Derrimon Trading Company Limited

Financial Statements

31 December 2018

McKENLEY
& ASSOCIATES
CHARTERED ACCOUNTANTS

"Continuous Improvement and Innovation are our Duties......"

Derrimon Trading Company Limited

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Independent Auditor's Report to the Members

Statutory Financial Statements

McKENLEY
& ASSOCIATES
CHARTERED ACCOUNTANTS

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Independent Auditor's Report

To the Members of
Derrimon Trading Company Limited

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of Derrimon Trading Company Limited (the Company) and its subsidiaries (together the Group) and the stand-alone financial position of the Company as at 31 December 2018, and of its consolidated and stand-alone financial performance and its consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act (the Act).

What we have audited

Derrimon Trading Company Limited's consolidated and stand-alone financial statements comprise:

- The Group and Company statements of comprehensive income for the year ended 31 December 2018.
- The Group and Company statements of financial position as at 31 December 2018.
- The Group and Company statements of changes in stockholders' equity for the year ended 31 December 2018.
- The Group and Company statements of cash flows for the year ended 31 December 2018.
- The notes to the financial statements, which include a summary of significant accounting policies.

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 consolidated and stand-alone 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

To the Members of
Derrimon Trading Company Limited

Our Audit Approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatements in the consolidated and stand-alone 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.

Our 2018 audit was planned and executed having regard to the fact that the operations of the Group remain largely unchanged from the prior year, except the 100% acquisition of a subsidiary on 6 September 2018.

Our Group audit approach

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The entities of the Group are all located in Jamaica. These entities maintain their own accounting records and report to the Group through the completion of consolidation packages. One company is audited by other independent accountants and it has adjusted its year end to report as at 31 December 2018, the effective year end of the Group. Based on the financial significance of the individual entities and our professional judgment, all the companies were selected for full scope audit procedures to achieve appropriate coverage on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand- alone financial statements for the year ended 31 December 2018. 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 forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the key audit matters to be communicated in our report relate, to the Group financial statements, as noted below:

Independent Auditor's Report

To the Members of
Derrimon Trading Company Limited

Key Audit Matters (continued)

- **Borrowings**

See notes 2 (v) and 25 to the financial statements for management's disclosures of related accounting policies, judgments and estimates.

As at 31 December 2018, long and short-term borrowings inclusive of preference shares and overdraft facilities represented $1.67 Billion or 40% of the total assets of the Group. The Group continues to be highly leveraged.

The Parent Company remains highly leveraged based on the use of debt to implement its structured growth strategy within the Group. Management had implemented strategies to improve its gross margins thereby improving its cash flows and its ability to meet its financial obligations as they fall due. Management has also restructured a significant portion of its short term to long term debt. The Parent Company continues to examine its financing options within the context of its debt management strategy and review its options based on the present improving market conditions as well as the risk profile of the Parent Company.

We reviewed the loan agreements and repayment schedules and noted that all the loans were being serviced on a timely basis as per the contractual agreements, principally by predetermined monthly deductions from the Company's bank accounts. We confirmed the balances, reviewed the maturity schedule for repayment, tested the interest calculations and determined that the total borrowings represented obligations by the Company and Group. We did not identify any negative correspondence from any financial institutions that indicated that the Company and the Group was in breach of its stipulated covenants or loan repayment terms. We tested the effectiveness of controls over the timely repayment of loans and other credit facilities and noted that they are compliant with the various agreements.

We challenged senior management regarding the growth and expansion strategy using debt as the principal means of growth and expansion and the ultimate strategy to reduce debt capital over the long term. A downside to this strategy is the inherent liquidity risk that the cash generating units acquired, may not perform as expected resulting in the Company and Group being unable to meet its obligations as they fall due. Management have satisfied the concerns by providing us with evidence which supports the restructuring of a significant portion of its bullet payment short term debt to a syndicated long-term facility as well as the continued negotiation and increase in its credit facilities from commercial banks.

Management is mindful of this inherent liquidity risk. However, they are confident that their strategic growth and expansion plan will continue to perform based on historical performance and anticipated future positive trends, due to the encouraging economic factors being experienced in the marketplace. Management is of the opinion that effective safeguards are in place as they have implemented the necessary policies and procedures including scenario analysis, alternative payment strategies in the event of cash flow challenges and direct monitoring of the individual borrowings.

We evaluated the performance of the borrowing portfolio subsequent to the end of the reporting period to determine whether there was a need for any adjustment or whether there were any default or breach of any terms of financial covenants during the subsequent period that would permit any lender to demand accelerated repayment. There were no adverse findings. We also reviewed legal and bank confirmations and correspondences and we did not identify any negative matters or need for adjustment at the time of approval and signing of the audit report by the Board of Directors.

Independent Auditor's Report

To the Members of
Derrimon Trading Company Limited

Other Information

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

Our opinion on the consolidated financial statements does not cover Other Information and we do not express any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information referred to above when it becomes available and, in doing so, we will consider whether the other information is materially consistent with the consolidated financial statements or whether knowledge obtained by us from the audit, or otherwise, appear to indicate any material misstatements.

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

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

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

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group and 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 Group, Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated and stand-alone 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 consolidated and stand-alone financial statements.

Independent Auditor's Report

To the Members of
Derrimon Trading Company Limited

Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated and stand-alone 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group' and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- 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 Group and 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 consolidated and stand-alone 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 Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial. statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with the Board of Directors of the Group 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 the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period

Independent Auditor's Report

To the Members of
Derrimon Trading Company Limited

Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements (continued)

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.

Report on other legal and regulatory requirements

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

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone 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 Wilfred McKenley.

McKenley + Associates

Chartered Accountants

27 February 2019
Kingston, Jamaica

Derrimon Trading Company Limited

Group Statement of Comprehensive Income

Year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Revenue			
Trading income	2(g)	9,303,460	6,723,810
Less cost of sales		7,612,427	5,388,010
Gross profit		1,691,033	1,335,800
Other income	5	66,248	257,128
		1,757,281	1,592,928
Less operating expenses:			
Administrative	6	(1,069,495)	(1,005,566)
Selling & distribution	6	(233,718)	(135,665)
		(1,303,213)	(1,141,231)
Operating profit before finance costs		454,068	451,697
Finance costs	6	(172,223)	(169,901)
Profit before taxation		281,845	281,796
Taxation	11	4,632	-
Net profit being total comprehensive income		277,213	281,796
Net Profit Attributable to:			
Stockholders of the company		249,120	252,369
Non-controlling interests		28,093	29,427
		277,213	281,796
		$	$
Earnings per share	14	0.091	0.092

Derrimon Trading Company Limited
Group Statement of Financial Position
31 December 2018

	Note	2018	2017
		$'000	$'000
Non-current assets:			
Property, plant and equipment	15	457,651	387,007
Goodwill	16	163,940	33,220
Investments		180,411	*95,845
Intangible assets	16	233,478	256,523
Current assets:			
Inventories	17	1,280,787	795,551
Receivables	18	1,166,946	887,212
Taxation recoverable		5,999	5,209
Investments	20	170,132	*161,131
Cash and cash equivalents	21	388,751	265,521
		3,012,615	2,114,624
Current liabilities:			
Payables	22	1,149,544	791,036
Short term loans	23	736,416	29,976
Current portion of borrowings	25	69,636	258,766
Bank overdraft	26	-	17,949
Taxation payable		8,525	-
		1,964,121	1,097,727
Net current assets		1,048,494	1,016,897
		2,083,974	1,789,492
Shareholder's equity			
Share capital	27	140,044	140,044
Capital reserves	12	94,638	133,053
Investment revaluation reserve	13	614	614
Retained earnings		820,343	590,357
		1,055,639	864,068
Non-controlling interests	24	162,597	171,107
		1,218,236	1,035,175
Non-current liabilities:			
Borrowings	25	862,658	754,317
Deferred tax liability		3,080	-
Total equity and non-current liabilities		2,083,974	1,789,492

*reclassified for comparative purposes

Approved for issue by the Board of Directors on 27 February 2019 and signed on its behalf by:

Derrick Cotterell
Director

Ian Kelly
Director

Derrimon Trading Company Limited
Group Statement of Cash Flows
Year ended 31 December 2018

	Attributable to the Company's Shareholders					
	Share Capital	Capital Reserves	Retained Earnings	Investment Revaluation Reserve	Non-controlling Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2017	140,044	-	337,988	614	-	478,646
Net profit for 2017, being total comprehensive income	-	-	252,369	-	29,427	281,796
Realised gains on disposal of shares	-	39,104	-	-	-	39,104
NCI: acquisition of subsidiary	-	-	-	-	141,680	141,680
Movement during the year	-	93,949	-	-	-	93,949
Balance at 1 January 2018	140,044	133,053	590,357	*614	171,107	1,035,175
Net profit for 2018, being total comprehensive income	-	-	249,120	-	28,093	277,213
Dividend payment	-	-	(19,134)	-	-	(19,134)
Movement during the year	-	(38,415)	-	-	(36,603)	(75,018)
Balance: 31 December 2018	140,044	94,638	820,343	614	162,597	1,218,236

- Unrealised gain/ (loss) on shares quoted on the Jamaica Stock Exchange classified as available-for-sale.

Derrimon Trading Company Limited
Group Statement of Cash Flows
Year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities:			
Net profit		277,213	281,796
Items not affecting cash resources:			
Depreciation	15	83,655	51,852
Investment revaluation adjustment		(38,414)	37,135
Capital reserve		-	(689)
Profit on disposal of fixed assets		(669)	-
Interest income		(7,030)	(9,210)
Finance cost		171,089	169,908
Acquisition adjustments		-	(29,427)
Operating income before changes in operating assets and liabilities		485,844	501,365
Changes in non-cash working capital components:			
Inventories		(446,601)	189,451
Short-term Investments		-	(154,495)
Related company balances		-	834
Receivables		(158,353)	(154,112)
Prepayments		-	121,141
Payables		330,348	19,027
Taxation payable		8,468	-
Taxation recoverable		(789)	-
		(266,927)	21,846
Cash (used in)/generated by operation		205,275	523,211
Finance cost		(170,376)	(169,098)
Net cash provided by operating activities		34,899	354,113
Cash flows from Investment activities:			
Interest income		7,030	9,210
Investments in subsidiary		86,843	(244,116)
Proceeds from sale of fixed assets		1,650	-
Acquisition of subsidiary		(355,000)	-
Investment in joint operations		(148,350)	-
Realized gains on disposal of shares in subsidiary		-	39,103
Purchase of fixed assets	15	(159,676)	(247,022)
Purchase cost of goodwill		-	(18,000)
Net cash used in investment activities		(567,503)	(460,825)
Financing activities:			
Loans received during the year		817,456	353,259
Repayment of loans		(191,806)	(194,296)
Dividends paid		(38,427)	-
Interest expense		(713)	(804)
Net cash used in financing activities		586,510	158,159
Net increase in cash and cash equivalents		53,906	51,447
Net cash balances at beginning of year		247,572	196,125
Adjustment to include Woodcats International Limited		87,273	-
Net cash and cash equivalents at end of year		388,751	247,572
Represented by:			-
Cash on hand		51,303	-
Cash and cash equivalents	21	337,449	265,521
Bank overdraft	26	-	(17,949)
		388,751	247,572

Derrimon Trading Company Limited

Company Statement of Comprehensive Income

Year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue			
Trading income	2(g)	8,759,236	6,346,526
Less cost of sales		7,244,705	5,162,896
Gross profit		1,514,531	1,183,630
Other income	5	44,406	38,562
		1,558,937	1,222,192
Less operating expenses:			
Administrative	6	964,031	923,899
Selling & distribution	6	228,106	131,229
		1,192,137	1,055,128
Operating profit before finance costs		366,800	167,064
Finance costs	6	(170,376)	(169,098)
Gain on acquisition of subsidiary	5	-	206,349
Profit before taxation		196,424	204,315
Taxation	11	-	-
Net profit		196,424	204,315
Other comprehensive Income, net of taxes		-	-
Total comprehensive income		196,424	204,315
		$	$
Earnings per share	14	0.074	0.075

Derrimon Trading Company Limited
Company Statement of Financial Position
31 December 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	380,199	371,557
Goodwill	16	33,220	33,220
Investment in joint venture	10	148,351	-
Investment in subsidiaries	10	793,722	438,720
Current assets:			
Inventories	17	1,111,289	710,595
Receivables	18	953,980	820,408
Investments	20	15,736	124,362
Cash and cash equivalents	21	298,539	177,140
		2,379,544	1,832,505
Current liabilities:			
Payables	22	1,090,545	780,475
Short term loans	23	736,416	29,975
Current portion of borrowings	25	67,105	256,527
Bank overdraft	26	-	17,949
		1,894,066	1,084,926
Net current assets		485,478	747,579
Total assets less current liabilities		1,840,970	1,591,076
EQUITY			
Share capital	27	140,044	140,044
Capital reserves	12	94,638	133,052
Investment revaluation reserve	13	614	614
Retained earnings		747,914	570,622
		983,210	844,332
Non-current liability:			
Borrowings	25	857,760	746,744
Total equity and non-current liabilities		1,840,970	1,591,076

Approved for issue by the Board of Directors on 27 February 2019 signed on its behalf by:

Derrick Cotterel
Director

Ian Kelly
Director

Derrimon Trading Company Limited
Company Statement of Financial Position
31 December 2018

	Share Capital $'000	Retained Earnings $'000	Investment Revaluation Reserve $'000	Capital Reserves $'000	Total $'000
Balance at 31 December 2015	140,044	250,200	614	57,503	448,361
Net profit for 2016	-	116,107	-	-	116,107
Balance at 31 December 2016	140,044	366,307	614	57,503	564,468
Net profit for 2017	-	204,315	-	-	204,315
Realised gains on disposal of shares	-	-	-	39,103	39,103
Increase in capital reserve	-	-	-	36,446	36,446
Balance at 31 December 2017	140,044	570,622	*614	133,052	844,332
Net profit for 2018	-	196,424	-	-	196,424
Dividends	-	(19,132)	-	-	(19,132)
Decrease in capital reserve	-	-	-	(38,414)	(38,414)
Balance at 31 December 2018	140,044	747,914	614	94,638	983,210

Derrimon Trading Company Limited

Company Statement of Cash Flows

Year ended 31 December 2018

	Note	2018	2017
		$'000	$'000
Cash flows from operating activities:			
Net profit		196,424	204,315
Items not affecting cash resources:			
Depreciation	15	49,498	48,854
Capital reserves		(38,414)	(689)
Investment revaluation		-	37,138
Gain on sale of fixed assets		(669)	-
Interest income		(1)	(451)
Finance costs		170,376	169,098
Operating income before changes in operating assets and liabilities		377,214	458,265
Changes in non-cash working capital components:			
Inventories		(400,694)	195,231
Related company balances		-	834
Receivables		(281,190)	(139,749)
Prepayments		-	120,619
Payables		457,690	8,443
		(224,194)	185,378
Cash generated by/ (used in) operations		153,020	643,643
Finance costs		(170,376)	(169,098)
Net cash used in operating activities		(17,356)	474,545
Investment activities:			
Interest income		1	451
Investments		108,624	(112,184)
Proceeds from sale of property, plant and equipment		1,650	-
Investment in associate		(355,000)	(244,116)
Investment in Joint Venture		(148,351)	-
Purchase of property, plant and equipment	15	(59,120)	(244,283)
Purchase cost of goodwill		-	(18,000)
Realized gain on disposal of shares		-	39,103
Net cash used in investment activities		(452,196)	(579,029)
Financing activities:			
Loans received during the year		817,456	356,777
Repayment of loans		(189,422)	(194,296)
Dividends paid		(19,133)	-
Net cash provided by financing activities		608,900	162,481
Net increase in cash and cash equivalents		139,348	57,997
Net cash balances at beginning of year		159,191	101,194
Net cash and cash equivalents at end of year		298,539	159,191
Represented by:			
Cash and cash equivalents	21	298,539	177,140
Bank overdraft	26	-	(17,949)
		298,539	159,191

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

Derrimon Trading Company Limited (the Company) is a company limited by shares, incorporated and domiciled in Jamaica. The Company registered office is located at 233 and 235 Marcus Garvey Drive, Kingston 11. The Company was incorporated in 1998.

The principal activities of the Company include the wholesale and bulk distribution of household and food items inclusive of meat products, chilled and ambient beverages and the retailing of those and other food items and meat products through the operation of a chain of outlets and supermarkets. The Company's subsidiaries are involved in manufacturing of flavours and fragrances along with wooden pallets.

Derrimon Trading Company Limited together with its subsidiaries are referred to as the "Group".

Effective 17 December 2013, the Company's shares were listed on the Junior Market of the Jamaican Stock Exchange (JSE).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accountant Standards Board (IASB.)

Going concern

The preparation of the financial statements in accordance with IFRS assumes that the Group will continue in operational existence for the foreseeable future. This means, in part, that the statements of profit or loss and comprehensive income and financial position were prepared on the basis that there is no intention or necessity to liquidate or curtail the scale of operations. This is referred to as the going concern principle.

Management principally uses borrowings as a means of growth and expansion. This strategy has an inherent liquidity risk that the cash generating units acquired using debt may not perform as expected and result in cash flow challenges. Management is mindful of this inherent liquidity risk. They are confident that their strategic growth and expansion strategy and plan will perform as anticipated and along with management's access to further credit facilities, they do not anticipate any going concern challenges within the foreseeable future.

Management has prepared the financial statements of the Group as a going concern. The Group and Company are expected to continue in operation for the foreseeable future. Management has neither the intention nor have they considered the need to liquidate or significantly curtail the scale of its operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation

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;
- Available-for-sale financial assets;
- Revaluation of certain property, plant and equipment; and
- Initial recognition of assets acquired, and liabilities assumed in subsidiaries and joint arrangement.

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

Functional and presentation currency

The Group's functional and presentational currency is the Jamaican dollar (JAD$).

Key sources of estimation and critical judgments

The preparation of the financial statements in accordance with IFRS requires Management to make judgments and estimates that may 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 these consolidated and stand alone financial statements. The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

Judgments are made in the selection and assessment of the Group 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 periods affected.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key sources of estimation and critical judgments (Continued)

Operating segments information

Judgment – Management uses judgment in determining the similarity of the economic characteristic of the segments for aggregation.

Impairment of assets

Judgment – Management uses judgment in determining the grouping of assets to identify the Cash-Generating Units ("CGUs") for the purposes of testing for impairment of property, plant and equipment ("PPE"), Intangibles and Goodwill. Management has determined that its three (3) strategic business units are its CGUs which comprise Distribution (Household products, detergents and bulk foods), Wholesale (Trading outlets and supermarkets) and Other Operations (Manufacturer of Flavours and Fragrances). In testing for impairment of PPE, these assets are allocated to the CGUs to which they relate.

Judgment has been used, at each reporting date, in determining whether there has been an indication of impairment which would require the completion of impairment testing.

Estimation – Management's estimates of a CGUs' recoverable based on value-in-use involves estimating future cash flows before taxes. Future cash flows are estimated based on a multi-year extrapolation of the last five years historical actual results and a terminal value by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on the Bank of Jamaica's target inflation rate or Management's estimate of the growth rate specific to the individual item being tested. The future cash flow estimates are then discounted to their present value using the appropriate pre-tax discount rate which includes a risk premium specific to the business. The final determination of a CGUs' recoverable amount is based on fair value less cost to sell and its value-in-use.

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. 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 prior to its impairment. The reversal is also recognized in the statement of comprehensive income.

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 in 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.

The Parent Company's 100% tax remission expired 16 December 2018, and the Company is now subject to 50% tax remission for the next five (5) years. See note 11 for additional details.

Derrimon Trading Company Limited

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key sources of estimation and critical judgments (Continued)

Consolidation

Judgment – The Company uses judgment in determining the entities that it controls and accordingly consolidates. An entity is controlled when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the number of returns it receives from the entity. If facts and circumstances indicate that there are changes to one or more of the control elements, the Company reassess whether it still has control.

Joint arrangement

Judgment – Management applies judgment in determining the type of joint arrangement in which it is involved. The classification of the joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement, its structure and legal form, the terms agreed by the parties in the contractual arrangement, and when relevant, other facts and circumstances.

Investment property

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

Related parties and related party transactions

Judgment – Management uses judgment in determining the level of details to be disclosed. Consideration is given to the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction(s).

Depreciable assets

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

Inventories

Estimation – Inventories are carried at the lower of cost and net realized value. Cost being measured on the average cost basis. 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.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key sources of estimation and critical judgments (Continued)

Receivables

Estimation – Management's estimate of allowance on accounts receivable is based on analysis of the Aged Receivables and historical experience with delinquency and default. Default rates and the allowance amount are regularly reviewed against the actual outcomes to ensure that they remain appropriate.

Allowance for losses

Judgments: In determining amounts recorded for allowance for losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from accounts receivable and other financial assets from conditions such as repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired assets, including the net realizable value of underlying collateral, as well as the timing of such cash flows. The adequacy of the allowance depends on the accuracy of these judgments and estimates.

Contingencies

In determining the existence of a contingent liability, management assesses the existence of:

- A possible obligation that arises from a past event and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or;

- A present obligation that arises from a past event but is not recognized because it is not possible that an outflow of economic benefit is required to settle or the amount of the obligation cannot be measured reliably. In estimating possible outflow of economic benefits In relation to a contingent liability, management, sometimes in consultation with experts such as legal counsel may or may not make provision in the financial statements based on judgments regarding possible outcomes according to specific but uncertain circumstances. Contingent liabilities are disclosed in the financial statements unless immaterial or the possibility of an outflow of economic benefits is remote.

Others

Estimation – Other estimates include measuring payables and accruals and in measuring fair values of financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards, interpretations and amendments to published standards effective in the current year.

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

- **IFRS 9 'Financial Instruments',** which is effective for accounting periods beginning on or after 1 January 2018.

  In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments,* which brings together the classification and measurement, impairment and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instrument: Recognition and Measurement.* IFRS 9 principal focus includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets; and new disclosure requirements about expected credit loss and credit risk. For hedge accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

  Management, based on its overall assessment of the effects of applying this new standard does not expect it to have any significant impact on the company's financial statements.

- **IFRS 15, 'Revenue from Contracts with Customers',** effective for accounting periods beginning on or after 1 January 2018.

  In May 2014, the IASB issued IFRS 15 – *Revenue from contracts with customers,* which replace IAS 11 – *Construction contracts, IAS 18 – Revenue and International Financial Reporting Interpretation Committee* ("IFRIC") 13 – *Customer loyalty p*rogram *(IFRIC 13),* as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. It also contains enhanced disclosure requirements.

  The standard deals with revenue recognition and establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

  Management does not expect it to have any significant impact on the company's financial statements

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following new standards, amendments, and interpretations have been issued and may impact the financial statements, but have not been early adopted by the Company. The Company has assessed the relevance of all such standards, interpretations and amendments and has determined that the following may be relevant to its operations. Unless stated otherwise, the impact of the changes is still being assessed by the management of the Company.

- **IFRS 16 'leases,'** which is effective for accounting periods beginning on or after 1 January 2019.

  This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use,' for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets.

- **Amendments to IAS 19, 'Employee benefits'** on plan amendment, curtailment or settlement, effective for annual period beginning on or after 1 January 2019. Management has no intention of implementing an employment benefit scheme and therefore this amendment will have no impact on the financial statements when it becomes applicable

- **IFRIC 23, 'Uncertainty over income tax treatments',** effective for annual periods beginning on or after 1 January 2019**.** This IFRIC amendment clarifies how the recognition and measurement requirements of IAS 12, 'Income Taxes' are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether the treatment will be accepted by the tax authority.

- **Annual Improvements to IFRS 2015-2017 Cycle – Amendments to IFRS, IAS 12 and IAS 23,** effective for annual periods beginning on or after 1 January 2019, the amendment to IFRIS 3 clarifies how a company re-measures its previously held interest in a joint operation when it obtains control of a business. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises. The amendment to IAS 32 clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

  The Company is assessing the likely impact of future adoption of these likely changes and other IFRS or IFRIC interpretations that are not yet effective and has determined that these standards are not expected to have any material impact on the accounting policies or financial disclosures of the Company and Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effect of Changes in Accounting Policies.

The Group adopted IFRS 15 and IFRS 9, effective 1 January 2018. There were no changes as a result of the adoption of IFRS 15 as the Company and its subsidiaries revenue is recognized at a specific point in time. The Group is primarily involved in bulk goods and beverage distribution, retail trading through its Cash and Carry, Outlets and chain of supermarkets.

In adopting IFRS 9, the Group applied the Expected Credit Loss model and used the Simplified method when determining impairment losses on its financial assets measured at amortized cost. This was principally adopted in respect of its receivable balances. The overall effect of this policy adopted by the Group did not have any material impact on the provisions against its receivables. During the year ended 31 December 2018, management had adopted a policy of writing off all balances over 90 days that were tested and considered to be uncollectible. As a consequence, at 31 December 2018, no additional provision was considered necessary based on the impairment model adopted by management.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated, and have been applied consistently throughout the Group.

(a) Basis of consolidation

These consolidated financial statements include the accounts of Derrimon Trading Company Limited (DTCL) and entities it controls. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its returns from the entity. The results of the Group's subsidiaries have been prepared to align with the Group's reporting date.

The results of the Company's two (2) subsidiaries, Caribbean Flavours and Fragrances Limited (CFFL) and Woodcats International Company Limited have been included in these consolidated financial statements for the twelve (12) months ended 31 December 2018. The year-end of CFFL was changed from 30 June to 31 December to coincide with that of the Parent Company. The year-end of DTCL and Select Grocers Supermarket is 31 December 2018. In addition, the year-end of Woodcats was also adjusted from 31 January to 31 December to align with that of the Parent Company. The results from the date of acquisition, 6 September 2018, was also incorporated into the consolidation of the Group.

Income or loss and each component of Other Comprehensive (OCI)I are attributed to the shareholders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance on consolidation.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

The consolidated financial statements include the financial statements of the Company and its holdings in Select Grocers and its subsidiaries, CFFL and Woodcats International Company Limited as follows:

Entity	Principal Activity	% Ownership by Company at 31 December 2018	% Ownership by Company at 31 December 2017
CFFL	Manufacture of Flavours and Fragrances the Group at 31 December 2018	62,.02%	62.02%
Select Grocers	Operation of Supermarket	60%	60%
Woodcats International Limited	Manufacturers of wooden pallets	100%	0%

DCTL, at 31 December 2018, owns 62.02% of the shares of CFFL, the same percentage as the prior year.

DCTL continues to hold 60% holding in the joint arrangement with Select Grocers and accounts for this entity by incorporating 60% of its assets, liabilities, revenue and expenses into the financial statements of the Parent Company.

On September 6, 2018, Derrimon Trading Company Limited acquired 100% of the shares of Woodcats International Limited, a manufacturer of wooden pallets, making it a subsidiary of the Company.

(b) Joint arrangement

A joint arrangement is an arrangement in which two or more parties have joint control.

Joint control is the contractually agreed sharing of control whereby decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is classified as a joint operation when the parties that has joint control of the arrangement have rights to the assets and obligations for the liabilities related to the arrangement. The Company records its share of the joint operation's assets, liabilities, revenues and expenses.

(c) Business combination

The company applies the acquisition method in accounting for a business combination.

The consideration transferred by the company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of the assets transferred, liabilities assumed, and the equity interests issued by the company.

The company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the company's financial statements prior to the acquisition. Assets acquired, and liabilities assumed are generally measured at their acquisition-date fair value.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Business combination (continued)

Any Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of the identifiable net assets. If the fair values of the identifiable net assets exceed the sum calculated above, the excess amount i.e., gain on a bargain purchase, is recognized in profit or loss immediately.

Transaction costs that the Company incurs in connection with a business combination are expensed immediately.

(d) Segment reporting

An operating segment is a component of the Company:

a. That engages in business activities from which it may earn revenues and incur expenses (including intra-company revenues and expenses),
b. Whose operating results are regularly reviewed by the Company's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and
c. For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

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 three (3) (2017- three (3)) strategic business units which offer differentiated volume and price to its customers.

The primary operating segments (reportable business units) are:

Distribution (Household products, chilled and ambient beverages, detergents and bulk foods);

Wholesale (Trading outlets and supermarkets); and

Other Operations (Manufacturer of Flavours and Fragrances, pallets and by products of wood)

During the year, the beverage and ambient beverages division was added to the distribution segment because the Company entered into an agreement with SM Jahleel and Company Limited to distribute its beverage products. The pallets and by products of wood, were added to the other operations segment as a result of the 100% acquisition of Woodcats International Limited, resulting in the company becoming a part of the Group.

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

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

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

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

Buildings	2.5%
Leasehold improvements	2.5%
Machinery and equipment	10.0%
Furniture, fittings and fixtures	20.0%
Motor vehicles	20.0%
Computer	33.33%

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 expenditure 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 originally 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax, returns and discounts and after eliminating sales within the Group.

The Group recognizes revenue in the income statement when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group, where the significant risks and rewards of ownership have been transferred to the buyer and specific criteria have been met in relation to the Group's activities as described below:

Sale of goods

Sales are recognized upon delivery of products and customer acceptance of the products and collectability of the related receivables is reasonably assured. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration that is due for the delivery and supply of goods.

Services rendered

Revenue from the provision of services is recognized when the service has been provided to customers.

Interest income

Interest income is recognized in profit or loss for all interest-bearing instruments on an accrual basis unless collectability is doubtful.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Other operating income

Other operating income includes gains on disposal of assets recognized when received, rental of investment property recognized when earned, and miscellaneous inflows recognized when received.

(h) Foreign currency translation

Transactions in foreign currencies are translated into Jamaican dollars at rates in effect at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into Jamaican dollars at the closing exchange rate at the statement of financial position date. Non-monetary assets and liabilities in foreign currencies that are measured in terms of historical cost are translated into Jamaican dollars at the exchange rate in effect at the date of the transaction or initial recognition. Non-monetary items in foreign currencies that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses arising from translation are generally included in profit or loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments – recognition and measurement

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

Financial assets and liabilities:

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 required to be 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 that are directly attributable to the acquisition or issue of financial assets and financial liabilities, except those classified as *fair value through profit or loss ("FVTPL")*, are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities classified as *fair value through profit or loss* are recognized immediately in net income.

The Company classifies financial instruments, at the time of initial recognition, according to their characteristic and Management's choice and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include:

a. FVTPL
b. Held-to-maturity investments
c. Available-for-sale, and
d. Loans and receivables

Classification choices for financial liabilities include:

a. FVTPL; and
b. Other liabilities

The Company's financial assets and financial liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Receivables	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Cash and cash equivalents	Loans and receivables	Amortized cost
Related party receivable	Loans and receivables	Amortized cost
Bank overdraft	Other liabilities	Amortized cost
Payables	Other liabilities	Amortized cost
Short term loans	Other liabilities	Amortized cost
Long-term borrowing	Other liabilities	Amortized cost

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Available-for-sale

Financial assets classified as available-for-sale are measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI") until realized through disposal or other than temporary impairment, at which point the change in fair value is recognized in net income. Dividend income from available-for-sale financial assets is recognized in net income when the Company's right to receive payments is established. Interest income on available-for-sale financial assets, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are 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 asset is de-recognized or impaired.

Other liabilities

Subsequent to initial recognition, other financial liabilities are 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.

De-recognition 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 expire.

(j) Inventories

Inventories are carried at the lower of cost 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.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Related parties' 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 Company:

(a) **A person or close member of that person's family is related to the Company if that person:**

- Has control or joint control over the Company;
- 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.

(b) **An entity is related to the Company if any of the following conditions applies:**

- The Company, its subsidiary and joint operation 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 related to the Group 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).
- The company, or any member of a group of which it is a part, provides key management personnel services to the company or to the parent of the company.

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

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income taxes

Taxation expense in profit or loss comprises current and deferred tax charges

i. Current Taxation

Current tax charges are based on taxable profit for the year, which differs from the reported profit before tax because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted at the date of the statement of financial position.

ii. Deferred Taxation

Deferred tax is the tax expected to be paid or received on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is charged or credited to profit or loss, except where it related to items charged or credited to other comprehensive income or equity, in which cases, deferred tax is also dealt with in other comprehensive income or equity.

At 31 December 2018, deferred tax was accounted for because DTCL 100% tax free remission status expired 16 December 2018. DTCL will be subject to 50% income tax on its taxable profits from 17 December 2018 to 16 Decembver 2013.See note 11 for further details..

The other subsidiaries of the Group are subject to income tax as follows:

(i) CFFL, is also listed on the Junior Market of the JSE and effective 3 October 2018, its 100% tax free status expired and it is now subject to income tax at 50% of its taxable profits for the next five (5) years to 2 October 2023,

(ii) The other subsidiary, Woodcats, is not listed on the Junior Market of the JSE and is subject to payment of full income tax.

(m) 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 carrying amount of the asset 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 in the statement of comprehensive income. With the adoption of IFRS 9, effective 1 January 2018, management has increased its vigilance in writing off all amounts over 90 days that are considered to be doubtful.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Prepayments

Prepayments are partial or full settlements of debt or expenses before the contractually obligated due date, this includes advances and deposits.

(o) Investments

Investments are highly liquid instruments, primarily bonds and equities in both Jamaican and United States dollar denominations, with an original term to maturity of more than three months.

(p) Cash and cash equivalents

Cash and cash equivalents are defined as cash-in-hand and at-bank

Bank overdrafts are repayable on demand and form part of the Group's cash management activities and are included as a component of net cash resources for the purposes of the statement of cash flows.

(q) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of identifiable assets acquired and liabilities assumed in a business combination. Goodwill is measured at cost less accumulated impairment Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognised goodwill is tested for impairment annually and carried at cost less accumulated impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is assigned to cash generating units that are expected to benefit from the synergies of the combination.

The Group and Company assess goodwill for impairment at least on an annual basis or when events or circumstance indicates that the carrying value may be impaired.

Research and development

Expenditures on research and development activities are expensed as incurred.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor
When the Company is the lessor in an operating lease, rental income is recognized in net income on a straight-line basis over the term of the lease.

Lessee
When the Company is the lessee in an operating lease, rent payments are charged to profit or loss on a straight-line basis over the term of the lease. Lease incentives are amortized on a straight-line basis over the terms of the respective leases.

Assets under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Consolidated Balance Sheets as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligations, so as to achieve a constant rate of interest on the remaining balance of the liability

(s) Impairment of assets

The carrying amounts of property, plant and equipment, investment property, and intangible assets with finite useful lives are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. Indicators of impairment may include a significant decline in asset market value, material adverse changes in the external operating environment which affect the manner in which the asset is used or is expected to be used, obsolescence, or physical damage of the asset. If any such indicators exist, then the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized but are tested for impairment at least annually or whenever there is an indicator that the asset may be impaired.

Cash generating units

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. The CGUs correspond to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired in a business combination is allocated to each of the CGUs (or groups of CGUs) expected to benefit from the synergies of the combination. Intangible assets with indefinite useful lives are allocated to the CGU to which they relate.
Management’s policy is to principally write down Goodwill when an entity’s cash generation capacity is unlikely to generate profits in an adverse economic environment.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Impairment of assets (Continued)

Determining the recoverable amount

An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its fair value less costs to sell (“FVLCS”) and its Value-In-Use (VIU). In assessing VIU, the estimated future cash flows are discounted to their present value. Cash flows are discounted using a pre-tax discount rate that includes a risk premium specific to each line of business. The Company estimates future cash flows based on a multi-year extrapolation of the last five years historical actual results and a terminal value by discounting the final year in perpetuity. The growth rate applied to the terminal values is based on the Bank of Jamaica’s target inflation rate or a growth rate specific to the individual item being tested based on management’s estimate.

Recording impairments and reversals of impairments

Impairments and reversals of impairments are recognized in other income in the Consolidated Statements of Income. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU. Impairments of goodwill cannot be reversed. Impairments of other assets recognized in prior periods are assessed at the end of each reporting period to determine if the indicators of impairment have reversed or no longer exist. An impairment loss is reversed if the estimated recoverable amount exceeds the carrying amount. The increased carrying amount of an asset attributable to a reversal of impairment may not exceed the carrying amount that would have been determined had no impairment been recognized in prior periods.

(t) Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and termination benefits.

Employee benefits that are earned as a result of past or current service are recognized in the following manner: short-term employee benefits are recognized as a liability, net of payments made, and charged as an expense. The expected cost of vacation leave that accumulates is recognized when the employee becomes entitled to the leave.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Pension and employee benefits

The Company does not have a Pension Plan; however, it has implemented an Individual Retirement Account (IRA) Scheme for some categories of staff operated by an Insurance Company. The Company contributes a fixed amount to this Scheme for each participating individual. The Company recognizes a liability and an expense for its contribution to the Scheme.

(v) Borrowings and borrowing costs

Short-term loans and long-term borrowings

Borrowings are classified as current when the Company expects to settle the liability in its normal operating cycle, it holds the liability primarily for the purpose of 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 of the consolidated statement of financial position, otherwise, it is classified as long-term. Subsequent to initial recognition, Borrowings 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 cost and interest

Borrowing costs and interests 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 and interests are recognized in profit or loss in the period in which they are incurred.

(w) Payables and accruals

Trade payables are obligations of the Group for goods or services acquired in the ordinary course of business from vendors and suppliers.

Payables for trade and other accounts payable at 31 December 2018, which are normally settled on 30 to 90 days terms, are recorded at original invoice amount or an amount representing the fair value of the consideration to be paid in the future for goods or services received by the Group.

Amounts accrued for certain expenses are based on estimates and are included in payables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Share capital, dividends and distributions

Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted, net of tax from proceeds.

Dividends

Dividends declared and payable to the Company's shareholders are recognized as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the Company's Board of Directors.

Distributions

Distributions to non-controlling interest are recognized as a liability in the consolidated statement of financial position in the period in which the distributions are declared.

(y) Earnings per share

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

(z) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings and bank charges. Borrowing costs are recognized in profit or loss using the effective interest method.

(aa) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised 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.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) Non-controlling interests

Equity in the controlled entities not attributable, directly or indirectly, to the Company, is considered non-controlling interest. When the proportion of the equity held by non-controlling interest's changes, the Company adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interest in the controlled entities. The Company recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the shareholders of the Company.

(cc) Comparative information

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

3. FUNCTIONAL AND PRESENTATION CURRENCY

The Group's functional and presentation currency is the Jamaican dollar (JAD$).

4. SEGMENTAL FINANCIAL INFORMATION

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

The Group operates three (3) segments. Two (2) segments are exposed to similar risks as they both sell household and grocery products and the third segment, which is new due to the consolidation of the subsidiary, manufactures flavor and fragrances. The principal divisions are:

(i) Distribution**-** distribution of Nestle household products, Sun Power Detergents and bulk food products and chilled and ambient beverages.

On 3 September 2018, the beverage division was added during the year as the Company was appointed as the exclusive distributor of SM Jahleel and Company Liminted, a Trinidadian entity,to distribute its range of soft drinks and juices in the Jamican marketplace.

(ii) Wholesale and retail **-** operation of seven (7) outlets, six trading under the name Sampars Cash and Carry and Sampars Outlets and the other under the name Select Grocers.

The distribution hub along with four (4) outlets is located in Kingston and Saint Andrew and the other three (3) locations are in rural Jamaica.

(iii) Other operations – manufacturer of flavours and fragrances and wooden pallets.

On 6 September 2018, the Company acquired 100% shareholding in Woodcats International Limited (WIL), a manufacture of wooden pallets and by products of wood such as mulch. The directors classified the operations of this entity under the 'other operations" segment.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

4. SEGMENTAL FINANCIAL INFORMATION (continued)

The Group

	2018			
	Distribution	Sampars Outlets	Other Operations	Total
	$'000	$'000	$'000	$'000
Revenue from external customers	8,759,236	460,044	84,180	9,303,460
Depreciation	15,265	34,234	5,580	55,079
Current liabilities	1,320,576	563,173	77,842	1,961,591
Current Assets	1,812,234	769,030	431,349	3,012,613

The Group

	2017			
	Distribution	Sampars Outlets	Other Operations	Total
	$'000	$'000	$'000	$'000
Revenue from external customers	2,411,364	3,924,160	377,284	6,723,808
Depreciation	20,314	28,540	2,998	51,852
Current liabilities	565,033	660,469	26,029	1,251,531
Current Assets	1,102,495	877,630	391,191	2,31,316

The Company

	2018		
	Distribution	Sampars and Select Grocers	Total
	$'000	$'000	$'000
Revenue from external customers	3,832,689	4,926,547	8,759,236
Depreciation	24,741	24,757	49,498
Current liabilities	1,381,128	563,173	1,944,301
Current Assets	1,812,233	769,030	2,581,263

The Company

	2017		
	Distribution	Sampars Outlets	Total
	$'000	$'000	$'000
Revenue from external customers	2,422,364	3,924,160	6,346,524
Depreciation	20,314	28,540	48,854
Current liabilities	565,033	660,469	1,225,502
Current Assets	1,102,495	877,630	1,980,125

Management provides individual segment accounting, on a weekly and monthly basis to the CEO.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

5. OTHER INCOME

	The Group		The Company	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Interest income	1	451	1	.451
Rental from warehouse space	31,294	22,399	31,294	22,400
Other income: insurance proceeds, bad debts recovered and dividends	34,953	28,378	13,111	16,161
	66,248	50,779	44,406	38,562
Gain on acquisition of subsidiary	-	206,349	-	206,349
	66,248	257,128	44,406	244,911

6. EXPENSES BY NATURE

	The Group		The Company	
Direct costs	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Cost of inventories recognized as an expense	7,612,427	5,388,010	7,244,705	5,162,896

	The Group		The Company	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Administrative expenses				
Directors fees and expenses	1,170	11,697	360	860
Insurance	52,399	44,089	48,557	42,067
Motor vehicle expenses	12,790	18,211	10,824	17,363
Professional services	68,103	50,268	62,508	46,074
Office expenses	22,165	26,310	18,473	23,110
Repairs and maintenance	29,334	28,611	26,557	27,707
Rental of equipment and office	139,995	132,091	125,180	123,952
Staff costs (note 7)	469,630	377,431	419,814	349,918
Security	32,367	23,614	30,057	22,336
Utilities	107,520	97,486	104,996	94,326
Depreciation	56,682	51,852	49,498	48,854
Travelling and accommodation	16,059	14,081	6,229	8,534
Other, including minimum business tax	61,281	124,190	60,978	118,798
Acquisition cost	-	5,635	-	-
	1,069,495	1,005,566	964,031	923,899

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

6. EXPENSES BY NATURE (Continued)

	The Group		The Company	
Selling and distribution	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Advertising and promotion	77,860	39,537	76,170	35,949
Commission	13,905	13,905	13,905	13,905
Bad debts written off	12,042	12,256	11,556	12,256
Trucking and delivery	129,911	69,966	126,475	69,118
	233,718	135,664	228,106	131,228

	The Group		The Company	
Finance costs	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Long term loans: Interest (including preference dividend)	110,259	106,532	106,001	106,533
Credit line interest and bank charges	61,964	63,369	60,640	62,565
	172,223	169,900	166,641	169,098

Expenses by nature include the total of cost of sales, distribution costs, administration and other expenses.

7. STAFF COSTS

	The Group		The Company	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Salaries and wages	501,975	318,123	383,155	301,287
Staff welfare	29,968	35,524	23,598	32,607
Contract services and other	39,547	23,784	13,061	16,024
	571,490	377,431	419,814	349,918

The average number of persons employed full-time by the Group during the year was 350 (2017 – 265) and part-time was 62 (2017- 21).

8. ACQUISITION OF CARIBBEAN FLAVOURS AND FRAGRANCES LIMITED

CFFL, a public listed company on the JSE Junior Market, is domiciled in Jamaica with registered offices at 226 Spanish Town Road, Kingston 11, Jamaica W.I. Its activities are the manufacturing and distribution of flavours for the beverages, baking and confectionery industries; and fragrances for household and general cleaning and sanitation purposes.

On 16 June 2017, the Company sold 13% of its ownership interest in CFFL, reducing its holdings from 75.02% to 62.02%., without losing control of CFFL.

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Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

8. JOINT OPERATION

Since March 2017, the Company has a 60% interest in Select Grocers, an unincorporated business. Select Grocers is operated as an "upscaled" supermarket positioned to capture the affluent middle classes. There was no change in the management and operation of this entity during the year.

Select Grocers: Summarized financial information as at 31 December

	2018 $'000		2017 $'000
Current assets	113,626		122,066
Cash and cash equivalents included in current assets	8,278		5,536
Non-current assets	143,544		146,467
Current liabilities	84,360		110,556
Non-current liabilities	6,000		9,000
Revenue	564,697		327,171
Depreciation	14,254		10,690
Interest expense	1,049		2,046
Profit before tax	24,218		18,336

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

10. INVESTMENT IN SUBSIDIARIES

	The Company	
	2018	**2017**
	$	**$**
	$'000	**$'000**
Investment at the beginning of the year	438,720	194,604
Re-measurement gain on acquisition	2	206,350
Amount settled in cash	-	105,206
Cost of shares resold	-	(67,440)
Balance at the end of the year	438,722	438,720
Acquisition of subsidiary	355,000	-
Total	793,722	438,720
Long-term Investment	148,351	-

As at 31 December 2018, the Company has a holding of 62.02% of the issued shares of CFFL.

On 6 September 2018, DTCL acquired 100% of the voting equity of Woodcats International Limited, a company whose principal activity is the manufacturer of wooden pallets and related wood products. Management noted that the principal reason for this acquisition was to secure supply of key materials (pallets) and reduce costs to the Group as well as to benefit from growth that is anticipated from the general expansion of the manufacturing sector of the economy. The Group also expects to use the in-house expertise in procurement and logistics in order to improve the efficiencies within this company as well as to drive revenue.

Details of the purchase consideration and the fair value of the identifiable assets and liabilities acquired and goodwill are as follows:

Fair value of consideration paid

	2018
	6 September
	$000
Cash	355,000
Total consideration	355,000
Fair value of identifiable assets and liabilities acquired	
Property, plant and equipment	59,795
Inventories	41,465
Receivables	98,213
Cash	44,905
Payables	(11,348)
Bank loan	(8,750)
Total net assets	224,280
Goodwill	130,720

Intangible assets of $130,720,000 were recognized on the acquisition of Woodcats, being the excess of the purchase consideration over the fair value of the net assets acquired as set out above. The net asset fair values, were determined, on the cost approach basis reflecting the amount that would be required to replace the service capacity of the business

The net book values were deemed the replacement costs at the acquisition date.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

11. TAXATION

Income tax is based on profit for the year, taxable at 25%, adjusted for taxation purposes and comprises:

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Income tax charge @ 25% (2017 - 25%)	4,633	-	1,033	-

The income tax charge on the Group's profit differs from the theoretical amount that arose using the statutory tax rate as follows:

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit before taxation	281,845	281,796	196,423	204,315
Income tax calculation at 25%	70,461	70,449	49,106	51,078
Net effect of other charges for tax purposes	9,518	(50,374)	3,746	(51,078)
Remission of tax	(75,346)	(20,075)	(51,819)	-
	4,633	-	1,033	-

Derrimon was listed on the Junior Market of the Jamaican Stock Exchange on 17 December 2013 and under the Income Tax Act (Jamaica Stock Exchange Junior Market) (Remission). Notice 2010, 100% of income taxes will be remitted by the Minister of Finance during the first five (5) years of listing, which expired 17 December 2018. DCTL is now reqpuired to account for income tax at 50% .during the second five (5) years, from 17 December 2018 to 16 December 2023. To obtain the remission of income taxes, the following conditions should be adhered to over the period:

Derrimon remains listed for at least 15 years and is not suspended from the JSE for any breaches of the rules of the JSE

The Subscribed Participating Voting Share Capital of Derrimon does not exceed $500 million

The Derrimon has at least 50 Participating Voting Shareholders.

The financial statements have been prepared on the basis that Derrimon will have the full benefit of the tax remissions. The period is as follows:

Years 1 to 5 (17 December 2013- 16 December 2018) – 100%
Years 6 to 10 (17 December 2018- 16 December 2023) - 50%

Derrimon's subsidiary, CFFL also benefits from tax remission as effective 2 October 2013, the Company's shares were listed on the Junior Market of the JSE. Effective 3 October 2018, the 100% remission status expired and CFFL is now subject to Income Tax at 50% for the year ended 331 December 2018. The Company is entitled to a remission of income taxes for (10) ten years in the following proportion:

Period 3 October 2013 – 2 October 2018 - 100% of standard rate.
Period 3 October 2018 – 2 October 2023 – 50% of standard rate.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

12. CAPITAL RESERVES

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Balance: 31 December	94,638	133,052	94,638	133,052

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Represented by:				
2011: Surplus on revaluation of fixed assets:	38,420	38,420	38,420	38,420
Realized gains on disposal of shares	689	39,103	689	39,103
2012: Surplus on revaluation of fixed assets:	55,529	55,529	55,529	55,529
	94,638	133,052	94,638	133,052

13. INVESTMENT RESERVE

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Opening balance: 1 January	614	614	614	614
Increase in revaluation of investments	-	-	-	-
Closing balance: 31 December	614	614	614	614

14. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on the Group's and Company net profit attributable to shareholders divided by the weighted average number of ordinary shares of 2,733,360,670 9 (2017- 2,733,360,067).

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Net profit attributable to shareholders	249,120	252,369	201,258	204,315
Weighted average number of ordinary shares in issue	2,733,361	2,733,361	2,733,361	2,733,361
Basic earnings per ordinary share	0.09	0.09	0.07	0.075

At the Company's Annual General Meeting held on 22 August 2018, the following resolution was approved:

"That each of the issued ordinary shares in the capital of the Company be subdivided into 10 ordinary shares with effect from the close of business on 6 September 2018, resulting in the total issued shares in the capital of the Company being increased from 273,336,067 ordinary shares of no-par value to 2,733,360,670 ordinary shares of no-par value". The 2017 earnings per share figure was restated based on the 10:1 share split.

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT

2018
The Group

	Furniture. & Equipment	Computer	Motor Vehicles	Building	Land	Lease hold Improvements	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation							
1 January 2018	248,545	20,440	62,082	49,499	15,933	160,453	556,952
Additions	68,673	2,618	53,534	-	-	34,851	159,676
Disposals	(3,160)	-	(7,970)	-	-		(11,131)
31 December 2018	313,987	23,058	107,646	49,499	15,933	195,304	705,497
Acc. Depreciation							
1 January 2018	98,825	16,461	40,004	7,917	3,413	3,825	169,945
Charge for year	57,710	1,594	18,018	-	-	6,333	83,655
Disposals	(1,426)	-	(4,899)	-	-	-	(6,325)
31 December 2018	155,109	18,055	53,123	7,917	3,413	10,158	247,275
Net book value							
31 December 2018	158,878	5,003	54,523	41,582	12,520	185,146	457,651

2017
The Group

	Furniture. & Equipment	Computer	Motor Vehicles	Building	Land	Lease hold Improvements	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation							
1 January 2017	114,225	18,776	61,998	49,499	15,933	49,499	309,711
Additions	134,320	1,664	84	-	-	110,954	247,022
Disposals	-	-	-	-	-	-	-
31 December 2017	248,545	20,440	62,082	49,499	15,933	160,453	556,952
Acc. Depreciation							
1 January 2017	68,477	13,481	24,246	6,851	3,353	1,6859	118,096
Charge for year	29,965	2,864	15,758	1,066	59	2,140	51,852
Disposals							
31 December 2017	98,825	16,461	40,004	7,917	3,413	3,825	169,945
Net book value							
31 December 2017	150,103	4,095	22,078	41,582	12,521	156,628	387,007

Derrimon Trading Company Limited
Notes to the Financial Statements
31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT (continued)

2018
The Company

	Furniture. & Equipment	Computer	Motor Vehicles	Building	Land	Lease hold Improvements	Total
	$'000	$'000	$'000	$'000	$''000	$'000	$'000
Cost or valuation							
1 January 2018	274,234	15,415	51,107	49,499	12,520	126,040	528,815
Additions	22,269	2,556	32,211	-	-	2,085	59,120
Disposals	-	-	(5,070)	-	-	-	(5,070)
31 December 2018	296,506	17,971	78,248	49,499	12,520	128,125	582,868
Acc. Depreciation							
1 January 2018	95,599	13,329	36,803	7,917	-	3,613	157,261
Charge for year	35,428	1,318	8,560	1,035	-	3,158	49,498
Disposals	-	-	(4,089)	-	-	-	(4,089)
31 December 2018	131,027	14,467	41,273	8,952	-	6,771	202,670
Net book value							
31 December 2018	165,479	3,324	36,974	40,547	12,520	121,354	380,199

2017
The Company

	Furniture. & Equipment	Computer	Motor Vehicles	Building	Land	Lease hold Improvements	Total
	$	$	$	$	$	$	$
Cost or valuation							
1 January 2017	141,958	13,803	51,023	49,499	12,520	15,732	284,535
Additions	132,279	1,612	84	-	-	110,308	244,283
Disposals	-	-	-	-	-	-	-
31 December 2017	274,234	15,415	51,107	49,499	12,520	126,040	528,818
Acc. Depreciation							
1 January 2017	65,551	11,046	23,332	6,851	-	1,627	108,407
Charge for year	30,048	2,283	13,471	1,066	-	1,986	48,854
Disposals	-	-	-	-	-	-	-
31 December 2017	95,599	13,329	36,803	7,917	-	3,613	157,261
Net book value							
31 December 2017	178,638	2,086	14,304	41,582	12,520	122,427	371,557

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

16. INTANGIBLE ASSETS

	The Group 2018		The Company Goodwill	
	Product formulations and customer relationships $'000	Goodwill $'000	2018 $'000	2017 $'000
Cost-				
At 1 January 2018	256,523	33,220	33,220	15,220
Movement during year	(23,045)	130,720	-	18,000
Acquisition of business	233,478	163,940	-	33,220
31 December 2018	233,478	163,940	33,220	33,220

During the year, the Group continued to use the name, *Sampars Cash and Carry* to brand six (6) of its retail outlets. The other supermarket, operated under the business name Select Grocers.

The Group determines whether goodwill is impaired on an annual basis or when events or changes in circumstances indicate the carrying value may be impaired. This requires an estimation of the recoverable amount of the cash-generating unit (CGU) to which the goodwill is allocated. The recoverable amount is determined by reference to the value in use which is based on the management's estimate of the expected future cash flows from the CGU using an agreed discount rate to calculate the present value of future cash flows.

After their computations and review, management is of the opinion, that there is no impairment in the total value of goodwill for each respective outlet (CGU) and therefore no write-down of the amount for goodwill is considered necessary at the reporting date.

17. INVENTORIES

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Sampars wholesale outlets and Select Grocers; grocery and household items	401,967	400,643	401,967	400,643
Wholesale bulk commodity food items	709,322	309,952	709,322	309,952
Subsidiaries: flavours and fragrances and pallet inventories	169,498	84,956	-	-
	1,280,787	795,551	1,111,289	710,595

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18. RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Receivables				
Trade receivables	920,602	347,902	745,082	287,190
Provision for bad debts	(33,233)	(31,180)	(32,380)	(30,748)
	887,369	316,722	712,702	256,442
GCT recoverable	-	314,305	-	314,305
Staff advances	6,911	13,493	4,242	12,048
Other receivables	272,666	242,692	237,036	237,613
	1,166,946	887,212	953,980	820,408

The following are the trade receivables aging as of 31 December 2018 and 2017.

The Group
Past due but not impaired

Year	0-60 days $'000	60-90 days $'000	Over 90 days $'000	Total $'000
2018	402,073	138,586	60,702	660,192
2017	439,388	5,417	50,715	495,521

The Company
Past due but not impaired

Year	0-30 days $'000	31-59 days $'000	60-90 days $'000	Over 90 days $'000	Total $'000
2018	331,925	109,041	35,590	45,213	521,769
2017	328,477	52,930	4,033	49,369	434,811

Movement in provision for bad debts against trade receivables:

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
At the start of the year	31,180		30,748	6,079
Amounts provided for during the year	2,053	31,180	1,632	24,669
At the end of the year	33,233	31,180	32,380	30,748

18. RECEIVABLES AND PREPAYMENTS (continued)

During the year, the Company wrote off $12,256,143 (2017- $13,252,868) to profit and loss after repeated attempts were made to collect long outstanding amounts. Management has deemed the current receivable balance to be collectible, as all doubtful amounts were written off during the year.

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19 RELATED PARTIES AND RELATED PARTIES TRANSACTIONS

Related party balances consist of the following:

(a) Due from related parties

	The Group and the Company	
Convenience Store:	2018 $'000	2017 $'000
Opening balance:	7,308	834
Purchases during the year	12,965	11,959
Amounts repaid based on invoices	(12,107)	(5,485)
Balance at the end of the year	8,166	7,308

The Convenience Store is an entity owned by a director. The balance is included in receivables on the Statement of Financial Position.

(b) Key management personnel

During the year the Group paid salaries and repaid loans from key management personnel.

(c) Transactions with related parties

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Remuneration paid to directors	61,482	39,674	36,687	28,424
Management fees received from subsidiary	(5,500)		(5,500)	-
Professional fees paid to a director for legal services	3,192		3,192	-
Fees paid to directors	1,170	1,465	360	860

Due to/ (from) CFFL

	2018 $'000	2017 $'000
Credit risk exposures are as follows:		
Opening balance:		-
Amounts loaned during the year	289,060	201
Amounts repaid during the year	(289,060)	(201)
Balance at the end of the year	-	-

Amounts were borrowed from and repaid by the Company to its subsidiary, CFFL during the year. Interest was charged on the loans at market rates.

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20. INVESTMENTS

	The Group		The Company	
	2018	2017	2018	2017
Available-for-Sale:	$'000	$'000	$'000	$'000
Bonds	4,956	* 23,315	4,956	119,158
Bonds – (US$)	-	3,566	-	3,567
Quoted equities – at cost	-	1,636	-	1,637
Jamaica Money market brokers Limited (US$)	106,639	69,889	-	-
NCB Capital markets (US $)	49,393	47,725	1,636	-
Mayberry Structured: Corporate Paper (MSCP)	9,144	15,000	9,144	-
	170,132	161,131	15,736	124,362

*reclassified for comparative purposes
Interest earned on bonds range between 3.9% -5%. The MSCP is at 11%.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Foreign currency accounts	25,133	88,485	12,811	12,508
Cash in hand and Jamaican dollar accounts	363,618	177,036	285,728	164,632
	388,751	265,521	298,539	177,140

The weighted average effective interest rate on Jamaican dollar and US dollar short term deposits was 2% (2017 – 3.8%) and 1% (2017 – 2.15%) respectively. These represent call deposits which are repayable on demand.

22. PAYABLES

	The Group		The Company	
	2018 $ $'000	2017 $ $'000	2018 $ $'000	2017 $ $'000
Staff related payables	19,577	3,538	7,579	3,538
Foreign trade payables	140,733	56,353	120,121	51,232
Local payables and accruals	975,339	724,951	953,013	721,056
Statutory liabilities	13,895	6,193	9,832	4,649
	1,149,544	791,035	1,090,545	780,475

23. SHORT TERM LOANS

	The Group and The Company	
	2018 $ $'000	2017 $ $'000
Credit lines with various financial institutions	736,416	29,975
	736,416	29,975

The credit lines are unsecured and used to purchase significant commodities sold by the Group.

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24. NON –CONTROLLING INTEREST

	The Group	
	2018	**2017**
	$	**$**
	$'000	**$'000**
Non- controlling interest in CFFL subsidiary	162,597	171,107

Summarized financial information on subsidiary with material non-controlling interest

Set out be below is the summarised financial information for the subsidiary that has non-controlling interest that are material to the Group.

Summarised statement of financial position

	The Group	
	2018	**2017**
	$	**$**
	$'000	**$'000**
Current -		
Assets	453,273	377,961
Liabilities-	42,414	26,028
Non- current net assets	21,196	15,450
Net assets	432,055	365,162

Summarised comprehensive income

	The Group	
	2017	**2017**
	$	**$**
	$'000	**$'000**
Revenue	460,044	377,284
Cost of sales	(303,223)	225,114
Profit before tax	75,969	77,480
Dividends paid to non-controlling interest	7,327	14,298

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24. NON –CONTROLLING INTEREST (CONTINUED)

Summarised cash flows

	The Group	
	2018	**2017**
	$	**$**
	$'000	**$'000**
Cash generated from operations	46,912	62,271
Net cash generated from operating activities-		
Net cash used in investing activities	(25,948)	(35,841)
Net cash (used in)/provided by financing activities	(23,948)	(32,982)
Net (decrease)/increase in cash and cash equivalents	(2,196)	(6,552)
Cash and cash equivalents at the beginning of the year	67,828	94,933
Cash and cash equivalents at the end of the year	65,632	88,381

The information relating to non-controlling interest represents amounts before intercompany eliminations.

25. BORROWINGS

	The Group		The Company	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
	$'000	**$'000**	**$'000**	**$'000**
				-
i) 11.75% Private Placement Notes	-	511,754	-	511,754
ii) 8.49% Bank of Nova Scotia	5,520	7,653	5,520	7,653
iii) 9.69% National Commercial Bank (NCB)	2,371	3,253	2,371	3,253
iv) 10% First Global Bank (FGB)	2,856	4,280	2,856	4,280
v) Director's loan	6,000	9,000	6,000	9,000
vi) 7.5% Redeemable Preference Shares	350,000	250,000	350,000	250,000
vii) 12% National Commercial Bank	1,348	2,558	1,348	2,558
viii) 8.25% Mayberry Loan	-	30,000	-	30,000
ix) Mayberry credit line	-	178,623	-	178,623
x) 11% National Commercial Bank	-	491	-	491
xi) 8.35%-10% FGB Loan (7,429+3,473)	10,902	15,471	3,473	5,659
xii) 9.5% Sagicor Loan	243,621	-	243,621	-
xiii) 9.5% FGB Loan	292,485	-	292,485	-
xiv) 9.5% Jamaica National (JN) Loan	5,794	-	5,794	-
xv) 9.5% JN Loan	6,882	-	6,882	-
xvi) 9.5% JN Loan	4,515	-	4,515	-
	932,294	1,013,083	924,865	1,003,271
Less current portion payable within 12 months	(69,636)	(258,766)	(67,105)	(256,527)
	862,658	754,317	857,760	746,744

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25. BORROWINGS (Continued)

i) This 11.75% represents private placements through a financial institution. The loan was repaid during the year .
ii) The 8.49% BNS loan monthly repayment is $177,735 and the final payment is scheduled for October 2022
iii) The 9.69% is payable in monthly installments of $73,480, and the final payment is scheduled for June 2022.
iv) The 10% FGB loan is repayable by monthly installment of $148,770 and the final payment is scheduled for September 2020.
v) During the year, the director's loan was repaid.
vi) The 11.75% Redeemable Preference Shares were issued in March 2015 and should have been redeemed in full in March 2018. The funds raised were used to pay off a 17% credit line along with certain shareholder loans and to provide working capital support. During the year, this loan was upsized to $350 Million at a reduced rate of 7.50%.
vii) The 12% loan is payable by monthly installments of $50,693 and the final payment is scheduled for May 2020.
viii) The Mayberry loan was repaid during the year.
ix) The Mayberry credit line was repaid during the year
x) The NCB loan was repaid during the year.
xi) The 8.35% - 10% FGB loans were used to purchase motor vehicles and are secured by the said vehicles.
xii) The 9.5% Sagicor loan was used to liquidate bonds at higher rates of interest.
xiii) The 9.5 FCB loan was used to liquidate the 11.25% bond.
xiv) The 9.5% JN loans were used to purchase motor vehicles.

The loans are secured by registered charges over real estate and motor vehicles owned by DTCL, guarantees of certain shareholders, shares of subsidiary, investments and cash deposits.

No borrowings or loans were in default during the period that would permit any lender to demand accelerated repayment

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26. BANK OVERDRAFT

	The Group		The Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Reconciled bank balances	-	17,949	-	17,949
	-	17,979	-	17,949

Bank overdrafts are secured by real estate owned by the Company along with personal guarantee of directors.

27. SHARE CAPITAL

	Number of shares	Ordinary shares
		$
		$'000
Issued and fully paid:		
At 1 31 December 2018	2,733,360,670	140,044

At an Extraordinary General Meeting, held on 6 March 2018, the directors of DTCL moved a resolution to increase the authorized share capital of the Company from 400,400,000 shares to 800,400,000 shares by the creation of an additional 400,000,000 shares. The resolution was passed at the meeting.

At the Board of Director's meeting held on 25 July 2018, the Board approved the payment of a dividend of $0.07 per share, payable on 17 August 2018, to shareholders on record as at 7 August 2018.

At the Company's Annual General Meeting held on 22 August 2018, a number of resolutions were approved as follows

(i) That the authorized share capital of the Company be increased from 800,400,000 shares to 8,200,400,000 shares by the creation of 7,400,000,000 ordinary shares, each ranking pari passu in all respects with the existing ordinary shares or stock units in the capital of the Company.

(ii) That each of the issued ordinary shares in the capital of the Company be subdivided into 10 ordinary shares with effect from the close of business on 6 September 2018, resulting in the total issued shares in the capital of the Company being increased from 273,336,067 ordinary shares of no-par value to 2,733,360,670 ordinary shares of no-par value.

(iii) That all ordinary shares in the capital of the Company once issued and allotted as of the date hereof and at anytime hereafter be and are hereby converted into stock units.

The shares in 2018 and 2017 are stated in these financial statements without a nominal or par value.

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28. OPERATING PROFIT BEFORE TAXATION

The following items have been charged/(received) in arriving at operating profit before taxation:

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Auditors' remuneration	6,628	4,800	3,700	3,700
Directors' emoluments:				
Fees	1,170	1,465	360	860
Management remuneration	61,482	39,425	36,687	28,424
Bad debts written off	12,701	12,424	6,846	12,256
Management fees to Parent Company	(5,500)	-	(5,500)	-
Inventory written off during the year	-	3,124	-	3,124
Depreciation	61,575	51,852	49,498	48,854
Staff costs (including management remuneration)	622,971	377,431	409,814	349,918

29. CAPITAL AND RISK MANAGEMENT

Capital Management:

The Group defines capital as equity and total borrowings. The Group manages its Capital, of $1.9 Billion to support and be responsive to opportunities for its current growth strategy and expansion plans, and to maintain its normal operations and remain compliant with various covenants and restrictive rules and regulations of the industry and the financial environment in which it operates.

Capital Management Strategies

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide specific hurdle returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital as well as meet externally imposed capital requirements. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by capital as defined above. Total borrowing is calculated as current and non-current borrowings as shown in the consolidated statement of financial position. Capital is calculated as equity as shown in the statement of financial position plus total borrowings. The management of the Company remains deliberate in the way it funds its growth strategy and given the present economic environment and the general reduction in the cost of capital in the market, management continues to adjust major debts from a bullet repayment structure to that of amortization and lengthening of tenors.

29. CAPITAL AND RISK MANAGEMENT (Continued)

Capital Management Strategies (continued)

During 2018, the Group's strategy, which was in principle unchanged from 2017, was to maintain the gearing ratio below 100%. The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	The Group		The Company	
	31 Dec 2018 $'000	31 Dec 2017 $'000	31 Dec 2018 $'000	31 Dec 2017 $'000
Total borrowings	1.668,710	1,013,083	1,661,280	1,003,271
Capital and borrowings	2,566,980	1,906,578	1,908,073	1,847,593
Gearing ratio	65%	53%	87%	54%

There are certain imposed capital requirements by certain financial institutions which management regularly reviews to ensure compliance at all times. There have been no changes to the Group's overall approach to capital management during the year.

Risk Management:

The Group's activities expose it to a variety of financial risks: market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. This note presents information about the Group's exposure to each of the above risks as well as its objectives, policies and processes for measuring and managing risk.

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies and through training to develop standards and procedures and a disciplined and constructive control environment in which all employees understand their roles and obligations.

Audit Committee

The Board of Directors has also established an Audit Committee to assist in managing the Group's risk profile. This Committee oversees how management monitors compliance with the Group's risk management policies and reviews the adequacy of the risk management framework. This committee is also assisted by Internal Audit that reports to the Audit Committee after it undertakes regular and ad hoc reviews of risk management controls and procedures, especially over inventories and receivables.

a) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks principally arise from changes in foreign currency exchange rates, interest rates and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing returns. This risk is principally monitored by the finance director along with guidelines from the board of directors.

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures this risk.

29. CAPITAL AND RISK MANAGEMENT (Continued)

a) Market risk (continued)

i. Commodity Price risk

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

The Company is exposed to price risk principally relating to importation of rice. The Company enters into commodity contracts in respect of the anticipated future usage requirements and the price on imported rice is tracked and purchased in advance, when necessary, if price on the international market is increasing. This strategy is used to mitigate this risk.

ii. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign exchange risk, due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaican dollar. The Group is exposed to foreign exchange risk, arising primarily with respect to the US dollar, from commercial transactions such as the importation and sale of bulk rice that represents a significant percentage of the Group's overall purchase figure. To manage currency risk on imported rice, the Group enters into short and medium-term arrangements with millers and producers at agreed terms primarily in producing countries.

Foreign currency bank accounts are maintained at levels which will meet foreign currency obligations and management also has access to purchase foreign currencies at market or close to market rates thereby reducing or mitigating the Group's exposure to sudden exchange rate fluctuations. The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by closely monitoring currency positions. The Group further manages this risk by maximizing foreign currency earnings and holding foreign currency balances.

As at 31 December 2018, the Group had net foreign currency liabilities of US$1.6 Million (2017- US$1 Million) which were subject to foreign exchange rate changes as follows:

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29. CAPITAL AND RISK MANAGEMENT (Continued)

a) Market risk (Continued)

ii. Currency risk (continued)

Concentrations of currency risks

	The Group		The Company	
	2018 US'000 $	**2017 US'000 $**	**2018 US'000 $**	**2017 US'000 $**
Foreign currency financial assets:				
Cash equivalents and investments	101,505	333,296	101,447	129,296
	101,505	333,296	101,447	129,296
Foreign currency financial liabilities:				
Payables and accruals	(953,408)	(448,419)	(953,348)	(443,290)
Borrowings	(792,630)	(889,676)	(792,630)	(889,676)
	(1,746,038)	(1,338,095)	(1,745,978)	(1,332,966)
Total net foreign currency liabilities	(1,644,533)	(1,004,799)	(1,644,351)	(1,203,670)

A significant portion of the Group's purchases are made using United States (US) dollars. The Group hedges against movement in the United States dollar principally by holding cash resources in that currency, prompt payment, when necessary, of foreign currency bills as they become due along with maximizing efforts to earn foreign currency by innovating marketing on-line to the Jamaican Diaspora community.

In accordance with accounting policies applied consistently, exchange gains and losses are recognized in the income statement when incurred.

	2018 J$	**2017 J$**
31 December 2018: exchange rate 1US$	126.0	125.00

Foreign currency sensitivity analysis

The sensitivity analysis represents the impact on the profit or loss due to the movement in the US dollar exchange rate relative to the Jamaican dollar, with other variables remaining constant.

Due to the nature of the Group's operations and the very short term nature of balances denominated in currencies other than the Jamaican dollar, in the opinion of management there should be no material impact on the results of the Group's operations as a result of changes in foreign currency rates as sudden changes are promptly adjusted in the selling prices of the Group's imported products, especially bulk rice and red kidney beans that form a significant percentage of the Group's overall purchases.

A 5% (2017-5%) weakening of the Jamaican dollar, with all other variables remaining constant, in particular interest rates, would result in a loss of approximately $10.3 Million (2017 - $6.2 Million) to the Group if all outstanding foreign liabilities are settled at the depreciated rate of the Jamaican dollar. A 5% appreciation of the Jamaican dollar under similar circumstances would result in a profit of $10.3 Million (2017- $6.2Million).

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29. CAPITAL AND RISK MANAGEMENT (Continued)

a) Market risk (Continued)

iii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group invests excess cash in short-term deposits and maintains interest-earning bank accounts with licensed and reputable financial institutions. Short-term deposits are invested for periods of three (3) months or less at fixed rates and are not affected by fluctuations in market interest rates up to the date of maturity. Due to the fact that interest rates on the Group’s short-term deposits are fixed up to maturity and interest earned from the Group’s interest-earning bank accounts is immaterial, management is of the opinion there would be no material impact on the results of the Group’s operations as a result of fluctuations in interest rates.

The Group incurs interest on its borrowings. These borrowings are at fixed rates and expose the Group to fair value interest rate risk. Interest rate fluctuations are not expected to have a material effect on the net results or shareholders’ equity. The Group reviews its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing. Management, as a policy, obtains fixed rate loans when interest rates are expected to rise and floating rate loans when interest rates are expected to fall but generally avoids variable rate borrowing instruments.

Interest rate sensitivity

The Group’s interest rate risk arises from long-term borrowings and available-for-sale debt instruments. The sensitivity of the profit or loss is the effect of the assumed changes in the interest rates on profit before taxation based on floating rate borrowing and available-for-sale debt instruments.

The Group does not have any significant exposure to floating rate borrowings or on investments because the majority of the financial instruments carry fixed rates of interest to maturity.

29. CAPITAL AND RISK MANAGEMENT (Continued)

b) Credit risk

Credit risk is the risk that one party, which includes customers, clients and counterparties, to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is an important financial risk for the Group's business and therefore management meticulously manages the Group's exposure to this risk.

The Group faces credit risk in respect of investment activities and its receivables from customers.

i. Cash, deposits and investments

Credit risk for cash, deposits and investments is managed by investing in mainly liquid securities and maintaining these balances with licensed financial institutions considered to be reputable and stable. Accordingly, management does not expect any counterparty to fail to meet its obligations. The Finance Director along with the Board of Directors performs monthly reviews of the investments and securities held as a part of their assessment of the Group's credit risk.

The maximum credit risk faced by the Group is the total of these balances reflected in the financial statements. No provision for impairment is deemed necessary.

ii. Receivables

Credit risk for receivables is mitigated by stringent credit reviews and approval of limits to customers as well as regular credit evaluation of customers. Appropriate credit checks, references and analyses are undertaken in order to assess customers' credit risk profile prior to offering new credit or increasing existing credit limits. Many of the customers who are experiencing cash flow difficulties and are exceeding their credit limits are identified and the appropriate actions taken. Key Performance Indicators are reviewed regularly, including cash collected, average debt collection period, percentage of customers with overdue balances and debts deemed uncollectible. Credit limits for all customers inclusive of payment history and risk profile, are reviewed annually before renewal of credit facilities.

29. CAPITAL AND RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

ii. Receivables (Continued)

Aging analysis of trade receivables that are past due but not impaired

Trade receivables that are less than 90 days past due are not considered impaired. As of 31 December 2018, trade receivables of $365,365,000 (2017 - $116,378,000) were reviewed for impairment and a provision of $31,601,000 (2017 - $31,181,000) was considered necessary.

Management continues to critically review this position as they are aware that many of their customers who are retailers and wholesalers are experiencing difficult economic circumstances. The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Past due 31 to 60 days	179,189	61,627	109,041	52,930
Past due 61 to 90 days	52,462	4,034	35,591	4,033
Past due over 90 days	51,123	50,715	45,213	49,369
	365,365	116,378	189,845	106,333

Management, does not consider that any additional provision is required for long outstanding balances due to the Group or Company, especially those over 90 days as all doubtful balances were written off during the year.

Exposure to credit risk for trade receivables

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

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Supermarket chains	157,066	70,946	157,066	70,946
Wholesale and retail distributors	627,011	119,697	540,236	119,697
Government entities	16,265	8,793	16,265	8,793
Manufactures	92,929	60,711	-	-
Other	25,282	82,278	25,282	82,278
	918,553	342,425	738,849	281,714
Overseas	6,233	5,477	6,233	5,477
Total (see note 18)	924,786	347,902	745,082	287,191

Overseas customers mainly relate to customers in the United States and United Kingdom and represent approximately 0.84% (2017 - 1.6%) of the total balance. The currencies of these countries are considered stable and consistently appreciate against the Jamaican dollar and no risk of any significant loss is anticipated in this category of overseas customers.

There is no change from the prior year in the nature of the Group's exposure to credit risk or the manner in which it manages and measures the risk.

29. CAPITAL AND RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

iii. Total exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was $1.7 Billion (2017- $1.4 Billion) representing the balances as at 31 December 2018 for cash and short-term deposits, investments and receivables as reported in the statement of financial position of the Group.

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its liquidity risk by maintaining an appropriate level of resources in liquid or near liquid form to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's liquidity management process, as carried out within the Group and monitored by the Finance Director and Board of Directors, includes:

i. Monitoring future cash flows and liquidity on an ongoing basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

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 while optimizing cash returns on investments.

At 31 December, 2018, the Company's three (3) largest credit suppliers amounted to approximately 20% (2017 - 25%) of the total annual purchases of the Company for the year ended 31 December 2018. Management continues to try to diversify the base of its credit suppliers on a regional basis as well as within intra-geographical regions within the markets in which the Company's major suppliers operate. In addition, the Company's supply chain has been expanded through forging of a new relationship with a major international commodity broker who helps to reduce the risk of depending on a few major suppliers.

The Group also has access to lines of secured credit to facilitate payments to major suppliers according to agreed credit terms should the Group at any time have insufficient cash resources to settle its obligations as they fall due.

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

29. CAPITAL AND RISK MANAGEMENT (Continued)

c) Liquidity risk (continued)

Undiscounted contractual cash flows of financial liabilities

The Group's financial liabilities comprise long-term loans, payables and accruals, based on contractual undiscounted payments which are due as follows:

Maturity Profile of the Group 2018

	Within 1 year	Within 1 to 5 years	Over 5 years
	2018 $'000	2018 $'000	2018 $'000
Long-term loans	67,105	1,065,499	536,106
Short term loans	736,416	736,416	-
Payables and accruals	1,149,544	-	-
Total	1,953,065	1,801,915	536,106

Maturity Profile of the Group 2017

	Within 1 year	Within 1 to 5years	Over 5 years
	2017 $'000	2017 $'000	2017 $'000
Long-term loans	258,766	754,317	-
Short term loans	29,976	-	-
Bank overdraft	17,949	-	-
Payables and accruals	791,036	-	-
Total	1,097,727	754,317	-

Maturity Profile of the Company 2018

	Within 1 year	Within 1 to 5years	Over 5 years
	2018 $'000	2018 $'000	2018 $'000
Long-term loans	67,105	857,760	-
Short term loans	736,416	-	-
Payables and accruals	1,090,545	-	-
Total	1,894,066	857,760	-

Maturity Profile of the Company 2017

	Within 1 year	Within 1 to 5years	Over 5 years
	2017 $'000	2017 $'000	2017 $'000
Long-term loans	256,527	746,744	-
Short term loans	29,975	-	-
Bank overdraft	17,949	-	-
Payables and accruals	780,475	-	-
Total	1,084,926	746,744	-

Derrimon Trading Company Limited

Notes to the Financial Statements

31 December 2018

29. CAPITAL AND RISK MANAGEMENT (Continued)

c) Liquidity risk (continued)

Assets available to cover financial liabilities include cash, short term deposits and available-for-sale investments.

Off-balance sheet items – Contingent liabilities and commitments

(II) The Company has registered bills of sale over real estate and motor vehicles amounting to $53 Million. The Company has a first legal mortgage amounting to $50Million over the Company's commercial property and debentures totaling $975 Million over all the assets of DTCL.

(III) The Group has no capital commitments that have been authorized at 31 December 2018

(IV) The Group has long term obligations under long term operating leases for premises. Future minimum lease payments under such commitments are as follows:

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Not later than 1 year	134,664	123,962	125,178	114,836
Later than 1 year but less than 5 years	673,320	619,810	625,888	574,181
Later than 5 years	1,346,641	1,239,620	1,251,776	1,148,361

(v) The Group is subject to various claims, disputes and legal proceedings in the normal course of business. Provisions are made for such matters when in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group and the amount can reasonably be estimated. As at 31 December 2018, management did not consider any provision necessary after consultation with their attorneys.

(VI) As at 31 December 2018, under the 2016 Income Tax (Amended) Act, as a result of the listing of both DTCL and its subsidiary, CFFL, on the Junior Market of the Jamaican Stock Exchange, The Group has potential contingent liabilities of approximately $212 Million in regards to income tax remissions. Should the companies default on any of the Junior Market requirements of listing, the total income tax waived will crystallize and be immediately payable to Tax Administration Jamaica. (TAJ).

29. CAPITAL AND RISK MANAGEMENT (Continued)

d) Reputational Risk

The Group is engaged in a business that principally distributes basic food items and flavours to the general consuming population, and its reputation is critical within the market place. The Group's management endeavors at all times to be ethical and adopts international best practices especially with regard to bulk frozen meats and other bulk commodities such as rice and red kidney beans.

The Group also ensures that the necessary sanitary standards are maintained to guarantee that regular audits by the Bureau of Standards are successfully undertaken. In addition, customer audits are undertaken to facilitate continuous improvement and efficient customer delivery services.

Customer complaints are promptly and properly investigated and appropriately assessed and transparency is maintained; where necessary customers are promptly compensated if they have suffered loss. Management considers the Group's reputation secured as they ensure that events that may damage its reputation are immediately investigated and the appropriate action taken to deal with the matter in a manner that satisfies the complainant.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into level 1 to 3 based on the degree to which the fair value is observable. The fair value of a liability reflects its non-performance risk.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the yearend, 31 December 2018. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price.

At 31 December 2018, these instruments are quoted investment securities (Note 20) which are grouped in level 1.

At the reporting date, the Company's financial assets and liabilities were reported at fair values and there was no necessity to estimate values using present value or other estimation and valuation techniques based on market conditions existing at statement of financial position date.

The Group has no financial assets grouped in levels 3.

The following methods and assumptions have been used in determining fair values:

i. The face value, less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These assets and liabilities include cash and bank balances, short term investments, trade receivables and payables.

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

31. CONTINGENT LIABILITIES

In the normal course of business, the Group is subject to various claims, disputes and legal proceedings. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

At the year end, the Group had no significant outstanding legal matters being pursued in the Courts. In addition, representations from the Managing Director along with the Group's attorneys indicated that they were not aware of any potential contingent liability that may negatively affect the Group.

33. SUBSEQUENT EVENTS

The Company's attorneys reported by letter dated 19 February 2019 as follows:

- There is a claim against the Company by an independent contractor for injury suffered while on Derrimon premises. The suit is being defended on the basis that the contractor did not heed warnings, and caused his own injuries. The claim is now proceeding to trial.
- There is a claim by the company against a customer who owed the Company approximately $19.2 Million. Judgment in default has been obtained against the customer, but an application is now pending to set aside the judgment.
- They are not aware of any other outstanding claims or possible claims in respect of which the firm's advice has been sought and which is outstanding
- They are not aware of any guarantees of indebtedness to others made by the Company, not publicly disclosed.
- The firm holds no trust monies on behalf of the Company.