



**PARAMOUNT TRADING (JAMAICA) LIMITED
AUDITED FINANCIAL STATEMENTS
YEAR ENDED MAY 31 2023**



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31 May 2023

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Independent Auditor's Report

To the Members of
Paramount Trading (Jamaica) Limited

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Paramount Trading (Jamaica) Limited (the Company) as at May 31 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 May 2023
- the statement of comprehensive income for the year then ended
- the statement of cash flows for the year then ended
- the statement of changes in equity for the year then ended, and
- the notes to the financial statements, which include significant accounting policies and explanatory information.

Basis for opinion

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

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatements in the financial statements. In particular, we considered where management made subjective judgments; 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 or error.



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 informing our opinion thereon. We do not provide a separate opinion on these matters. During our work, we encountered no key audit matter that required disclosure.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

- 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 a fair presentation.
- We are not responsible for the direction, supervision, and performance of the Company. We remain solely responsible for our audit opinion.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

Other Information

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

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance 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 appear to be materially misstated.

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



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 our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

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

Chartered Accountants

Kingston, Jamaica

July 27, 2023

Paramount Trading (Jamaica) Limited
Statement of Financial Position
31 May 2023

	<u>Note</u>	<u>2023</u> \$	<u>2022</u> \$
Assets			
Non-current assets			
Property, plant and equipment	14	551,029,165	549,083,393
Right-of-use assets	14	55,518,051	64,771,060
Investments	15	52,024,323	182,404,507
Current assets			
Inventories	16	739,752,598	670,840,560
Taxation recoverable		7,105,112	802,446
Receivables	17	744,734,802	331,558,858
Cash and cash equivalents	18	68,864,703	125,547,089
		<u>1,560,457,215</u>	<u>1,128,748,953</u>
Current liabilities			
Payables	19	553,372,092	520,304,409
Taxation payable		36,164,532	-
Current portion of long-term borrowings	20	329,536,900	328,780,435
Current portion of lease liability	20	10,754,390	9,416,166
		<u>929,827,914</u>	<u>858,501,010</u>
Net current assets		<u>630,629,301</u>	<u>270,247,943</u>
Total assets less current liabilities		<u>1,289,200,840</u>	<u>1,066,506,903</u>
Equity			
Issued capital	21	77,492,243	77,492,243
Retained earnings		1,053,511,998	831,706,574
		<u>1,131,004,241</u>	<u>909,198,817</u>
Non-current liabilities			
Long term borrowings	20	70,643,283	71,153,880
Lease liability	20	58,428,444	66,173,236
Deferred tax liability	22	29,124,872	19,980,970
Total equity and non-current liabilities		<u>1,289,200,840</u>	<u>1,066,506,903</u>

Approved for issue by the Board of Directors on July 27, 2023 and signed on its behalf by:


 Hugh Graham - Chief Executive Officer


 Jacqueline Somers - Director

Paramount Trading (Jamaica) Limited
Statement of Profit or Loss and Other Comprehensive Income
Year ended 31 May 2023

	<u>Note</u>	<u>2023</u> \$	<u>2022</u> \$
Gross operating revenue	4	2,463,873,384	1,716,938,666
Less direct expenses	5	1,742,604,833	1,154,528,111
Gross profit		721,268,551	562,410,555
Other operating income	6	84,279,847	75,859,347
		805,548,398	638,269,902
Less operating expenses			
Administrative	9	436,096,581	391,288,249
Selling & distribution	9	31,686,732	17,638,391
		467,783,313	408,926,640
Profit before finance income and costs		337,765,085	229,343,262
Finance income	10	1,747,402	3,661,195
Finance costs	10	(48,790,157)	(46,696,185)
Net finance costs		(47,042,755)	(43,034,990)
Profit before taxation		290,722,330	186,308,272
Taxation	11	45,308,433	11,738,149
Profit for the year being total comprehensive income		245,413,897	174,570,123
		\$	\$
Earnings per share	12	0.159	0.113

Paramount Trading (Jamaica) Limited
Statement of Cash flows
Year ended 31 May 2023

	<u>Note</u>	<u>2023</u> \$	<u>2022</u> \$
Cash flows from operating activities			
Net profit		245,413,897	174,570,123
Adjustments for:			
Depreciation	14	41,808,757	43,218,044
Depreciation- right of use assets	14	9,253,008	9,253,008
Income tax expense	11	45,308,433	11,738,149
Interest Income		(1,767,402)	(3,661,195)
Interest expense		48,790,157	46,696,185
Gain on sale of assets		(500,000)	(1,050,000)
Prior year adjustment	27(ii)	(23,608,473)	-
Operating cash flows before movements in working capital		364,698,377	280,764,314
Changes in operating assets and liabilities:			
Inventories		(68,912,038)	(258,062,090)
Receivables		(413,175,944)	(8,671,047)
Payables		33,067,683	203,176,594
Taxation paid		(6,302,667)	(550,471)
		(455,322,966)	(64,107,014)
Cash generated from operations		(90,624,589)	216,657,300
Interest received		1,767,402	3,661,195
Interest paid		(48,790,157)	(46,696,185)
Net cash flow (used by) / provided by operating activities		(137,647,342)	173,622,310
Cash flows from investing activities:			
Purchase of property, plant & equipment	14	(43,754,529)	(21,509,850)
Proceeds from sale of assets		500,000	1,050,000
Net cash used in investing activities		(43,254,529)	(20,459,850)
Cash flows from financing activities:			
Dividends paid	13	-	(61,698,682)
Loans received		25,725,000	-
Loans repaid		(31,885,699)	(44,683,165)
Net cash used in financing activities		(6,160,699)	(106,381,847)
Net (decrease) / increase in cash resources		(187,062,570)	46,780,616
Cash resources at the beginning of the year		307,951,596	261,170,980
Cash resources at the end of year		120,889,026	307,951,596
Represented by:			
Investments	15	52,024,323	182,404,507
Cash and cash equivalents	18	68,864,703	125,547,089
		120,889,026	307,951,596

Paramount Trading (Jamaica) Limited
Statement of Changes in Equity
Year ended 31 May 2023

	<u>Note</u>	<u>No. of Shares</u>	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
			\$	\$	\$
Balances at 31 May 2020		1,542,467,080	77,492,243	716,896,476	794,388,719
Profit for the year		-	-	63,637,339	63,637,339
Dividend	13	-	-	(61,698,682)	(61,698,682)
Balances at 31 May 2021		1,542,467,080	77,492,243	718,835,133	796,327,376
Profit for the year		-	-	174,570,123	174,570,123
Dividend	13	-	-	(61,698,682)	(61,698,682)
Balances at 31 May 2022		1,542,467,080	77,492,243	831,706,574	909,198,817
Profit for the year		-	-	245,413,897	245,413,897
Prior year adjustment	27 (ii)	-	-	(23,608,473)	(23,608,473)
Balances at 31 May 2023		1,542,467,080	77,492,243	1,053,511,998	1,131,004,241

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2023

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

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

The Company's principal activity is the importation, distribution and manufacturing of chemicals, lubricants, and other related products. The Company also provides haulage services.

The Company operates a lubricant blending plant under franchise from Allegheny Petroleum Products, distributing lubricants to the transportation, manufacturing and industrial sectors. The Company license and supply and distribution agreement with Allegheny Petroleum Products Company permits the company to use formula trademark and related know-how exclusively for the manufacture of Allegheny lubricant in Jamaica with exclusive distribution rights to all member states of the Caribbean Community

The Company also has a license and distributing agreement with SIKA to market and distribute its line of construction and construction-related products. The product line includes anchoring, adhesives, and sealants primarily used in the building and construction sector.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board (IASB) and comply with the Jamaica Companies Act.

New revised and amended standards that became effective during the year.

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

- **Amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, and IFRS 16**, (effective for annual periods beginning on or after 1 January 2022). Amendments to IFRS3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', and the illustrative examples accompanying IFRS 16, 'Leases'.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(a) Statement of compliance (continued)

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

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective for the Company at the statement of financial position date. The Company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations. They include:

- **Amendments to IAS 1, ‘Presentation of Financial Statements’ on classification of liabilities** (deferred until accounting periods starting not earlier than 1 January 2024). These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the ‘settlement’ of a liability.
- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8**, (effective for annual periods beginning on or after 1 January 2023). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- **Amendment to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction** (effective for annual periods beginning 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 differences.
- **Amendment to IFRS 16- leases on sale and leaseback**, (effective for annual periods beginning on or after January 2024). These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

The Company has concluded that all other standards, interpretations and amendments to existing standards, which are published but not yet effective, whether relevant and adopted or not, will have no material impact on its operations.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(b) Basis of preparation:

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

- Financial instruments at fair value through profit or loss;
- Revaluation of certain property, plant and equipment.

Revenues and expenses

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

Going concern

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

(c) Use of estimates and judgements:

Judgments and estimates

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

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

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

Judgments are made in the selection and assessment of the Company's accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events, believed to be reasonable under the circumstances. Judgments and estimates are interrelated.

Management's judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revision to accounting estimates is recognized in the period in which the estimates are revised and in the future affected periods. The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(c) Use of estimates and judgments (continued):

The following are the accounting policies that are subject to judgments and estimates that management believes could significantly impact the amounts recognized in the financial statements.

Financial assets

Judgment – financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss based on (i) the company's business model for managing the financial assets and (ii) the contractual cash flow characteristic of the financial assets. Judgment is required in determining the business model and its objective.

Revenue from contract with customers

Judgment – is required in (i) identifying performance obligations and determining the timing of the satisfaction of the performance obligations and (ii) the transaction price and the amount allocated to the performance obligations.

Estimation – if the consideration promised in a contract includes a variable amount, the company is required to estimate the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to the customer.

Impairment of assets

At each reporting date, judgment has been used in determining whether there has been an indication of impairment in the carrying amounts of the Company's tangible and intangible assets, which would require impairment testing to determine whether there is any indication that those assets have suffered impairment losses.

Where the carrying amount of an asset exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount of an asset is 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.

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

Inventories

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

(c) Use of estimates and judgments (continued):

Income and other taxes

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

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

Receivables – allowance for impairment losses on trade receivables

Estimation -

Allowances are determined upon the origination of the trade accounts receivable based on a model that calculates the expected credit loss (ECL) of the trade receivables. Under the ECL model, the Company segments its accounts receivable in a matrix by the days due. It determines for each age bracket an average rate of ECL, taken into account history, actual credit loss experience over the last 60 months and analysis of potential future delinquency of each customer balance.

The average ECL rate increases in each segment of “days past due” as the days outstanding on the receivable balance increase and are reclassified to another age bracket. The use of future assumptions, based on experience that is applied to the balance makes uncertainty inherent in these estimates.

Post-employment benefits

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

Investment property

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

Others

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

3. OPERATING SEGMENTS

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

- The distribution of chemicals and chemical products for food and pharmaceutical additives and ingredients.
- The construction and adhesive business are the distribution of the SIKA branded products and adhesive and hardware supplies, i.e., concrete admixtures, waterproofing/moisture protection, sealants, floor and protective coating, and more.
- The manufacturing of food-grade; technical and industrial-grade chemicals for direct use or as raw materials; solvents, disinfectants, germicides, household laundry and cleaning products, paint resin, and many more.
- Transportation/Haulage business provides island-wide delivery solutions.
- The manufacture and distribution of oils and lubricants; engine oils and fluids, industrial oils and greases, hydraulic, transmission and other fluids.

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

- Chemicals, including sanitization products, account for over 72% (2022 – 69%) of revenue.
- Construction and Adhesives is a wholesale distribution outlet trading under the SIKA brand and is located on Bell Road, in Kingston, and accounts for approximately 14% (2022-9%) of revenue.
- Manufacturing operates from both the 39 Waltham Park Road (food grade) and 8 East Bell Road (technical grade) locations and accounts for approximately 6% (2022-11%) of revenue.
- Transportation division operates from 39 Waltham Park Road and accounts for approximately 1% (2022-1%) of revenue.
- Lubricants division accounts for approximately 7% (2022-10%) of revenue.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2023

3. OPERATING SEGMENTS (Continued):

The tables below reflect the revenues generated by each segment of the business.

	<u>2023</u>					
	<u>Chemicals</u>	<u>Construction and Adhesives</u>	<u>Manufacturing</u>	<u>Transport</u>	<u>Lubricants</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Revenues	1,766,925	344,324	157,360	28,957	166,307	2,463,873
Cost of sales						1,742,605
Gross profit						721,268

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

	<u>2022</u>					
	<u>Chemicals</u>	<u>Construction and Adhesives</u>	<u>Manufacturing</u>	<u>Transport</u>	<u>Lubricants</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Revenues	1,176,636	146,026	196,764	21,422	176,091	1,716,939
Cost of sales						1,154,528
Gross profit						562,411

4. REVENUE

Revenue represents the total invoice prices for the products sold by the different segments of the business along with revenue from the provision of trucking and haulage services, net of discount and returns and General Consumption Tax at 15% of the invoice value.

	<u>2023</u>	<u>2022</u>
	<u>\$</u>	<u>\$</u>
Sale of goods	2,434,915,567	1,695,517,179
Services rendered	28,957,817	21,421,487
	2,463,873,384	1,716,938,666

5. COST OF SALES

	<u>2023</u>	<u>2022</u>
	<u>\$</u>	<u>\$</u>
Distribution	1,212,185,755	861,988,987
Import charges including haulage	12,936,649	19,928,126
Construction	239,137,768	100,536,825
Allegheny	90,136,529	99,935,524
Manufacturing	177,239,634	63,872,604
Other costs	10,968,498	8,266,045
	1,742,604,833	1,154,528,111

6. OTHER OPERATING INCOME

Other operating income consists of the following:

	<u>2023</u>	<u>2022</u>
	\$	\$
Rental income – warehousing	6,408,549	2,971,359
Foreign exchange gain	77,371,298	67,132,768
Gain on disposal of asset	500,000	1,050,000
Other	-	4,705,220
	<u>84,279,847</u>	<u>75,859,347</u>

Rental income is earned from unused warehousing space at the Company’s Bell Road location.

7. OPERATING PROFIT BEFORE TAXATION

The following have been charged in arriving at operating profit:

	<u>2023</u>	<u>2022</u>
	\$	\$
Audit and accounting	6,465,000	7,289,000
Directors’ emoluments:		
Fees	3,663,743	2,712,500
Executive management remuneration	23,057,833	21,785,789
Bad debts expensed	17,381,632	12,000,000
Foreign exchange gains	(77,371,298)	(67,132,768)
Depreciation	41,808,757	43,218,044
Depreciation: right of use assets	9,253,008	9,253,008
Staff costs (excluding management remuneration)	182,674,303	150,870,448

The average number of persons employed full-time by the Company during the year was 67 (2022-71)

8. STAFF COSTS

	<u>2023</u>	<u>2022</u>
	\$	\$
Salaries (excluding managements’ remuneration)	144,983,851	122,174,115
Employer’s payroll taxes	18,861,195	14,283,566
Staff welfare	18,829,257	14,412,767
	<u>182,674,303</u>	<u>150,870,448</u>
Executive management remuneration	23,057,833	21,785,789
	<u>205,732,136</u>	<u>172,656,237</u>

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

	<u>2023</u>	<u>2022</u>
	\$	\$
Cost of inventories recognized as expense	1,742,604,833	1,154,528,111
Selling, advertising, promotion, and distribution	14,305,100	5,638,391
Bad debts expenses	17,381,632	12,000,000
Subtotal: selling and distribution	31,686,732	17,638,391
Audit and accounting	6,465,000	7,289,000
Depreciation	41,808,757	43,218,044
Depreciation right of use assets	9,253,008	9,253,008
Repairs and maintenance	10,251,251	4,210,840
Staff costs	205,732,136	172,656,237
Motor vehicle expenses	5,303,961	6,426,203
Utilities	9,674,307	10,978,799
Insurance	34,194,932	30,339,748
Security	20,930,004	22,395,070
Rental	3,524,578	-
Other expenses	88,958,647	84,521,300
Subtotal: administrative	436,096,581	391,288,249
	<u>2,210,388,146</u>	<u>1,563,454,751</u>

10. FINANCE INCOME AND COSTS

	<u>2023</u>	<u>2022</u>
	\$	\$
Finance income -		
Interest income	1,747,402	3,661,195
Finance costs -		
Interest expenses	40,161,800	39,421,218
Debt financing fees and expenses	8,628,357	7,274,967
	<u>48,790,157</u>	<u>46,696,185</u>

11. TAXATION

(a) Taxation is based on profit for the year adjusted for taxation purposes and comprises income tax at [12.5% (7 months) and 25% (5 months)], (2022 - 12.5%).

	<u>2023</u>	<u>2022</u>
	\$	\$
Taxation for the year comprises:		
Current tax expense	36,164,531	9,502,450
Deferred tax (note 22)	9,143,902	2,235,699
	<u>45,308,433</u>	<u>11,738,149</u>

Effective 1 January 2018, the 100% tax remission for the first five (5) years after listing on the Junior Market (JM) of the Jamaican Stock Exchange (JSE) expired, and the Company was subject to income tax at 12.5% on 50% of its chargeable income. This 50% tax regime expired on 31 December 2022, and as a consequence, the Company is subject to tax at 25% of its taxable income for the five (5) months ended 31 May 2023.

Paramount Trading (Jamaica) Limited
Notes to the Financial Statements
31 May 2023

11. TAXATION (Continued)

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

	<u>2023</u>	<u>2022</u>
	\$	\$
Profit before taxation	290,722,330	186,308,272
Tax calculation @25%	72,680,582	46,577,068
Adjustment for difference in treatment of:		
Depreciation and capital allowances	218,304	417,746
Net effect of other charges for tax purposes	(5,097,469)	(19,963,016)
Adjustment for the effect of remission of tax.	(19,775,414)	(17,529,348)
Employers tax credit	(11,861,472)	-
Tax charged for the year	<u>36,164,531</u>	<u>9,502,450</u>

(c) **Remission of income tax:**

By notice dated 13th 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 (JMJSE) if certain conditions were achieved after the date of initial admission.

Effective 31 December 2012, the Company's shares were listed on the Junior Market of the JSE. Consequently, the Company is entitled to a remission of income taxes for ten years in the proportion set out below;

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

Years 6-10: (1 January 2018 – 31 December 2022) – 50%

To be effective, the following conditions must be met:

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

The financial statements have been prepared on the basis that the Company will have the full benefit of the tax remissions. The JMJSE (Remission) Notice expired 31 December 2022 and the Company is now subject to income tax on its corporate profits at 25%.

The total income tax remission over the 10-year period to 31 December 2022, amounted to approximately \$176 Million. This amount is a contingent liability, as the Company has to remain listed until the expiration of the next five years, ending 31 December 2027.

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12. EARNINGS PER SHARE

Basic EPS is computed by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue for the year.

	<u>2023</u>	<u>2022</u>
	\$	\$
Net profit attributable to shareholders	245,413,897	174,570,123
Weighted average number of ordinary shares in issue	1,542,467,080	1,542,467,080
Basic earnings per share	<u>0.159</u>	<u>0.113</u>

13. DIVIDENDS

Declared and paid:

Interim @ Nil (2022 – 4 cents) per share

<u>2023</u>	<u>2022</u>
\$	\$
<u>-</u>	<u>61,698,682</u>

No dividend payment was declared during the year.

Paramount Trading (Jamaica) Limited
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14. PROPERTY, PLANT, AND EQUIPMENT

2023											
	<u>Equipment</u>	<u>Capital Work-in-progress</u>	<u>Computer Equipment</u>	<u>Furniture & Fixtures</u>	<u>Buildings</u>	<u>Motor Vehicles</u>	<u>Forklift</u>	<u>Leasehold Improvement</u>	<u>Leased Vehicles</u>	<u>Total</u>	<u>Leased Assets Building Right of Use</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
At cost:											
1 June 2022	366,518,162	1,594,981	29,700,909	13,399,020	311,055,686	89,423,941	6,884,413	1,553,800	36,771,830	856,902,742	92,530,084
Transfer	-	-	-	-	-	24,689,862	-	-	(24,689,862)	-	-
Additions	9,875,745	82,477	2,258,020	577,161	2,450,000	28,511,126	-	-	-	43,754,529	-
Disposal	-	-	-	-	-	(140,000)	-	-	(3,245,356)	(3,385,356)	-
31 May 2023	376,393,907	1,677,458	31,958,929	13,976,181	313,505,686	142,484,929	6,884,413	1,553,800	8,836,612	897,271,915	92,530,084
Depreciation:											
1 June 2022	120,666,759	-	13,084,331	7,847,497	42,695,217	83,858,187	6,735,204	233,075	32,699,079	307,819,349	27,759,025
Charge for the year	18,229,461	-	2,815,294	1,125,640	7,776,396	8,286,699	149,207	154,965	3,271,095	41,808,757	9,253,008
Transfer	-	-	-	-	-	24,689,862	-	-	(24,689,862)	-	-
Relief on Disposal	-	-	-	-	-	(140,000)	-	-	(3,245,356)	(3,385,356)	-
31 May 2023	138,896,220	-	15,899,625	8,973,137	50,471,613	116,694,748	6,884,411	388,040	8,034,956	346,242,750	37,012,033
Net book value											
31 May 2023	237,497,687	1,677,458	16,059,304	5,003,044	263,034,073	25,790,181	2	1,165,760	801,656	551,029,165	55,518,051

Paramount Trading (Jamaica) Limited
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31 May 2023

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>2022</u>										
	<u>Equipment</u>	<u>Capital Work-in-progress</u>	<u>Computer Equipment</u>	<u>Furniture & Fixtures</u>	<u>Buildings</u>	<u>Motor Vehicles</u>	<u>Forklift</u>	<u>Leasehold Improvement</u>	<u>Leased Vehicles</u>	<u>Total</u>	<u>Leased Assets Building Right of Use</u>
	₤	₤	₤	₤	₤	₤	₤		₤	₤	₤
At cost:											
1 June 2021	353,035,284	2,384,168	27,780,006	12,442,094	309,775,686	89,069,809	6,884,413	1,553,800	38,827,619	841,752,879	92,530,084
Capitalization of work-in-progress	9,802,213	(9,802,213)	-	-	-	-	-	-	-	-	-
Additions	3,680,665	9,013,026	1,920,903	956,926	1,280,000	4,658,330	-	-	-	21,509,850	-
Disposal	-	-	-	-	-	(4,304,198)	-	-	(2,055,789)	(6,359,987)	-
31 May 2022	366,518,162	1,594,981	29,700,909	13,399,020	311,055,686	89,423,941	6,884,413	1,553,800	36,771,830	856,902,742	92,530,084
Depreciation:											
1 June 2021	103,604,727	-	10,467,571	6,761,147	34,950,819	79,646,423	6,511,500	77,690	28,941,415	270,961,292	18,506,016
Charge for the year	17,062,032	-	2,616,760	1,086,350	7,744,398	8,515,962	223,704	155,385	5,813,453	43,218,044	9,253,008
Relief on Disposal	-	-	-	-	-	(4,304,198)	-	-	(2,055,789)	(6,359,987)	-
31 May 2022	120,666,759	-	13,084,331	7,847,497	42,695,217	83,858,187	6,735,204	233,075	32,699,079	307,819,349	27,759,024
Net book value											
31 May 2022	245,851,403	1,594,981	16,616,578	5,551,523	268,360,469	5,565,754	149,209	1,320,725	4,072,751	549,083,393	64,771,060

15. INVESTMENTS

	<u>2023</u> \$	<u>2022</u> \$
Fair values:		
1.3% (2022-1.3%) US\$ Certificate of Deposits	-	7,753,787
J\$ Securities purchased under resale agreements	342,884	342,884
3.5% NCB US\$ Investments (2022-3.5%)	-	145,009,565
2.5% JMMB US\$ Investments	31,482,631	
Quoted shares	20,198,808	29,298,271
	<u>52,024,323</u>	<u>182,404,507</u>

Securities purchased under agreement to resell are regarded as cash and cash equivalents for the statement of cash flows. The average effective interest rate at the year-end was approximately 3.3% (2022 -3.3%)

16. INVENTORIES

	<u>2023</u> \$	<u>2022</u> \$
Chemicals	572,798,111	618,328,547
Construction and adhesives	25,683,182	66,727,695
Manufacturing raw materials	155,742,493	11,211,309
	<u>754,223,786</u>	<u>696,267,551</u>
Goods-in-transit	1,350,083	2,673,907
Less: provision for obsolete stock	(15,821,271)	(28,100,898)
	<u>739,752,598</u>	<u>670,840,560</u>

17. RECEIVABLES

	<u>2023</u> \$	<u>2022</u> \$
Trade receivables	752,334,906	347,089,101
Less provision for bad debts	(44,598,946)	(43,561,014)
	<u>707,735,960</u>	<u>303,528,087</u>
Other receivables and prepayments	36,998,842	28,030,771
Trade & other receivables	<u>744,734,802</u>	<u>331,558,858</u>

Trade receivables balance at the end of the year includes \$210,843,792 (2022 - \$84,481,073) from the Company's five (5) largest customers, and the balances were all within the approved credit limits. There are no other customers who represent more than five (5%) of the total trade receivables. The Company does not hold any collateral over trade receivables.

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

18. CASH AND CASH EQUIVALENTS

	<u>2023</u>	<u>2022</u>
	\$	\$
Cash	234,000	254,000
Cash equivalents - US\$ bank accounts	11,860,577	56,238,204
Cash equivalents - JA. \$ bank accounts	56,770,126	69,054,885
	<u>68,864,703</u>	<u>125,547,089</u>

19. PAYABLES

	<u>2023</u>	<u>2022</u>
	\$	\$
Foreign payables	508,796,767	490,005,131
Local payables and accruals	8,996,842	28,412,281
Accrued expenses	9,780,115	8,190,849
Other payables	25,798,368	(6,303,849)
	<u>553,372,092</u>	<u>520,304,409</u>

20. LONG-TERM BORROWINGS

	<u>2023</u>	<u>2022</u>
	\$	\$
(i) 4 % Allegheny Loan	74,284,542	93,514,595
(ii) 7.01 % - Simpson Financing	2,072,638	2,676,955
(iii) 12.50 % JMMB Bank loan	300,000,000	300,000,000
(iv) 12.5 % -16.75% finance lease obligations [see (v) below]	-	3,742,765
(v) 9% NCB loans	23,823,003	
	<u>400,180,183</u>	<u>399,934,315</u>
Less current portion due within 12 months	(329,536,900)	(328,780,435)
Non-current balance	<u>70,643,283</u>	<u>71,153,880</u>
(vi) Lease liability	69,182,834	75,589,402
Less current portion	(10,754,390)	(9,416,166)
	<u>58,428,444</u>	<u>66,173,236</u>

The details of the loan are as follows:

- (i) This represents a vendor's mortgage from Allegheny in acquiring the lubricant plant. It is payable over five years at 4% interest and is paid in 10 instalments of US\$78,754 per period. This loan matures in December 2024.
- (ii) This loan represents loan financing for a motor truck and is repayable in 84 monthly instalments of \$69,099. A lien secures the loan on the truck and matures in January 2026.
- (iii) By letter dated 31 May 2023, the JMMB Bank credit facility was extended for twelve (12) months with a maturity date of 09 April 2024, with an interest payment of \$3,125,000 payable monthly over this period. The loan is unsecured, and the Company has to ensure compliance with several specific financial conditions and agreed terms for the continuity of the facility. Review of the financial covenants indicate that they were satisfactory as at 31 May 2023.
- (v) NCB loans were acquired during the year to assist with the purchase of motor vehicles with maturity dates October 2029 and September 2028 respectively.

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20. LONG-TERM BORROWINGS (continued)

(vi) The lease obligations relate to motor vehicles and are payable as follows:

	<u>2023</u>	<u>2022</u>
	\$	\$
Due from the reporting date as follows:		
Within one (1) year	3,742,765	4,335,683
Within two to five (2-5) years	-	-
Total future minimum lease payments	3,742,765	4,335,683
Less: future interest charges	(3,742,765)	(592,918)
Present value of minimum lease payments	<u>-</u>	<u>3,742,765</u>

Lease Liability

Right-of-use Asset, blended principal, and interest payments (rent payments) are made monthly in the amount of US\$7,500, and interest is charged at 6%, maturing in 2029

Principal amounts payable are as follows:

	<u>2023</u>	<u>2022</u>
	\$	\$
Current portion	10,754,390	9,416,166
Long term portion	58,428,444	66,173,236
	<u>69,183,834</u>	<u>75,589,402</u>

Principal repayments for each of the next four years along with the period 2025-2029 are as follows:

2024	10,754,390
2025	11,417,497
2026	13,165,206
2027-2029	33,846,741

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21. SHARE CAPITAL

	<u>2023</u> \$	<u>2022</u> \$
<u>Authorized:</u> 1,620,000,000 (2022 – 1,620,000,000) ordinary shares of no-par value		
<u>Issued and fully paid:</u> 1,542,467,080 (2022 – 1,542,467,080) shares of no-par value	<u>77,492,243</u>	<u>77,492,243</u>

22. DEFERRED INCOME TAXES

During the year, deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

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

	<u>2023</u> \$	<u>2022</u> \$
Deferred tax liability	<u>29,124,872</u>	<u>19,980,970</u>

Deferred taxation charged to profit or loss comprises the following temporary differences:

	<u>2023</u> \$	<u>2022</u> \$
Balance brought forward -	19,980,970	17,745,272
Amount charged to profit and loss	9,143,902	2,235,699
Deferred tax liability at year-end	<u>29,124,872</u>	<u>19,980,970</u>

23. RELATED PARTIES TRANSACTIONS AND BALANCES

The statement of comprehensive income includes the following related party transactions

	<u>2023</u> \$	<u>2022</u> \$
Key management compensation:		
Salaries:	<u>23,057,833</u>	<u>21,785,789</u>

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview and risk management framework

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

The Board of Directors is ultimately responsible for the oversight of the Company's risk management and has established committees such as audit and governance committee, along with treasury committee to monitor risks. The Company seeks to minimize potential adverse effects on the Company's financial performance and manage these risks by closely monitoring each risk factor as noted below.

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

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

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

- Operational risk; and
- Reputational risk

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

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24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management

(i) Market risk

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

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

• **Foreign currency risk**

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

The Company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Company further manages this risk by maximizing foreign currency earnings and holding foreign currency balances.

The Company's statement of financial position as at May 31, 2023, includes aggregate net foreign liabilities of approximately US\$3,227,752 (2022 -US\$3,001,816) in respect of transactions arising in the ordinary course of business which were subject to foreign exchange rate changes as follows

The concentration of currency risks:

	<u>2023</u> <u>US\$</u>	<u>2022</u> <u>US\$</u>
Financial assets:		
Cash and cash equivalents	87,587	163,430
Financial liabilities:		
Payables and accruals	(3,315,339)	(3,165,246)
Net total liabilities	(3,227,752)	(3,001,816)
Equivalent to Jamaican dollars	J\$(495,363,099)	J\$(464,501,008)

The above assets/ (liabilities) are receivable/ (payable) in United States dollars. The average of the Bank of Jamaica (BOJ) buying and selling rate of exchange applicable at May 31, 2023, is J\$153.47 (2022 - J\$154.74) to US\$1, respectively.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(i) Market risk (continued)

- **Foreign currency risk (continued)**

Foreign currency sensitivity

A 5% (2022- 5%) weakening of the Jamaican dollar would have decreased profit for the year by approximately \$12.3M (2022 - \$14.5M), assuming all other variables, particularly interest rates, remain constant.

- **Interest rate risk**

Interest rate risk is the risk that a financial instrument's fair value or future cash flows will fluctuate due to changes in market interest rates. Interest-bearing financial assets are primarily cash and cash equivalent, securities purchased under resale agreements and investments. Loans and bank overdrafts represent interest-bearing financial liabilities.

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

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

	<u>2023</u>	<u>2022</u>
	\$	\$
Fixed-rate instruments		
Financial assets	-	-
Financial liabilities	469,363,018	475,523,717
	<u>469,363,018</u>	<u>475,523,717</u>
Variable-rate instruments		
Financial assets	11,860,577	238,642,710
Financial liabilities	-	-
	<u>11,860,577</u>	<u>238,642,710</u>

Fair value sensitivity analysis for fixed-rate instruments:

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(i) Market risk (continued)

- **Interest rate risk (continued)**

Cash flow sensitivity analysis for variable rate instruments:

At the reporting date, a 2% (2022 - 2%) increase/(decrease) in interest rates would have increased/(decreased) profit by approximately \$4.9M (2022 - \$5.8 Million), assuming that all other variables, in particular, foreign currency rates, in both the current and prior years remained constant.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company faces credit risk principally in respect of its receivables from customers and, to a lesser extent, cash at bank and short-term deposits held with financial institutions. There is no significant concentration of credit risk, and the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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

Cash and cash equivalent

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

Trade receivables credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base is wide and covers different industries, and there is no significant concentration of credit risk.

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

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

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

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31 May 2023

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Impairment:

The Company establishes a provision for impairment that represents its estimate of possible incurred losses in respect of trade receivables. Impairment is assessed for each customer balance over 90 days. The Company's exposure to this risk is moderate because approximately 85% (2022 - 71%) of its trade debtors are under 90 days.

The Company's credit period on the sale of goods ranges from 7 to 60 days, depending on the relationship with the respective customer. The Company introduced the ECL model regarding impairment of receivables, which resulted in the Company providing adequately for all receivables where collectability is deemed doubtful.

Maximum exposure to trade receivables credit risk

Credit risk exposures are as follows:

Trade receivables

<u>2023</u>	<u>2022</u>
\$	\$
752,334,906	347,089,101

Exposure to credit risk by customer sector

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

	<u>Note</u>	<u>2023</u>	<u>2022</u>
		\$	\$
Manufacturing, wholesalers, and retailers		721,565,310	316,729,933
Government		4,035,001	9,906,221
Bauxite sector		26,734,595	20,452,947
	17	752,334,906	347,089,101
Less: provision for impairment		(44,598,946)	(43,561,014)
		<u>707,735,960</u>	<u>303,528,087</u>

As at May 31, 2023, the reporting date, there were significant concentrations of credit risk in respect of fourteen (14) major receivable customers of the Company who in aggregate accounted for approximately \$275 Million (2022 - \$158 Million), representing approximately 37% (2022 - 46%) of trade receivables for the Company.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Movement on the provision for impairment of trade receivables

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

	<u>2023</u> \$	<u>2022</u> \$
Balance at 1 June 2022	43,561,014	31,561,014
Increase in provision for receivables impairment	17,381,632	12,000,000
Written off during the year	(16,343,700)	-
Balance at 31 May 2023	<u>44,598,946</u>	<u>43,561,014</u>

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

Expected credit loss assessment

The Company allocates each exposure to a credit risk grade based on the data that is determined to be predictive of the risk of loss. Factors that are considered in assessing customers include applying experienced credit judgment, management accounts, cash flow projections, audited financial statements and available creditable press information.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to available external credit ratings. Potential loss exposure within each credit risk grade and an ECL rate is calculated for the Company's customer based on delinquency status and actual historical credit loss experience.

The Company uses an allowance matrix to measure ECLs trade receivables. The provision matrix is based on historically observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

Loss rates are calculated based on the probability of a receivable progressing through successive stages of delinquency to write-off, current conditions and the economic conditions over the expected lives of the receivables.

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24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Expected credit loss assessment (continued)

The following table provides information about the exposure to credit risk and ECL for trade receivables as at May 31 2023.

2023			
<u>Age categories</u>	<u>Weighted average loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>
Current (not past due)	0.11%	529,761,171	592,421
Past due 31-60 days	2.50%	58,616,419	1,465,410
Past due 61-90 days	10.44%	48,939,010	5,109,233
More than 90 days	32.54%	115,018,306	37,431,882
		752,334,906	44,598,946

2022			
<u>Age categories</u>	<u>Weighted average loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>
Current (not past due)	1.32%	141,588,955	1,873,259
Past due 31-60 days	3.21%	51,963,103	1,670,051
Past due 61-90 days	8.00%	52,776,454	4,223,604
More than 90 days	35.52%	100,760,589	35,794,100
		347,089,101	43,561,014

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Financial instruments counterparty credit risk: cash and equivalents and investments

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

Maximum exposure to financial instruments counterparty credit risk

	<u>2023</u>	<u>2022</u>
	\$	\$
Credit risk exposures are as follows:		
Investments, (excluding equity shares)	31,825,515	153,106,236
Cash and short-term equivalents	68,864,703	125,547,089
	<u>100,690,218</u>	<u>278,653,325</u>

The impairment on cash and cash equivalent and investments has been measured on the 12 months expected loss basis and reflects the short maturities of the exposures. The Company considered that cash and cash equivalents have low credit risk. No impairment allowances were recognised on the initial adoption of IFRS 9, and there has been no change during the year.

Due from related parties

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

(iii) Liquidity risk

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

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

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Notes to the Financial Statements
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24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

Liquidity risk management process

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

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

- i. Monitoring future cash flows and liquidity on an ongoing basis. This incorporates an assessment of expected cash flows
- ii. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow
- iii. Maintaining committed lines of credit
- iv. Managing the concentration and profile of debt maturities
- v. Optimizing cash returns on investments.

Cash flows of financial liabilities

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

	<u>2023</u>				
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 year or less</u>	<u>1-2 yrs</u>	<u>2-5 yrs</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Accounts payable	553,372,092	553,372,092	553,372,092		
Long-term liabilities	469,363,017	473,132,628	349,981,592	71,639,793	51,511,243
Total financial liabilities	1,022,735,109	1,026,504,720	903,353,684	71,639,793	51,511,243

	<u>2022</u>				
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1 year or less</u>	<u>1-2 yrs</u>	<u>2-5 yrs</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Accounts payable	520,304,409	520,304,409	520,304,409	-	-
Long-term liabilities	475,523,717	483,290,524	346,337,965	40,832,805	96,119,754
Total financial liabilities	995,828,126	1,003,594,933	866,642,374	40,832,805	96,119,754

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

Determination and disclosure of fair value of financial instruments

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

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

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

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

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Operational risk

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

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

(c) Reputational risk

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

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

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

25. SIGNIFICANT ACCOUNTING POLICIES

(a) Share capital

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

(b) Foreign currency transactions and balances

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

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

Gains and losses arising from fluctuations in exchange rates are generally included in profit or loss. However, foreign currency differences resulting from the translation of equity investments are recognized in other comprehensive income, except on impairment. The foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

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

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant, and equipment

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

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

Buildings	2-6%
Plant, machinery, and equipment	5- 10%
Furniture and fixtures	10%
Mobile equipment and motor vehicles	20%
Computer software and equipment	10%

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

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

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

The cost of self-constructed assets includes the cost of materials, direct labour, and related cost to put the asset into service. Borrowing costs, including but not limited to interest on borrowings and exchange differences arising on such borrowings that are directly attributable to the acquisition and/or construction of a qualifying asset, are capitalized as part of the cost of that asset.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its use are complete. Thereafter, borrowing costs are recognized in profit or loss when they are incurred.

(d) Inventories

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

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

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at the bank, plus highly liquid instruments, including certificates of deposits, where the original maturities of such instruments usually do not exceed three (3) months. The Company does not operate an overdraft facility. Cash and cash equivalents are recorded at amortised cost.

(f) Financial instruments – recognition and measurement

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

Transaction costs directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as fair value through profit or loss (FVTPL), are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

Classification and subsequent measurement.

Financial instruments – assets

The Company classifies financial assets according to its business model for managing the financial assets and the contractual terms of the cash flows. Classification choices for financial assets are:

- Amortized cost
- Fair value through other comprehensive income (FVTOCI)
- Fair value through profit or loss (FVTPL)

Classification choices for financial liabilities are:

- Amortized cost
- FVTPL

Amortized cost

Financial assets are classified as amortized cost because the financial assets are held within a business model with the objective to hold financial assets to collect contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding. These assets are measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fair value through other comprehensive income (FVTOCI)

Financial assets are classified as FVTOCI because the financial assets are held with a business model with the objective to hold financial assets to collect contractual cash flows and selling financial assets. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely principal and interest payments on the principal amount outstanding. These assets are measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in other comprehensive income when the asset is modified or impaired and subsequently transferred to profit or loss on derecognition.

Fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL unless they are classified as amortised cost or fair value through other comprehensive income. Gains and losses are recognized in other comprehensive income when the asset is modified or impaired and subsequently transferred to profit or loss or derecognition.

Derecognition of financial instruments

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

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

(g) Trade payables

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

(h) Trade receivables

Trade and other receivables are carried at anticipated realizable value. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The asset's carrying amount is reduced through the use of an allowance account, and the amount of the loss is recognized in bad debt expense in the statement of comprehensive income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as recovery and credited to bad debt expense in the statement of comprehensive income.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade receivables (continued)

Credit risk and expected loss

The Company is primarily exposed to credit risk on its trade receivables, and as such, does not provide for any lifetime expected credit loss (LECL). It applies the practical experience of not adjusting the promised consideration receivable because the period is less than 12 months. The Company recognizes a loss allowance on a forward-looking basis at an amount equal to its expected credit model (ECL) that was developed during the year in regards to its financial assets measured at amortized cost.

(i) Debt: borrowings and borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of these assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(j) Revenue recognition

(i) Sale of goods

Revenue is recognized when the performance obligation, satisfied at a point-in-time to transfer goods and services to the customer, is complete. The completion is assessed when the customer takes control and or obtains the benefits of the goods and /or services, and the company has a present right to payment as evidence by an invoice or the right to invoice.

(ii) Finance income

Finance income comprises interest-earned on invested funds. Interest income is recognised in profit or loss as it accrues, taking into account the effective yield on the asset

(iii) Other operating income

Other operating income includes gains on disposal of assets, recognized when the asset is sold, foreign exchange gains, and miscellaneous inflows recognized when received.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leases

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

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

Right of use assets is measured at cost comprising the following:

- (1) The amount of initial measurement of the lease liability
- (2) Any lease payments made at or before the commencement date less any lease incentives received.
- (3) Any initial direct cost, and
- (4) Restoration cost

Right of use assets is generally depreciated over the shorter of the asset useful life and the lease term on a straight-line basis.

(l) Dividends

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

(m) Provisions

Provisions are recognized 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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the statement of comprehensive income net of any reimbursement.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Impairment

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

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

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

(o) Pension and employee benefits

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

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

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Related party disclosure

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

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

- (a) A person or close member of that person’s family is related to a reporting entity if that person:
- (i) Has control or joint control over the reporting entity;
 - (ii) Has significant influence over the reporting entity; or
 - (iii) Is a member of the key management personnel of the reporting entity or a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions apply:
- The Company and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - One company is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - Both companies are joint ventures of the same third party.
 - One company is a joint venture of a third entity, and the other entity is an associate of the third entity.
 - The company is a post-employment benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity.
 - The company is controlled or jointly controlled by a person identified in (a) above.
 - A person identified in ((a) (i)) above has significant influence over the company or is a member of the key management personnel of the company (or of a parent of the company).

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

(q) Investments

Certificate of Deposits, quoted shares and other investments are recognised at fair value. Incomes from these investments are accounted for based on the accrual basis.

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income taxes

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

(i) Current taxation

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

(ii) Deferred taxation

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

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

The Company's shares were listed on the Junior Market of the Jamaica Stock Exchange (JSE) on December 31 2012. Under the Junior Market of the JSE incentive regime, the 100% income tax-free status expired December 31 2017, and the Company is now subject to income tax at 50% of its taxable income until December 31 2022. As a consequence of the 100% tax relief expiration, deferred taxation was recorded in the financial statements.

(s) Segment reporting

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

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

25. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment reporting (continued)

The primary reportable business units are:

Distribution

- of imported chemicals and lubricants
- of SIKA branded construction and adhesive products

Manufacturing

- of branded chemical products
- manufacturing of lubricants
- Sanitizing and surface cleaning products

Haulage

- haulage services provided to external customers

The manufacturing operations are conducted at 6 and 8 East Bell Road, Kingston 11 and the distribution of chemicals is done from both the Company's warehouses at East Bell Road and 39 Waltham Park Road, Kingston 13.

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

(u) Expenses

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

(v) Earnings per share

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

(w) Interest-bearing borrowing

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

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26. CAPITAL MANAGEMENT

The Company's objectives when managing capital is:

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

The definition of capital varies from company to company, industry to industry, and for different purposes. Management considers the definition of the Company's capital as long-term debt plus total equity.

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

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

The Company also monitors its fixed obligations to ensure compliance by tracking its interest and other coverage ratios and forecasting cash flows along with reviewing financial and other covenants of the existing debt agreements.

During 2023, the Company's capital management remained unchanged from 2022. The gearing ratios at May 31, 2023, and May 31, 2022, were as follows:

	<u>2023</u>	<u>2022</u>
	\$	\$
Total long-term debts	469,363,017	475,523,717
Total long-term debt plus equity	1,600,367,258	1,396,460,681
	0.29	0.34

27. CONTINGENCIES AND COMMITMENTS

- (i) The Company's attorneys reported in their letter dated July 19, 2023, that for the year ended and as of 31 May 2023:
- we are not instructed in relation to any actual, possible, or outstanding claims in litigation or otherwise involving the Company, and we are not aware of any circumstances that may result in such matters;
 - we do not hold any trust monies on behalf of the Company;
 - we are not aware of any outstanding indebtedness that the Company may have to others that is guaranteed and/or not paid by it in a normal manner and /or subject to any typical business arrangements; and
 - we have no billed or unbilled fees or disbursements for the Company in relation to the financial year.
- (ii) In 2013, there was a dispute with Tax Administration Jamaica (TAJ) in relation to outstanding GCT tax liability of approximately \$3.2M. This dispute went unresolved for a number of years and finally, the principal balance of approximately \$3.2M was paid by the Company. Certain payments relating to the prior year were charged to retained earnings. There is an outstanding amount relating to interest and penalties as at 31 May 2023 that management is requesting a waiver from the Ministry of Finance.

28. SUBSEQUENT EVENT

Although there are local and global uncertainties relating to the COVID 19 pandemic along with the war in Ukraine by Russia the Company, is no longer experiencing any material negative impact from these events.