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# FONTANA LIMITED

Financial Statements  
Year Ended June 30, 2023

**FONTANA LIMITED  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023**

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## INDEPENDENT AUDITOR'S REPORT

### **To the members of FONTANA LIMITED**

#### **Report on the Audit of Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of Fontana Limited (the "Company"), which is comprised of the statement of financial position as at June 30, 2023, 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 notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at June 30, 2023, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Jamaican Companies Act (the "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 *Auditor's Responsibilities for the Audit of the Financial Statements section of our report*. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, 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 Auditor's Report (cont'd)**

**To the members of  
 FONTANA LIMITED**

**Key audit matters (cont'd)**

Key audit matters	How the matter was addressed in our audit
<p>1) <u>Carrying value of inventory</u></p> <p>Inventory is reported at \$1.2 billion and represents 24% of total assets of the Company as at June 30, 2023. The inventory consists of a large volume of small and seasonal items. Inherently, the large volume of inventory creates a challenge for management to conduct inventory counts throughout the year, which contributes to the risk of inventory being materially misstated.</p> <p>In determining the carrying value of inventory, management focuses on conducting periodic counts on high value departments from the overall inventory.</p>	<p>Our audit procedures to address the key audit matter relating to the carrying value of inventory included the following:</p> <ul style="list-style-type: none"> <li>• Reviewing the Company's standard operating procedures, in order to assess the effectiveness of internal controls over inventory.</li> <li>• We observed stock counts at each of the Company's store locations. As a part of this process, we selected samples to conduct our independent counts at each store.</li> <li>• The samples from our stock counts were crossed checked against the inventory system and unresolved variances were extrapolated to the inventory population of each store.</li> </ul> <p>Based on the procedures performed, an adjustment of \$6.3 million was made to the carrying value of inventory.</p>

**Independent Auditor's Report (cont'd)**

**To the members of  
 FONTANA LIMITED**

**Key audit matters (cont'd)**

Key audit matters	How the matter was addressed in our audit
<p>2) <u>Goodwill impairment assessment</u></p> <p>The Company has goodwill of \$165.46 million arising from the acquisition of the Barbican store operations, which represents 3.2% of the total assets as at the year end.</p> <p>The annual impairment assessment requires management's judgement and estimation in determining estimated future earnings from the store, taking into consideration inflation rate, growth rate and other underlying assumptions.</p>	<p>Our audit procedures to address the key audit matter relating to the impairment of goodwill assessment included the following:</p> <ul style="list-style-type: none"> <li>• We have reviewed management's assertions, including the identification of the underlying cash generating assets.</li> <li>• We have assessed and reviewed the store's historical performance and compared actual results to the approved budget. The analysis of the external and internal environments was taken into account in the assessment of the store's performance.</li> </ul> <p>Based on the procedures performed, management's assessment of goodwill impairment appears reasonable.</p>

**Other information**

Management is responsible for the other information. The other information comprises information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's 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 with the Board of Directors.

## **Independent Auditor's Report (cont'd)**

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To the members of  
**FONTANA LIMITED**

### **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 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.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditor's report. This description, which is located at pages 5-6, forms part of our auditor's report.

### **Report on additional matters as required by the 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 Act, in the manner required.

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

Kingston, Jamaica  
August 29, 2023

*Crichton Mullings & Assoc.*  
**CrichtonMullings & Associates**  
Chartered Accountants



## Independent Auditor's Report (cont'd)

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### **To the members of FONTANA LIMITED**

#### **Appendix to the independent auditor's report**

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## **Independent Auditor's Report (cont'd)**

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**To the members of  
FONTANA LIMITED**

### **Appendix to the independent auditor's report (cont'd)**

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

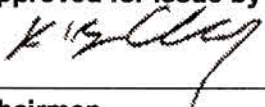
From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters 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.

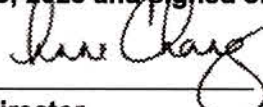


**FONTANA LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2023**  
*(Expressed in Jamaican dollars unless otherwise stated)*

	Note	2023 \$	2022 \$
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	5	1,126,432,667	742,696,132
Right of use asset	6	839,277,815	949,632,762
Intangible assets	7	<u>217,161,891</u>	<u>165,461,145</u>
		<u>2,182,872,373</u>	<u>1,857,790,039</u>
<b>Current Assets</b>			
Inventories	8	1,229,494,854	991,859,876
Due from related parties	9	5,707,438	7,040,295
Due from directors	10	10,175,094	5,665,290
Trade and other receivables	11	138,017,661	194,228,415
Taxation recoverable	12	8,841,647	2,618,023
Cash and cash equivalents	13	<u>1,557,781,594</u>	<u>1,492,173,760</u>
		<u>2,950,018,288</u>	<u>2,693,585,659</u>
<b>TOTAL ASSETS</b>		<u>5,132,890,661</u>	<u>4,551,375,698</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	252,589,301	252,589,301
Accumulated surplus		<u>2,189,358,947</u>	<u>1,908,969,296</u>
		<u>2,441,948,248</u>	<u>2,161,558,597</u>
<b>Non-current Liabilities</b>			
Bond payable	15	494,697,640	493,182,680
Deferred tax liability	16	26,892,766	25,323,977
Non-current portion of lease liability	6	959,012,208	1,025,532,775
Bank loans payable	17	<u>23,963,893</u>	<u>15,982,671</u>
		<u>1,504,566,507</u>	<u>1,560,022,103</u>
<b>Current Liabilities</b>			
Current portion of lease liability	6	89,614,469	103,164,557
Current portion of bank loans payable	17	12,026,896	40,100,212
Trade and other payables	18	1,084,553,378	686,530,229
Due to related parties	19	<u>181,163</u>	<u>-</u>
		<u>1,186,375,906</u>	<u>829,794,998</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,132,890,661</u>	<u>4,551,375,698</u>

Approved for issue by the Board of Directors on August 29, 2023 and signed on its behalf by:

  
 \_\_\_\_\_  
 Chairman

  
 \_\_\_\_\_  
 Director

The accompanying notes form an integral part of the financial statements

**FONTANA LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED JUNE 30, 2023**  
*(Expressed in Jamaican dollars unless otherwise stated)*

	Note	2023 \$	2022 \$
<b>Revenues</b>	4	7,317,436,676	6,343,076,888
<b>Cost of sales</b>	20	<u>(4,688,547,527)</u>	<u>(4,083,488,418)</u>
<b>Gross profit</b>		2,628,889,149	2,259,588,470
Administrative and other expenses	21	(1,779,152,746)	(1,433,867,660) *
Selling and promotion	22	<u>(103,990,303)</u>	<u>(63,596,983)</u>
<b>Operating profit</b>	23	745,746,100	762,123,827
Other income	24	<u>107,001,073</u>	<u>73,018,842</u>
		852,747,173	835,142,669
Finance costs	25	<u>(195,976,285)</u>	<u>(218,587,464)</u> *
<b>Profit before taxation</b>		656,770,888	616,555,205
<b>Taxation charge</b>	26	<u>1,568,789</u>	<u>10,356,499</u>
<b>Net profit, being total comprehensive income for the year</b>		<u><u>655,202,099</u></u>	<u><u>606,198,706</u></u>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>	27	<u>\$ 0.52</u>	<u>\$ 0.49</u>

\* Reclassified to conform with current year presentation

The accompanying notes form an integral part of the financial statements

**FONTANA LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**YEAR ENDED JUNE 30, 2023**  
*(Expressed in Jamaican dollars unless otherwise stated)*

	<b>Share Capital</b> \$	<b>Accumulated Surplus</b> \$	<b>Total</b> \$
Balance at June 30, 2021	252,589,301	1,552,645,555	1,805,234,856
<b>Transactions with owners:</b>			
Dividends paid (note 31)	-	(249,874,965)	(249,874,965)
Net profit, being total comprehensive income for the year	<u>-</u>	<u>606,198,706</u>	<u>606,198,706</u>
Balance at June 30, 2022	252,589,301	1,908,969,296	2,161,558,597
<b>Transactions with owners:</b>			
Dividends paid (note 31)	-	(374,812,448)	(374,812,448)
Net profit, being total comprehensive income for the year	<u>-</u>	<u>655,202,099</u>	<u>655,202,099</u>
<b>Balance at June 30, 2023</b>	<u><u>252,589,301</u></u>	<u><u>2,189,358,947</u></u>	<u><u>2,441,948,248</u></u>

The accompanying notes form an integral part of the financial statements

**FONTANA LIMITED**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2023**  
*(Expressed in Jamaican dollars unless otherwise stated)*

	Note	2023 \$	2022 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>Profit before interest and taxation</b>	28	689,745,491	641,538,150
<b>Adjusted for:</b>			
Loss on disposal of property, plant and equipment		12,250,120	-
Depreciation on right of use asset		110,354,947	133,274,840
Depreciation and amortisation expense		73,262,830	64,477,189
Interest expense on right of use asset		77,082,216	87,540,575
Amortisation of bond issuance cost		<u>1,514,960</u>	<u>757,480</u>
		964,210,564	927,588,234
<b>(Increase) / decrease in operating assets:</b>			
Inventories		(237,634,978)	(156,098,030)
Due from related parties		1,332,858	700,986
Trade and other receivables		56,210,754	(60,754,579)
Taxation recoverable		(6,223,624)	(1,561,650)
<b>Increase / (decrease) in operating liabilities:</b>			
Trade and other payables		148,148,185	109,013,344
Due to related parties		<u>181,163</u>	<u>(3,710,711)</u>
<b>Net cash provided by operating activities</b>		<u>926,224,922</u>	<u>815,177,594</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of intangible asset		(59,086,567)	-
Acquisition of property, plant and equipment		(75,550,485)	(90,748,888)
Proceeds from disposal of property, plant and equipment		6,439,620	-
Cost of work in progress		<u>(392,752,800)</u>	<u>-</u>
<b>Net cash used in investing activities</b>		<u>(520,950,232)</u>	<u>(90,748,888)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(124,937,483)	(249,874,965)
Net proceeds from the issue of a bond		-	492,425,200
Proceeds from loans		21,040,000	14,647,000
Repayment of loans		(41,132,095)	(144,883,793)
Lease liability, net		(157,152,871)	(176,872,867)
Directors' loans, net		(4,509,804)	(1,944,826)
Interest paid		<u>(32,974,603)</u>	<u>(24,982,945)</u>
<b>Net cash used in financing activities</b>		<u>(339,666,856)</u>	<u>(91,487,196)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		65,607,834	632,941,510
<b>CASH AND CASH EQUIVALENTS - Beginning of the year</b>		<u>1,492,173,760</u>	<u>859,232,250</u>
<b>CASH AND CASH EQUIVALENTS - End of the year</b>		<u>1,557,781,594</u>	<u>1,492,173,760</u>
<b>REPRESENTED BY:</b>			
Short term investments		676,125,513	601,351,157
Cash and bank deposits		<u>881,656,081</u>	<u>890,822,603</u>
		<u>1,557,781,594</u>	<u>1,492,173,760</u>

**The accompanying notes form an integral part of the financial statements**

**FONTANA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2023**  
***(Expressed in Jamaican dollars unless otherwise stated)***

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**1. IDENTIFICATION**

Fontana Limited (the "Company") is incorporated in Jamaica, under the Jamaican Companies Act (the "Act"). The Company is domiciled in Jamaica with its registered office at Manchester Shopping Centre, Mandeville, Manchester.

The Company became listed on the Junior Market of the Jamaica Stock Exchange on January 08, 2019.

The principal activities of the Company are:

- (a) The buying and selling of pharmaceuticals, and
- (b) The retailing of associated products

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

**(a) Statement of Compliance**

The Company's financial statements have been prepared in accordance and comply with International Financial Reporting Standards ("IFRS") and the relevant requirements of the Act.

The financial statements have been prepared under the historical cost convention and are expressed in Jamaican dollars, unless otherwise indicated.

The preparation of financial statements in conformity with IFRS and the Act requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year then ended. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods, if the revision affects both current and future periods.

There are no significant assumptions and judgements applied in these financial statements that carry a risk of material adjustment in the next financial year.

**(b) Changes in accounting standards and interpretations:**

**New and amended standards and interpretations that became effective during the year:**

Certain new and amended standards became effective during the current financial year. None of which resulted in any changes to the amounts recognised or disclosed in the financial statements.

**FONTANA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2023**  
***(Expressed in Jamaican dollars unless otherwise stated)***

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**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)**

**(b) Changes in accounting standards and interpretations (cont'd):**

**New and amended standards and interpretations that are not yet effective:**

At the reporting date, certain new and amended International Financial Reporting Standards and Interpretations have been issued but are not yet effective, and which have not been adopted early. The Company has assessed the relevance of these and has concluded that the following are relevant to its operations:

- **IAS 1 'Classification of Liabilities as Current or Non-Current - Amendment', issued January 2020.** Effective for periods commencing on or after 1 January 2024. These amendments clarify that liabilities are classified as either current or non-current based on a right to defer settlement having substance that exists at the end of the reporting period. Classification of a liability as non-current can be made if the Company has a right to defer settlement for at least twelve months after the reporting period. The adoption of these amendments is not expected to have a significant impact on the Company.
- **IAS 8 'Definition of Accounting Estimates - Amendment',** issued February 12, 2021. Effective for annual periods commencing on or after 1 January 2023. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.
- **IAS 12 Amendment, 'Deferred tax related to Assets and Liabilities arising from a single transaction',** issued May 2021. Effective for periods commencing on or after 1 January 2023. These amendments require companies to recognize deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary difference.
- **Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).** Effective for annual periods commencing on or after 1 January 2023. The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the International Accounting Standards Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

The Board of Directors anticipate that the adoption of the standards, amendments and interpretations, which are relevant to the Company in future periods is unlikely to have any material impact on the financial statements.

**FONTANA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2023**  
***(Expressed in Jamaican dollars unless otherwise stated)***

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**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)**

**(c) Use of estimates and judgements:**

The preparation of the financial statements to conform with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Judgements made by management in the application of International Financial Reporting Standards (IFRS) that have a significant effect on the financial statements and estimates with material uncertainty that have a significant effect on amounts in the financial statements or that have a significant risk of material adjustment in the next financial year are set out below:

(i) Critical accounting judgements in applying the Company's accounting policies

For the purpose of these financial statements, prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the principles set out in IFRS.

(a) Allowance for expected credit loss (ECL) on trade receivables

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also makes estimates of the likely estimated future cash flows of impaired receivables, as well as the timing of such cash flows recoverable on the financial assets in determining loss given default. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(b) Net realizable value of inventories

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

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



**FONTANA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2023**  
*(Expressed in Jamaican dollars unless otherwise stated)*

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**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)**

**(c) Use of estimates and judgements (cont'd):**

(i) Critical accounting judgements in applying the Company's accounting policies (cont'd)

(c) 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.

(d) Provision for obsolescence of inventory

Estimates of provision for obsolescence of inventory are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. Estimates of provision for obsolescence also take into consideration the purpose for which the inventory is held.

(ii) Key assumptions and other sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

(a) Fair value estimation

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.

IFRS requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**FONTANA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2023**  
***(Expressed in Jamaican dollars unless otherwise stated)***

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**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)**

**(c) Use of estimates and judgements (cont'd):**

(ii) Key assumptions and other sources of estimation uncertainty (cont'd)

(a) Fair value estimation (cont'd)

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The classification of an item into the above level is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

The fair values of financial instruments that are not traded in an active market are deemed to be determined as follows:

The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities include cash and bank balances, loan, trade and other payables, due to director and related parties.

The carrying values of long-term liabilities approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

(b) Allowance for expected credit loss

The Company establishes a provision matrix to calculate ECLs for trade receivables. The provision matrix is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The determination of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of the ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

**FONTANA LIMITED**  
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**3. SIGNIFICANT ACCOUNTING POLICIES**

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

All property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are recorded and carried at historical or deemed cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Except for buildings, which are carried at fair value less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied in the part will flow to the Company and its cost can be reliably measured.

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

Property, plant and equipment is depreciated on the straight-line basis over the estimated useful lives of such assets. The rates of depreciation in use are:

Buildings	2.5%
Leasehold Improvements	2.5%
Machinery and Equipment	10%
Furniture and Fixtures	10%
Signage and Drapery	10%
Motor Vehicles	12.5%
Computers	22.5%

Assets are capitalized only when they are brought into use. While an asset is being constructed or is not yet available for use; the expenditure, including borrowing costs, is treated as advances, and is shown separately in the statement of financial position. Depreciation is not raised until an asset is brought into use.

**(b) Leases**

A contract is, or contains, a lease if it conveys the right of use/control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

Leases are recognized as assets and liabilities unless the lease term is 12 months or less or the underlying asset has a low value of less than US\$5,000 or its Jamaica dollar equivalent. The Company applies the short term lease recognition exemption to its short term leases (that is, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

The right-of-use asset is initially measured at cost, at the lease commencement date, i.e. the date at which the underlying asset is available for use by the Company. The right-of-use asset is depreciated on a straight-line basis over the remaining lease term.

**FONTANA LIMITED**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**(b) Leases (cont'd)**

**Lease liability**

The lease liability is initially measured at the present value of lease payments to be made over the lease term.

The present value of lease payments, uses an incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate corresponds to the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment, with similar terms and conditions.

**(c) Goodwill**

Goodwill is recorded at cost and represents the excess of the value of consideration paid at acquisition. Goodwill is carried at costs less impairment. The Company assesses goodwill for impairment on an annual basis or when events or circumstances indicate that the carrying value may be impaired.

**(d) Investments**

Investments held by the Company are either held to maturity or carried at fair value through profit and loss account. Investments are initially measured at cost. Held to maturity instruments are subsequently carried at amortized cost. Fair value instruments are initially measured at cost and subsequently at fair value.

Gains and losses arising from changes in fair value instruments are immediately recognized in the statement of comprehensive income. Where fair value cannot be reliably measured, investments are stated at cost. The fair value of stock-exchange traded equities is their quoted bid price. Where a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

**(e) Inventories**

The company utilises two costing methods. These are valued at the lower of cost, determined principally on the weighted average basis for retail inventory items and first-in first-out (FIFO) basis for dispensary items, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

**(f) Trade and other receivables**

Trade and other receivables are stated at amortized cost.

Appropriate allowances for estimated irrecoverable amounts are recognized in the statement of comprehensive income when there is objective evidence that the asset is impaired.

**(g) Trade and other payables**

Trade and other payables are stated at amortized cost.

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

**(h) Cash and cash equivalents**

Cash comprises cash in hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**(i) Related party identification**

A party is related to the Company if:

- (i) directly or indirectly the party:
  - controls, is controlled by, or is under common control with the Company;
  - 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
- (v) the party is a close member of the family of an individual referred to in (i) or (iv) above
- (vi) the party is an entity 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) above.
- (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.

**(j) Taxation**

Income tax expense represents the sum of income tax currently payable and deferred tax.

**(i) Current income tax**

Current income tax is the expected tax payable on the taxable income for the year, using tax rates in effect for the reporting date, and any adjustments to income tax payable in respect.

**(ii) Deferred income tax**

Deferred income tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

**(k) Foreign currencies**

The financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency).

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency, the Jamaican dollar, are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in the statement of comprehensive income for the period.

**(l) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is recognized when control of goods passes to the customer, as contractual performance obligations are fulfilled.

**(m) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it earns and incur expenses; whose operating results are regularly reviewed by the Company's Chief Decision Maker ("CODM") who decides 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 operations of the Company are not segmented.

**(n) Impairment**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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

**(n) Impairment (cont'd)**

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

**(o) Financial instruments**

Financial instruments include transactions that give rise to both financial assets and financial liabilities. Financial assets and liabilities are recognized on the Company's position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are recognised on the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities (except for financial assets and financial liabilities at fair value through profit or loss where such costs are recognised immediately in profit or loss), as appropriate, on initial recognition.

**Financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cashflows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVTPL.



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

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

**Financial assets (cont'd)**

*Subsequent measurement*

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables, due from related parties and cash and bank balances.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

*Impairment*

The Company recognizes an allowance for expected credit losses (ECLs) on the financial instruments measured at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For financial assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

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

**Financial assets (cont'd)**

*Impairment (cont'd)*

The Company considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Financial liabilities**

Initial recognition and measurement

The Company's financial liabilities, comprising loans and accounts payable, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

**(p) Employee benefits**

Employee benefits are all forms of consideration given by the Company in exchange for services rendered by employees. These include current or short-term benefits such as salaries, bonuses, statutory contributions, vacation leave, non-monetary benefits such as medical care; post-employment benefits such as pensions; and other long term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner:

- Short-term employee benefits are recognised as a liability, net of payments made, and charged to expense.

**(q) Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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

**(r) Borrowing costs**

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.

Borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

**(s) Dividends**

Dividends on ordinary shares are recognised in shareholders equity in the period in which they are approved by the Board of Directors.

**(t) Intangible assets**

This represents goodwill and software. These intangible assets are identified separately and reported at cost less accumulated amortisation and accumulated impairment losses.

The useful life for amortisation of intangible assets in use are as follows:

Goodwill	Infinite
Software	4 years

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

**(u) Comparative information**

Where necessary, comparative figures have been reclassified and or restated to conform to changes in the current year.

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**4. REVENUES**

Revenues represent the value of goods and services sold to third parties, excluding discounts, rebates and general consumption tax.

**5. PROPERTY, PLANT AND EQUIPMENT**

	<u>Leasehold Improvements</u> \$	<u>Furniture and Fixtures</u> \$	<u>Computer Equipment</u> \$	<u>Machinery and Equipment</u> \$	<u>Signage and Drapery</u> \$	<u>Motor Vehicles</u> \$	<u>Work-in Progress</u> \$	<u>Total</u> \$
<b>At Cost/Valuation:</b>								
Balance at June 30, 2021	461,698,181	241,589,233	79,014,250	241,798,973	18,745,335	57,218,368	-	1,100,064,340
Additions	<u>6,591,732</u>	<u>5,835,189</u>	<u>9,572,986</u>	<u>38,092,467</u>	<u>2,901,079</u>	<u>27,755,435</u>	-	<u>90,748,888</u>
Balance at June 30, 2022	468,289,913	247,424,422	88,587,236	279,891,440	21,646,414	84,973,803	-	1,190,813,228
Additions	11,233,472	14,494,470	17,281,501	11,283,674	1,368,947	19,888,421	392,752,800	468,303,285
Disposal	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,875,956)</u>	<u>-</u>	<u>(1,420,000)</u>	<u>-</u>	<u>(31,295,956)</u>
Balance at June 30, 2023	<u>479,523,385</u>	<u>261,918,892</u>	<u>105,868,737</u>	<u>261,299,158</u>	<u>23,015,361</u>	<u>103,442,224</u>	<u>392,752,800</u>	<u>1,627,820,557</u>
<b>Accumulated Depreciation:</b>								
Balance at June 30, 2021	55,965,569	112,487,627	54,570,963	119,581,046	10,243,289	30,791,413	-	383,639,907
Charge for period	<u>9,643,491</u>	<u>16,874,715</u>	<u>8,618,802</u>	<u>21,075,530</u>	<u>1,516,916</u>	<u>6,747,735</u>	-	<u>64,477,189</u>
Balance at June 30, 2022	65,609,060	129,362,342	63,189,765	140,656,576	11,760,205	37,539,148	-	448,117,096
Charge for period	8,637,139	17,050,465	10,997,645	18,983,513	1,229,294	8,978,953	-	65,877,009
Disposal	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,452,465)</u>	<u>-</u>	<u>(1,153,750)</u>	<u>-</u>	<u>(12,606,215)</u>
Balance at June 30, 2023	<u>74,246,199</u>	<u>146,412,807</u>	<u>74,187,410</u>	<u>148,187,624</u>	<u>12,989,499</u>	<u>45,364,351</u>	<u>-</u>	<u>501,387,890</u>
<b>Net Book Value:</b>								
Balance at June 30, 2023	<u>405,277,186</u>	<u>115,506,085</u>	<u>31,681,327</u>	<u>113,111,534</u>	<u>10,025,862</u>	<u>58,077,873</u>	<u>392,752,800</u>	<u>1,126,432,667</u>
Balance at June 30, 2022	<u>402,680,853</u>	<u>118,062,080</u>	<u>25,397,470</u>	<u>139,234,864</u>	<u>9,886,208</u>	<u>47,434,655</u>	<u>-</u>	<u>742,696,132</u>
Balance at June 30, 2021	<u>405,732,612</u>	<u>129,101,606</u>	<u>24,443,288</u>	<u>122,217,927</u>	<u>8,502,047</u>	<u>26,426,955</u>	<u>-</u>	<u>716,424,433</u>

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**6. RIGHT OF USE ASSET**

	<b><u>Buildings</u></b>	
	<b>\$</b>	
<b>At Valuation</b>		
Balance at June 30, 2022		1,263,864,928
Additions		<u>-</u>
Balance at June 30, 2023		<u>1,263,864,928</u>
<b>Depreciation charge of right of use asset</b>		
Balance at June 30, 2022		314,232,166
Charge for period		<u>110,354,947</u>
Balance at June 30, 2023		<u>424,587,113</u>
<b>Net Book Value</b>		
Balance at June 30, 2023		<u>839,277,815</u>
<b>Lease Liability:</b>		
	2023	2022
	<b>\$</b>	<b>\$</b>
Non-current lease liability	<u>959,012,208</u>	<u>1,025,532,775</u>
Current lease liability	<u>89,614,469</u>	<u>103,164,557</u>
Balance at June 30, 2023	<u>1,048,626,677</u>	<u>1,128,697,332</u>

**7. INTANGIBLE ASSETS**

	<b><u>Goodwill</u></b>	<b><u>Software</u></b>	<b><u>Total</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>At Cost/Valuation:</b>			
Balance at July 01, 2022	165,461,145	-	165,461,145
Additions	<u>-</u>	<u>59,086,567</u>	<u>59,086,567</u>
Balance at June 30, 2023	<u>165,461,145</u>	<u>59,086,567</u>	<u>224,547,712</u>
<b>Accumulated Amortisation:</b>			
Balance at July 01, 2022	-	-	-
Charge for period	<u>-</u>	<u>7,385,821</u>	<u>7,385,821</u>
Balance at June 30, 2023	<u>-</u>	<u>7,385,821</u>	<u>7,385,821</u>
<b>Net Book Value:</b>			
Balance at June 30, 2023	<u>165,461,145</u>	<u>51,700,746</u>	<u>217,161,891</u>
Balance at June 30, 2022	<u>165,461,145</u>	<u>-</u>	<u>165,461,145</u>

- (i) Goodwill of \$165,461,145 is an intangible asset which was acquired upon the acquisition of the Barbican store. The goodwill is assessed for any impairment losses on an annual basis.
- (ii) The prior year deposit on the point of sales system amounting to \$59,086,567 was capitalized during the year. The software is estimated to have a useful life of four (4) years.

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**8. INVENTORIES**

	2023	2022
	\$	\$
Inventories	1,197,502,313	983,023,865
Goods in transit	<u>82,905,767</u>	<u>52,867,100</u>
	1,280,408,080	1,035,890,965
<b>Less:</b>		
Provision for obsolescence	<u>(50,913,226)</u>	<u>(44,031,089)</u>
	<u>1,229,494,854</u>	<u>991,859,876</u>

**9. DUE FROM RELATED PARTIES**

	2023	2022
	\$	\$
Fontana Employee Share Trust (i)	5,655,058	6,397,298
Fontana Foundation	<u>52,380</u>	<u>642,997</u>
	<u>5,707,438</u>	<u>7,040,295</u>

(i) This represents funds advanced by the Company to purchase shares on behalf of employees during the Company's initial public offering.

**10. DUE FROM DIRECTORS**

	2023	2022
	\$	\$
Due from directors	10,402,469	8,079,738
Due to directors	<u>(227,375)</u>	<u>(2,414,448)</u>
	<u>10,175,094</u>	<u>5,665,290</u>

These are unsecured, interest free amounts, which have no fixed dates of repayment.

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**11. TRADE AND OTHER RECEIVABLES**

	2023	2022
	\$	\$
Trade receivables	54,612,828	39,237,856
Less: expected credit loss	<u>(7,684,127)</u>	<u>(8,617,206)</u>
Net trade receivables	46,928,701	30,620,650
Other receivables	35,931,885	22,618,624
Deposit on assets (i)	-	93,119,822
Prepayments	36,944,357	30,459,257
GCT recoverable	2,542,976	740,320
Security deposits	<u>15,669,742</u>	<u>16,669,742</u>
	<u>138,017,661</u>	<u>194,228,415</u>

(i) The prior year balance included deposit on a new point of sale system of \$53,178,825, leasehold improvements and equipment for the Ferry Warehouse space in the amount of \$23,923,007 and design and lease payments for the development stages of the Portmore location totalling \$16,017,990. These balances were capitalised during the year.

**12. TAXATION RECOVERABLE**

	2023	2022
	\$	\$
Taxation recoverable at beginning of the year	2,618,023	1,056,372
Withholding tax recoverable during the year	<u>6,223,624</u>	<u>1,561,651</u>
Taxation recoverable at the end of the year	<u>8,841,647</u>	<u>2,618,023</u>

**13. CASH AND CASH EQUIVALENTS**

	2023	2022
	\$	\$
Term and demand deposits	539,146,717	590,996,633
Foreign currency accounts	332,158,402	289,264,082
Short term investments	676,125,513	601,351,157
Cash balances	<u>10,350,962</u>	<u>10,561,888</u>
	<u>1,557,781,594</u>	<u>1,492,173,760</u>



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**14. SHARE CAPITAL**

	2023	2022
	\$	\$
Authorized:		
2,664,999,860 ordinary shares		
Issued and fully paid:		
1,249,374,825 ordinary shares	<u>252,589,301</u>	<u>252,589,301</u>

- (a) On December 4, 2018, at an extraordinary general meeting of the Company, by an ordinary resolution, the authorized share capital of the Company was increased from 15,003,000 to 40,003,000 in the first instance.

The authorized ordinary shares of 40,003,000 were subdivided into 66.62 shares for every existing share, resulting in the authorized shares increasing to 2,664,999,860.

- (b) The issued share capital was increased to 1,124,437,260 shares prior to the initial public offering ("IPO"). An additional 124,937,565 new shares were offered to the general public in the IPO on December 6, 2018.
- (c) The proceeds of the sale of the 124,937,565 shares issued to the general public in December 2018 amounted to \$233,489,376 less transaction costs of \$10,906,075.

**15. BOND PAYABLE**

	2023	2022
	\$	\$
Fixed and variable agreed rate unsecured senior corporate bond	500,000,000	500,000,000
Less: deferred bond issue costs	<u>(5,302,360)</u>	<u>(6,817,320)</u>
	<u>494,697,640</u>	<u>493,182,680</u>

This represents a five (5) year unsecured long-term corporate bond from Scotia Investment Jamaica Limited. The bond attracts a fixed interest rate of 6% for year one (1) to year (3) and a variable rate of interest for years four (4) and five (5) and matures on December 14, 2026.

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**16. DEFERRED TAX LIABILITY**

Certain deferred tax assets and liabilities have been offset in accordance with International Accounting Standard ("IAS") 12. IAS 12 permits the offsetting of deferred tax assets and liabilities if the entity has a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same tax authority on the same entity.

The following is an analysis of the deferred tax balances (after offset) for financial statement purposes:

	2023	2022
	\$	\$
Deferred tax liability	<u>26,892,766</u>	<u>25,323,977</u>

Deferred tax liability is attributable to the following:

	2023	2022
	\$	\$
Property, plant and equipment	22,400,906	14,798,979
Conversion of foreign currency	<u>4,491,860</u>	<u>10,524,998</u>
	<u>26,892,766</u>	<u>25,323,977</u>

The movement during the year in the Company's deferred tax position was as follows:

	2023	2022
	\$	\$
Balance at the beginning of the year	25,323,977	14,967,478
Movement during the year	<u>1,568,789</u>	<u>10,356,499</u>
Balance at the end of the year	<u>26,892,766</u>	<u>25,323,977</u>

	2023		
	Opening balance	Recognised in profit or loss	Closing balance
Property, plant and equipment	14,798,979	7,601,927	22,400,906
Conversion of foreign currency	<u>10,524,998</u>	<u>(6,033,138)</u>	<u>4,491,860</u>
	<u>25,323,977</u>	<u>1,568,789</u>	<u>26,892,766</u>

	2022		
	Opening balance	Recognised in profit or loss	Closing balance
Property, plant and equipment	7,720,684	7,078,295	14,798,979
Conversion of foreign currency	<u>7,246,794</u>	<u>3,278,204</u>	<u>10,524,998</u>
	<u>14,967,478</u>	<u>10,356,499</u>	<u>25,323,977</u>

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**17. BANK LOANS PAYABLE**

	2023	2022
	\$	\$
a. BNS Motor Vehicle Loan	6,984,375	-
b. BNS Waterloo Capex	-	33,333,320
c. BNS Van Loan	3,200,000	4,800,000
d. BNS Motor Vehicle Loan	1,883,232	3,766,463
e. BNS Motor Vehicle Loan	4,849,840	6,621,100
f. BNS Van Loan	6,049,592	7,562,000
g. BNS Motor Vehicle Loan	<u>13,023,750</u>	<u>-</u>
Total bank loans payable	35,990,789	56,082,883
Due in less than 12 months	<u>(12,026,896)</u>	<u>(40,100,212)</u>
Due in more than 12 months	<u>23,963,893</u>	<u>15,982,671</u>

- a. This is a loan at a rate of interest of 7.5% per annum. The loan is repayable over forty-eight (48) months, in fixed monthly payments of \$155,208 plus interest. The purpose of the loan was to purchase a motor vehicle.
- b. This is a loan with a rate of interest of 6.75% per annum. The loan is repayable over sixty (60) months after disbursement, in fixed monthly payments of \$2,777,778 plus interest. The purpose of the loan was to pay off the bridge loan. The loan was repaid during the year.
- c. This is a loan at a rate of interest of 6.75% for years 1-2 and thereafter weighted average treasury bill yield currently 1.53237%, plus 6 for years 3-5. The loan is repayable over sixty (60) months, in fixed monthly payments of \$133,333. The purpose of the loan was to purchase a van.
- d. This is a loan at a rate of interest of 6.75% per annum. The loan is repayable over forty-eight (48) months, in fixed monthly payments of \$156,936 plus interest. The purpose of the loan was to purchase a motor vehicle.
- e. This is a loan at a rate of interest of 7% per annum. The loan is repayable over forty-eight (48) months, in fixed monthly payments of \$147,605 plus interest. The purpose of the loan was to purchase a motor vehicle.
- f. This is a loan at a rate of interest of 7% per annum. The loan is repayable over sixty (60) months, in fixed monthly payments of \$126,033.33 plus interest. The purpose of the loan was to purchase a motor vehicle.
- g. This is a loan at a rate of interest of 7.5% per annum. The loan is repayable over forty-eight (48) months, in fixed monthly payments of \$283,125 plus interest. The purpose of the loan was to purchase a motor vehicle.

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**18. TRADE AND OTHER PAYABLES**

	2023	2022
	\$	\$
Trade payables	709,770,990	571,100,479
Statutory liabilities	20,290,330	16,975,744
Accrued salaries	17,512,793	12,732,416
GCT payable	24,349,902	25,460,705
Credit cards payable	49,142,312	26,819,629
Accrued interest	1,150,685	1,150,685
Dividend payable	221,923,527	-
Other payables and accruals	<u>40,412,839</u>	<u>32,290,571</u>
	<u>1,084,553,378</u>	<u>686,530,229</u>

**19. DUE TO RELATED PARTIES**

	2023	2022
	\$	\$
Fontana Properties Limited	<u>181,163</u>	<u>-</u>

These are unsecured interest free advances, which have no fixed dates of repayment.

**20. COST OF SALES**

	2023	2022
	\$	\$
Opening inventories	991,859,876	835,761,847
Add: Net purchases	<u>4,919,300,368</u>	<u>4,237,534,121</u>
	5,911,160,244	5,073,295,968
Increase in inventory obsolescence	6,882,137	2,052,326
Closing inventories	<u>(1,229,494,854)</u>	<u>(991,859,876)</u>
	<u>4,688,547,527</u>	<u>4,083,488,418</u>

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**21. ADMINISTRATIVE AND GENERAL EXPENSES**

	2023	2022
	\$	\$
Directors' remuneration	84,248,500	76,952,980
Salaries	801,152,581	622,470,252
Statutory contributions	102,390,184	79,297,448
Casual labour	26,094,885	20,538,661
Repairs and maintenance	48,393,109	31,112,402
Staff welfare	37,969,031	26,786,383
Electricity	94,502,566	85,791,537
Staff pension	14,624,751	9,162,208
Short term leases (see note 3b)	69,964,751	30,362,283
Motor vehicle and travelling	12,623,229	10,590,175
Insurance - general	15,143,786	12,589,474
- life	1,512,379	2,287,663
- health	20,232,467	15,871,892
Travel, entertainment and meals	22,810,889	22,815,935
Telephone, internet and postage	33,594,152	26,684,827
Printing and stationery	4,061,269	2,619,332
Strata plan maintenance	54,697,807	43,437,031
Staff uniform	4,685,637	4,683,014
Security	55,829,261	41,213,596
Subscriptions and donations	3,708,340	4,740,222
Rates and taxes	8,577,166	8,145,826
Interest and penalty	12,353,941	-
Audit fee	4,300,000	3,900,000
Professional and legal fees	10,252,793	11,911,891
Consultancy fees	1,863,350	1,529,950
Bad debt written off	63,993	1,028,896
Depreciation and amortisation	73,262,830	64,477,189
Depreciation on right of use asset	110,354,947	133,274,840
Loss on disposal of property, plant and equipment	12,250,120	-
Expected credit loss (decrease) / increase	(933,079)	2,401,834
General office expenses	36,691,748	36,117,625
Rental of equipment	<u>1,875,363</u>	<u>1,072,294</u>
	<u>1,779,152,746</u>	<u>1,433,867,660</u>

**22. SELLING AND PROMOTION**

	2023	2022
	\$	\$
Advertising	<u>103,990,303</u>	<u>63,596,983</u>

\*Reclassified to conform with current year presentation

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**23. OPERATING PROFIT**

	2023	2022
	\$	\$
	<u>745,746,100</u>	<u>762,123,827</u>
Stated after charging the following:		
Directors' remuneration	84,248,500	76,952,980
Auditor's remuneration	<u>4,300,000</u>	<u>3,900,000</u>

**24. OTHER INCOME**

	2023	2022
	\$	\$
Interest income	38,932,472	8,336,014
Other store income and commission	44,524,049	41,026,155
Rental income	23,544,552	23,064,687
Discount on short term investment	<u>-</u>	<u>591,986</u>
	<u>107,001,073</u>	<u>73,018,842</u>

**25. FINANCE COSTS**

	2023	2022
	\$	\$
Bank charges and interest	25,429,862	25,621,529
Credit card commission	52,725,748	45,576,714
Gain on foreign exchange	(24,457,448)	(107,715)
Loan interest	32,974,603	24,982,945
Fair value loss on short term investments	6,778,669	2,456,639
Interest expense on right of use asset	77,082,216	87,540,575
Loss on foreign exchange (IFRS 16)	<u>25,442,635</u>	<u>32,516,777</u>
	<u>195,976,285</u>	<u>218,587,464</u>

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**26. TAXATION CHARGE**

- (a) Income tax charge is computed based on the profits for the financial year ended June 30, 2022. The Company's enlistment on the Jamaica Stock Exchange Junior Market effective January 8th, 2019 entitles the Company to a 100% remission of income tax for the first (five) 5 years and fifty percent (50%) remission for the following five (5) years, providing that it adheres to the rules and regulations of the Jamaica Stock Exchange Junior Market.

Deferred taxation is computed at 25% for the financial year based on the applicable income tax rate for unregulated companies.

The taxation charge is made up as follows:

	2023		2022	
	\$		\$	
Deferred:				
Origination and reversal of temporary differences	<u>1,568,789</u>		<u>10,356,499</u>	
	<u>1,568,789</u>		<u>10,356,499</u>	
(b) Reconciliation of effective tax rate and charge:				
	2023		2022	
	\$		\$	
Profit before taxation	<u>656,770,888</u>		<u>616,555,205</u>	
Computed tax charge	164,192,722	25%	154,138,801	25%
Taxation differences between profit for financial statements and tax reporting purposes on:				
Depreciation and capital allowances	2,759,796	0%	803,127	0%
Disallowed expenses	16,829,395	3%	(13,133,838)	-2%
Foreign exchange gain	(10,524,998)	-2%	11,006,188	2%
Remission of income taxes	<u>(171,688,126)</u>	-26%	<u>(142,457,779)</u>	-23%
Actual tax rate and charge	<u>1,568,789</u>	0%	<u>10,356,499</u>	2%

**27. EARNINGS PER SHARE**

The calculation of earnings per share is based on the profit after taxation and the weighted average number of shares in issue during the year.

	2023	2022
	\$	\$
Net profit attributable to shareholders	<u>655,202,099</u>	<u>606,198,706</u>
Weighted average number of shares in issue	<u>1,249,374,825</u>	<u>1,249,374,825</u>
Basic earnings per stock unit	<u>0.52</u>	<u>0.49</u>

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**28. PROFIT BEFORE INTEREST AND TAXATION**

	2023	2022
	\$	\$
<b>Net profit for the year</b>	655,202,099	606,198,706
Current period taxation	<u>1,568,789</u>	<u>10,356,499</u>
Profit before interest	656,770,888	616,555,205
Interest expense	<u>32,974,603</u>	<u>24,982,945</u>
<b>Profit before interest and taxation</b>	<u><u>689,745,491</u></u>	<u><u>641,538,150</u></u>

**29. RELATED PARTIES**

(a) Balances between the Company and its related company:

	2023	2022
	\$	\$
Related companies (see note 9)	<u>5,707,438</u>	<u>7,040,295</u>

The Company's statement of comprehensive income includes the following transactions, undertaken with related parties in the ordinary course of business:

	2023	2022
	\$	\$
(b) Rental expense - Fontana Properties Limited	<u>59,311,590</u>	<u>46,299,000</u>
Transactions with key management personnel:		
- Directors' remuneration	<u>84,248,500</u>	<u>76,952,980</u>

**30. STAFF COSTS**

The number of employees at the end of the year was as follows:

	2023	2022
Permanent	<u>470</u>	<u>413</u>

The aggregate payroll costs for these persons were as follows:

	2023	2022
	\$	\$
Salaries and profit related pay	801,152,581	622,470,252
Statutory payroll contributions	<u>102,390,184</u>	<u>79,297,448</u>
	<u><u>903,542,765</u></u>	<u><u>701,767,700</u></u>

**31. DIVIDEND**

The Company, at two (2) special board of directors' meetings held on November 10th, 2022 and June 8th 2023, declared total dividend of \$374,812,448 (2022: \$249,874,965) in two instalments, payable on November 25th, 2022 and July 5th, 2023, to shareholders on record as at November 24th, 2022 and June 20th, 2023, respectively.



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**32. FINANCIAL INSTRUMENTS**

**(a) Financial risk management**

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

- Credit risk
- Liquidity risk
- Market risk
- Cash flow risk

The Board of Directors, together with senior management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company in order to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

**(i) Credit risk:**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's principal financial assets are cash and cash equivalents and trade receivables.

*Cash and cash equivalents*

The credit risk on cash and bank deposits is limited as they are held with financial institutions with high credit ratings.

*Trade receivables*

The Company's exposure to credit risk is influenced mainly by the individual characteristic of each customer. Management has a credit policy in place to minimise exposure to credit risk. Credit evaluations are performed on all customers requiring credit. Management's policy is to provide for balances based on past default experience, current economic conditions and expected recovery.

The impairment requirements of IFRS 9 are based on an Expected Credit Loss (ECL) model. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

For trade receivables and contract assets that do not have a financing component, it is a requirement of IFRS 9 to recognize a lifetime expected credit loss. This was achieved in the current year by the development and application of historical data relating to trade receivables and write-offs, as well as forecasting payment probabilities.

The company estimates expected credit losses (ECL) on trade receivables using a provision matrix based on historical credit loss experience as well as the credit risk and expected developments for each group of customers. The following table provides information about the ECL's for trade receivables as at the year end.

	2023		
Aging	Gross Carrying Amount	Weighted Average Loss Rate	Lifetime ECL Allowance
Current	26,307,404	0.48	1,138,895
31-60 days	4,147,148	0.08	1,016,135
61-90 days	2,936,905	0.05	1,693,685
91 days and over	<u>21,221,371</u>	0.39	<u>3,835,412</u>
Total	<u>54,612,828</u>		<u>7,684,127</u>

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**32. FINANCIAL INSTRUMENTS (CONT'D)**

**(a) Financial risk management (cont'd):**

**(i) Credit risk (cont'd):**

*Trade receivables (cont'd):*

		2022	
Aging	Gross Carrying Amount	Weighted Average Loss Rate	Lifetime ECL Allowance
Current	11,648,720	0.30	1,158,424
31-60 days	11,307,468	0.29	1,003,766
61-90 days	1,852,596	0.05	1,252,214
91 days and over	<u>14,429,072</u>	0.37	<u>5,202,802</u>
Total	<u>39,237,856</u>		<u>8,617,206</u>

**(ii) Liquidity risk**

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

Management aims at maintaining sufficient cash and the availability of funding through an amount of committed facilities. The management maintains an adequate amount of its financial assets in liquid form to meet contractual obligations and other recurring payments.

The following are the contractual maturities of the non-derivative financial liabilities, including interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flow	Less than 1 year	More than 1 year
	\$	\$	\$	\$
June 30, 2023:				
Lease liabilities	1,048,626,677	1,048,626,674	89,614,467	959,012,207
Trade and other payables	1,084,553,378	1,084,553,378	1,084,553,378	-
Bond payable	494,697,640	560,000,000	30,000,000	530,000,000
Bank loans payable	35,990,788	40,476,746	14,170,966	26,305,780
	<u>2,663,868,483</u>	<u>2,733,656,798</u>	<u>1,218,338,811</u>	<u>1,515,317,987</u>
June 30, 2022:				
Lease liabilities	1,128,697,332	1,128,697,332	103,164,558	1,025,532,774
Trade and other payables	686,530,229	686,530,229	686,530,229	-
Bond payable	493,182,680	590,000,000	30,000,000	560,000,000
Bank loans payable	56,082,883	56,082,883	40,100,212	15,982,671
	<u>2,364,493,124</u>	<u>2,461,310,444</u>	<u>859,794,999</u>	<u>1,601,515,445</u>

**(iii) Market risk**

Market risks is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its holding of financial instruments. The objective of market is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*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.

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**32. FINANCIAL INSTRUMENTS (CONT'D)**

**(a) Financial risk management (cont'd):**

**(iii) Market risk (cont'd):**

The Company contracts material financial liabilities at fixed interest rates for the duration of the term. When utilized, bank overdrafts are subject to fixed interest rates which may be varied by appropriate notice by the lender. At June 30, 2023 and 2022, there were no financial liabilities subject to variable interest rate risk.

Interest-bearing financial assets comprises of bank deposits, which have been contracted at fixed interest rates for the duration of their terms.

*Fair value sensitivity analysis for fixed rate instruments*

The Company does not hold any fixed rate financial assets that are subject to material changes in fair value through profit or loss. Therefore, a change in interest rates at the reporting dates would not affect profit or equity.

*Foreign currency risk:*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to significant foreign currency risk, primarily on purchases that are denominated in a currency other than the Jamaican dollar. Such exposures comprise the monetary assets and liabilities of the Company that are not denominated in that currency. The main foreign currency risks of the Company are denominated in United States dollars (US\$), which is the principal intervening currency for the Company.

The Company jointly manages foreign exchange exposure by maintaining adequate liquid resources in appropriate currencies and by managing the timing of payments on foreign currency liabilities.

The table below shows the Company's main foreign currency exposure at the reporting date.

	2023			2022		
	US\$	CND\$	GBP\$	US\$	CND\$	GBP\$
Cash and cash equivalents	4,452,253	35,167	9,940	5,339,213	20,806	9,366
Trade and other receivables	25,140	-	-	42,244	-	-
Lease liabilities	(6,812,139)	-	-	(6,812,134)	-	-
Trade and other payables	(928,758)	(164,859)	-	(649,888)	(52,642)	-
Net exposure	<u>(3,263,504)</u>	<u>(129,692)</u>	<u>9,940</u>	<u>(2,080,565)</u>	<u>(31,836)</u>	<u>9,366</u>

**Sensitivity analysis:**

A strengthening of 1% (2022: 1%) of the Jamaica dollar against the currencies indicated above at June 30 would have increased the Company's profit by \$5,155,115 (2022: \$3,152,974).

A weakening of 4% (2022: 4%) of the Jamaica dollar against the currencies indicated above at June 30 would have decreased the Company's profit by \$20,620,461 (2022: \$12,611,896).

This analysis assumes that all other variables, in particular interest rates, remain constant.

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**32. FINANCIAL INSTRUMENTS (CONT'D)**

**(a) Financial risk management (cont'd):**

**(iv) Cash flow risk**

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate because of changes in market interest rates. The Company manages this risk through budgetary measures, ensuring, as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.

**(b) Capital management**

The Company's objectives when managing capital are to comply with capital requirements, safeguard the Company's ability to continue as a going concern and to maintain a strong capital base to support the development of its business. The Company achieves this by retaining earnings from past profits and by managing the returns on borrowed funds to protect against losses on its core business.

# Fontana Limited

## LIST OF TOP TEN (10) LARGEST SHAREHOLDERS AS AT JUNE 30, 2023

Shareholders	Units
1. Burbank Holdings Limited	977,946,747
2. Astronomical Holdings Limited	12,931,000
3. Sagicor Select Fund Limited – ('Class C' Shares) Manufacturing & Distribution	10,028,143
4. St. Elizabeth International Limited	9,230,953
5. JCSD Trustee Services Ltd. A/C#76579-02	8,356,138
6. Jacqueline Sharp/Jason Sharp	7,094,000
7. St. Elizabeth Holdings Limited	5,319,000
8. Victory Island Limited	5,319,000
9. SJIML A/C 3119	5,210,875
10. Fontana Employee Share Trust	4,366,124

## SHAREHOLDINGS OF DIRECTORS AND CONNECTED PARTIES AS AT JUNE 30, 2023

Director	Shareholdings	Connected Parties	Shareholdings
Raymond Therrien	----	Burbank Holdings Limited	977,946,747
Kevin O'Brien Chang	----	Burbank Holdings Limited Nicole Watson-Chang	977,946,747 745,850
Shinque (Bobby) Chang	----	Burbank Holdings Limited	977,946,747
Anne Chang	----	Burbank Holdings Limited	977,946,747
Jacqueline Sharp	7,094,000	Jason Sharp (joint holder)	
Heather Goldson	2,070,000	David L. Goldson (joint holder)	

## SHAREHOLDINGS OF OFFICERS AND CONNECTED PARTIES AS AT JUNE 30, 2023

Denise Douglas	25,352	Ryan McCalla (joint holder)
Judale Samuels-Smith	613,506	