remission of income taxes for ten years in the following proportion:

Years 2014 - 2018 – 100% of standard rate

Years 2019 - 2023 – 50% of standard rate

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

19. Taxation (continued)

The Company's 100% remission of income taxes expired 2 October 2018, and as a consequence the Company's taxable profits will be subject to 50% tax remission until 2 October 2023.

The Company will continue to benefit from the tax remission provided the following conditions are met:

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

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

20. Earnings per share

Earnings per share are calculated by dividing the profit for the year after taxation by the weighted average number of ordinary shares outstanding during the year. The number of ordinary shares outstanding at the year were:

	2020	2019 Restated*	2019
	\$'000	\$'000	\$'000
Profit after tax	82,299,000	31,500,000	31,500,000
Weighted average number of shares outstanding (note 10)	899,200,330	899,200,330*	89,920,033
Earnings per share	0.09	0.04	0.35

*The prior year earnings per share was adjusted retrospectively as the number of ordinary shares increased because of the stock split (Note 10).

Caribbean Flavours and Fragrances Limited

Notes to the Financial Statements 31 December 2020

21. Dividends

	2020	2019
	\$'000	\$'000
Declared and paid at 0.025 (2019: 0.025*) cents per share	22,480	22,480
Total dividends to shareholders (note 20)	22,480	22,480

*Restated for comparative purposes

22. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions and balances are recognised and disclosed below for the following:

- (a) Enterprises over which a substantial interest in the voting power is owned by key management personnel, including directors and officers and close members of families; or
- (b) Enterprises over which such a person, in (a) above, is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the company.

Amounts charged to the statement of comprehensive income: -

	2020	2019
	\$'000	\$'000
Key management compensation:		
Directors' emoluments	21,573	18,203
Directors' fees	800	495
Expenses:		
Rent paid to a company connected to a director	10,258	9,326
Consultancy and salary payments to a related party	4,333	4,167
Dividends:		
Dividend payment to the parent company	14,616	12,029

Caribbean Flavours and Fragrances Limited**Notes to the Financial Statements
31 December 2020**

23. Coronavirus (Covid-19)

The novel Coronavirus (Covid-19) outbreak was declared a global pandemic in March 2020 by the World Health Organisation. The pandemic and the measures to control its human impact have resulted in the disruption of international and local economic activities, commerce, business operations and assets prices. The Government implemented a number of measures aimed at reducing the spread of the virus, including nightly curfews, home quarantine for citizens of a specific age and restrictions on the number of persons in public gathering. These restrictions have had adverse economic effects on the operations of many stakeholders.

Caribbean Flavours and Fragrances Limited continue to source raw materials from many countries that have been negatively impacted by Covid-19 and despite the challenges faced and the restrictions imposed, our operations have not been significantly impacted. This is due to the proactivity of Management in introducing various measures during the early stage of the pandemic in order to minimize or mitigate any impending impact of the virus. Additionally, the Company adopted the recommended protocols and implemented new procedures geared at minimizing exposures and contact spreading. During the year, none of our employees was infected.

The Company was able to quickly respond by introducing its own Hand Sanitizer to the market, this had the double effect of protecting individuals and improving our financial results as we saw an increase in our total revenues by 28% when compared to 2019. Based on management assessment, the significance of the impact on our operation was mitigated, this is evidenced by the increase in the demand for our products during the reporting year.

Management confirms the Company as a going concern as it is not expected to be significantly impacted in a negative way by the Covid-19 pandemic.

SHAREHOLDINGS OF TOP TEN (10) STOCKHOLDERS, DIRECTORS AND SENIOR OFFICERS AS AT 31 DECEMBER 2020.

TOP (10) STOCKHOLDERS	NUMBER OF SHARES HELD
DERRIMON TRADING COMPANY LIMITED	584,653,270
DIGIPOINT LIMITED	79,220,030
NIGEL COKE	34,865,620
IDEAL GLOBAL INVESTMENT LIMITED	30,968,610
IAN C. KELLY	23,228,140
MAYBERRY MANAGED CLIENTS ACCOUNT	23,137,193
TROPICAL BATTERY CO. LTD CONTRIBUTORY PENSION SCHEME	10,208,000
MAYBERRY INVESTMENT LIMITED PENSION SCHEME	9,729,450
KONRAD BERRY	9,633,330
SAGICOR SELECT FUND LIMITED – ('CLASS C' SHARES)	7,212,860
 DIRECTORS	
DERRICK COTTERELL	0
ANAND JAMES	0
IAN C. KELLY	23,228,140
CLIVE C. NICHOLAS	1,000,000
CARLTON E. SAMUELS	500,000
HOWARD MITCHELL	4,443,950
WILFORD HEAVEN	0
 SENIOR MANAGERS	
ANAND JAMES	0
JANICE LEE	0
RHONDE MCPHERSON	0
 CONNECTED PARTIES	
IAN C. KELLY (DIRECTOR OF DERRIMON TRADING LTD)	23,228,140
DERRICK COTTERELL (DIRECTOR OF DERRIMON TRADING LTD)	0