

FOSRICH COMPANY LIMITED

FINANCIAL STATEMENTS

'DECEMBER 31, 2017

FOSRICH COMPANY LIMITED

INDEX

YEAR ENDED DECEMBER 31, 2017

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February 27, 2018

Independent auditors' report

To the Members of
FosRich Company Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of FosRich Company Limited (the Company) set out on pages 1 to 20, which comprise statement of financial position as at December 31, 2017, statement profit or loss and other comprehensive income, statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information

In our opinion, the accompanying financial statements give a true and fair view of the financial position of company as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the **Auditors' Responsibility for the Audit of the Financial Statements** section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Audit Scope

As part of designing our audit, we determined materially and assessed the risk of material misstatement in the financial statements. In particular, we consider where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also address 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.

Independent auditors' report
FosRich Company Limited

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Those matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Accuracy of Inventories

- **Key Audit Matter**

The company carries a wide variety of product types and there is high frequency of transactions. As a result there is an inherent risk that material misstatement could arise due to incorrect recording at the point of sale and also when goods are brought back into stock.

- **How our audit addressed the Key Audit Matter**

Our audit procedures response to this matter, included:

Tests of the controls surrounding the recording of inventory being brought into stock, goods issued from stocks and the costing methods in practice.

We tested sample of products on the final priced inventory listing to the costing sheets to verify costing calculations.

The company's controls were tested and assessed and found to be reasonable.

2. Impairment of Trade Receivables

- **Key Audit Matter**

The company has offered extensive credit period to its certain customers and one-third of its receivables are over 60 days.

In view of this, there is the risk that the carrying value of trade receivables may not be recoverable. There is judgement involved in determining the provision for impairment on these balances because of the inherent uncertainty involved in estimating and timing the amount of future collections.

- **How our audit addressed the Key audit matter**

Our audit procedures in response to this matter, included:

Testing and recording the accuracy of the ageing of trade receivables, as this is fundamental in assessment of impairment.

Testing subsequent collections for selected customers.

Evaluating the adequacy of the allowance for impairment in respect of trade receivables by assessing management's assumptions.

Based on our independent evaluation we determined that adequate provision has been made for impairment of trade receivables.

Independent auditors' report
FosRich Company Limited

Other information

Management is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation of financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditors' report
FosRich Company Limited

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the company's financial statements, including the disclosures, and whether the company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

The financial statements of the company for the financial year ended December 31, 2016 were audited by another auditor, who expressed an unmodified opinion on those financial statements.

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

The engagement partner on the audit resulting in this independent auditors' report is Effie Crooks.


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Chartered Accountants

February 27, 2018
2 Seymour Avenue, Kingston 6, Jamaica W.I.

FOSRICH COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2017

		2017	2016
		\$	\$
Turnover		1,046,241,522	1,155,557,852
Cost of Sales	3	<u>(573,008,705)</u>	<u>(686,663,459)</u>
Gross profit		473,232,817	468,894,393
Other income:			
Other operating income	5	<u>41,906,321</u>	<u>12,879,059</u>
		<u>515,139,138</u>	<u>481,773,452</u>
Expenses :			
Administration and selling expenses	3	404,831,281	384,296,428
Finance costs	6	<u>51,430,751</u>	<u>62,189,587</u>
Total expenses		<u>456,262,032</u>	<u>446,486,015</u>
Operating profit		58,877,106	35,287,437
Taxation	7	<u>(3,935,931)</u>	<u>(4,949,823)</u>
Net profit, being total comprehensive income		<u>54,941,175</u>	<u>30,337,614</u>
Earnings per stock unit for profit attributable to stockholders of the company during the year	18	<u>\$0.14</u>	<u>\$0.08</u>

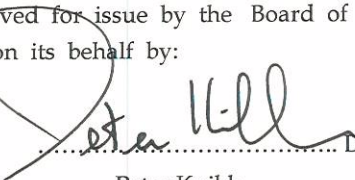
FOSRICH COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Note	2017 \$	2016 \$
ASSETS			
PROPERTY, PLANT & EQUIPMENT	8	255,570,518	275,299,177
RELATED PARTY	9	124,974,974	67,055,414
INVESTMENTS	10	16,768,418	15,221,987
		<u>397,313,910</u>	<u>357,576,578</u>
CURRENT ASSETS			
Inventories	11	625,056,821	624,587,925
Trade receivables	12	89,490,193	101,320,228
Other receivables and prepayments	12	66,346,573	22,083,336
Short term deposit	13	103,736,000	-
Cash and bank balances	13	16,311,855	14,115,768
		<u>900,941,442</u>	<u>762,107,257</u>
CURRENT LIABILITIES			
Payables	14	296,644,438	328,886,737
Bank overdraft	13	149,424	37,098,111
Current portion of long-term liabilities	19	27,960,126	99,157,214
Taxation		7,400,602	12,175,374
		<u>332,154,590</u>	<u>477,317,436</u>
NET CURRENT ASSETS		<u>568,786,852</u>	<u>284,789,821</u>
		<u>966,100,762</u>	<u>642,366,399</u>
EQUITY			
SHARE CAPITAL	15	369,620,810	181,000,200
SHARE PREMIUM	16	-	33,500,000
CAPITAL RESERVES	17	69,999,632	69,999,632
RETAINED EARNINGS		169,347,951	114,406,776
		<u>608,968,393</u>	<u>398,906,608</u>
NON-CURRENT LIABILITIES			
Long-term liabilities	19	290,363,883	167,795,116
Director's loan	20	66,768,486	67,802,900
Deferred tax	21	-	7,861,775
		<u>357,132,369</u>	<u>243,459,791</u>
		<u>966,100,762</u>	<u>642,366,399</u>

The financial statements set out on pages 1 to 21 were approved for issue by the Board of Directors on February 27, 2018 and signed on its behalf by:

.....

 Marion Foster
 Chairman

.....

 Peter Knibb
 Director

FOSRICH COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2017

	Share capital \$	Share premium \$	Capital reserves \$	Retained earnings \$	Total \$
Balance at January 1, 2016	181,000,200	33,500,000	69,999,632	84,069,162	368,568,994
Net profit, being total comprehensive income				30,337,614	30,337,614
Balance at December 31, 2016	181,000,200	33,500,000	69,999,632	114,406,776	398,906,608
Re-organisation of share premium		(33,500,000)			(33,500,000)
Net profit, being total comprehensive income				54,941,175	54,941,175
Issue of shares, net of transaction costs	188,620,610				188,620,610
Balance at December 31, 2017 (<i>see notes 15, 16 & 17</i>)	<u>369,620,810</u>	<u>-</u>	<u>69,999,632</u>	<u>169,347,951</u>	<u>608,968,393</u>

FOSRICH COMPANY LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	2017	2016
	\$	\$
CASH FLOWS WERE PROVIDED BY/ (USED IN):		
Operating Activities		
Net profit	54,941,175	30,337,614
Items not affecting cash resources		
Depreciation	26,220,775	26,734,403
Gain on disposal of property, plant & equipment	(805,000)	(794,604)
Unrealised foreign exchange gain (net)	(19,042,238)	(238,310)
Interest income	(66,540)	(53,957)
Interest expense	38,162,334	47,332,485
Taxation expense	3,935,931	4,949,823
	<u>103,346,437</u>	<u>108,267,454</u>
Changes in non-cash working capital components:		
Inventories	(33,968,896)	(27,146,272)
Receivables	11,830,035	7,469,624
Other receivables and prepayments	(44,263,237)	-
Payables	(13,200,061)	38,176,727
Related parties	(57,919,560)	12,853,624
Taxation paid	(16,458,689)	(60,000)
Cash provided by operating activities	<u>(50,633,971)</u>	<u>139,561,157</u>
INVESTMENT ACTIVITIES		
Purchase of investment	(1,546,431)	(2,153,785)
Purchase of property, plant and equipment	(6,492,116)	(9,698,325)
Interest received	66,540	53,957
Proceeds from disposal of property, plant and equipment	805,000	1,245,000
Cash used in investment activities	<u>(7,167,007)</u>	<u>(10,553,153)</u>
FINANCING ACTIVITIES		
Issue of shares	188,620,610	-
Directors' loans	(1,034,414)	-
Loans received	306,104,291	-
Loan repaid	(254,846,401)	(89,574,056)
Interest paid	(38,162,334)	(47,993,011)
Cash used in financing activities	<u>200,681,752</u>	<u>(137,567,067)</u>
INCREASE/(DECREASE) IN NET CASH BALANCES	142,880,774	(8,559,063)
NET CASH BALANCES - Beginning of year	(22,982,343)	(14,423,280)
NET CASH BALANCES - End of year	<u>119,898,431</u>	<u>(22,982,343)</u>
REPRESENTED BY:		
Cash and bank balances	16,311,855	14,115,768
Short term deposit	103,736,000	-
Bank overdraft	(149,424)	(37,098,111)
	<u>119,898,431</u>	<u>(22,982,343)</u>

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

1. INCORPORATION AND IDENTITY

- (a) The company is incorporated under the Jamaican Companies Act and is domiciled in Jamaica, having its registered office at 79 Molyne's Road, Kingston 10, Jamaica.
- (b) The main activity of the company is distribution of lighting, electrical and solar energy products. The financial statements are presented in Jamaican dollars, which is the company's functional and presentation currency.
- Effective December 19, 2017, the company's shares were listed on the Junior Market of the Jamaica Stock Exchange.

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies

(a) Statement of Compliance

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

(b) Basis of preparation

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

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

Standards, Interpretations and Amendments to published Accounting Standards effective in the current year

During the year, certain new standards, interpretations and amendments to existing standards became effective. Management has assessed the relevance of all such new standards, interpretations and amendments that became effective January 1, 2017; the majority of these standards did not have a significant effect on the amounts and disclosures in these financial statements. They included:

- **Amendment to IAS 7, 'Statement of Cash Flows' on Disclosure Initiative** (effective for the periods beginning on or after January 1, 2017). Amendments made to IAS 7 in January 2017 clarify that going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (continued)

Standards, Interpretations and Amendments to published Accounting Standards effective in the current year (continued)

- **Amendment to IAS 7, 'Statement of Cash Flows' on Disclosure Initiative (continued)**

The new amendments also clarifies that changes in financial assets must be included in this disclosure if cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

The amendment also states that entities may include changes in other terms as part of this disclosure, for example, by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from changes in liabilities arising from financing activities.

The information must be disclosed in tabular format as reconciliation from closing balances, but a specific format is not mandated.

The company is currently examining the effect of the forgoing amendments on its operations.

- **IFRS 9, Financial Instruments** is effective for periods beginning on or after 1st January 2018. Earlier adoption is permitted. This standard replaces the existing guidance in *IAS 39 - Financial Instruments: Recognition and Measurement*. IFRS 9 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 the new hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income [FVOCI] and fair value through profit or loss [FVTPL] - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

New, Revised and Amended Standards and Interpretations issued but not yet effective:

- **IFRS 15, 'Revenue from Contracts with Customers'** is effective for periods beginning on or after January 1, 2018. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must be allocated to the separate elements.

When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The company is currently assessing the impact of future adoption of the standard on its financial statements.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (continued)

New, Revised and Amended Standards and Interpretations issued but not yet effective (continued):

- **IFRS 16, 'Leases'** is effective for periods beginning on or after January 1, 2019. The new standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. This standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and the liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases

The new standard will also affect the income statement because the total expense is typically higher in the earlier years of a lease and lower in the later years. Additionally, operating expenses will be replaced with interest and depreciation, so key metrics such as EBITDA will change.

The standard also states that operating cash flow will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflect interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The company is currently assessing the impact of future adoption of the standard on its financial statements.

Management is evaluating the impact that the foregoing standards and amendments to standard may have on its financial statements when they are adopted.

Significant Accounting Policies

(c) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue from sale of goods is recognised when the significant risks and reward of ownership have been transferred to the buyer, usually when the company has delivered the goods to the customer or the service has been performed.

No revenue is recorded if there are significant uncertainties regarding recovery of the consideration due, the associated costs or possible return of goods.

Revenue is shown net of Consumption Tax, returns, rebates and discounts.

(d) Other operating income

Other operating income mainly comprised of commissions received/receivable through partnership arrangements between local utility entities and its international electrical suppliers. Other income includes interest, which is recognised as it accrues, using the effective interest method; unless collectibility is in doubt.

(e) Foreign Currency Transactions

i. Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ["the functional currency"].

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

(e) Foreign Currency Transactions

ii. Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. Foreign exchange gains or losses resulting from the settlement of such transactions and from the transaction of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(f) Financial Instruments

Financial Instruments carried on the balance sheet include cash, investments, bank balances, receivables and payables. The particular recognition methods are disclosed in the individual policy statements associated with each of them.

(g) Plant, Machinery and Equipment

Plant, machinery and equipment and other assets are carried at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight line basis at rates estimated to write off the cost of the assets over their expected useful lives. Annual rates used are as follows:

Freehold buildings	2 1/2%
Furniture, fixtures and equipment	10%
Computer systems	22 1/2%
Motor vehicles [commercial and private respectively]	2 1/2% & 20%

Gains and losses on disposal of plant, machinery and equipment are determined by comparing proceeds with the carrying amount and are included in the profit or loss account.

Repairs and maintenance expenditure are recognised in the profit or loss during the financial period in which they are incurred. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying value of the item if it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the company.

(h) Inventories

Inventories are measured at lower of cost and net realisable value, cost being determined on the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

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

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

(i) Impairment of Non-current Assets

Plant, machinery and equipment and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the greater of the asset's net selling price and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which they are separately identified cash flows.

(j) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of 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. The amount of the provision is the difference between the carrying amount and the recoverable amount.

(k) Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings and interest expenses

Loans are recorded at proceeds received. Finance charges, including direct issue cost are accounted for on an accrual basis in the statement of comprehensive income and are added to the carrying amount of the loan to the extent that they are not settled in the period in which they arise.

(m) Leases

Lease of properties where the company has substantially all the risks and reward of ownership are classified as finance leases. Payments under finance leases are apportioned between interest expense and the outstanding liability. Interest expense is amortised to each period during the lease term to arrive at a constant rate of interest on the outstanding balance.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts held in savings account with banks and other short-term highly liquid investments with original maturities of three months or less net of bank overdraft.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (continued)
Significant Accounting Policies (continued)

(o) Employee benefits

Annual leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability, if any, for vacation leave, as a result of services rendered by employees up the reporting date. At year-end the company had no liability for annual leave as a result of services rendered by employees.

Pension

The company operates a "contributory pension scheme" funded by employees and the company, to provide benefits for the employees of the company. The scheme is administered by and managed by Sagicor Life Jamaica Limited. Contributions to the scheme are charged to profit or Loss account in the period to which they relate.

(p) Taxation

Taxation expense in the profit and loss account comprises both current and deferred tax.

(i) Current taxation

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at balance sheet date. Current and deferred taxes are recognised as income tax expense or benefit in the profit and loss account except, to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity. The company's liability for current tax is calculated at tax rates that have been enacted at balance sheet date. Current and deferred taxes are recognised as income tax expense or benefit in the profit and loss account except, to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity.

(ii) Deferred taxation

A deferred tax charge is provided, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. The tax rates used in these financial statements are those enacted at balance sheet date. Deferred tax charges are recognised for temporary differences between the carrying amounts of assets and liabilities and the amounts as measured for tax purposes, which will result in taxable amounts in future periods. The carrying amounts of deferred tax is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax to be utilised.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

2. Statement of Compliance, Basis of Preparation and Significant Accounting Policies (continued)
Significant Accounting Policies (continued)

(q) Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions [referred to in *IAS 24 - Related Party Disclosures* as the "reporting entity"]. Related party transactions and balances are recognised and disclosed for the following:

- (1) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity; or a parent of the reporting entity.
- (2) The entity is related to a reporting entity if any of the following conditions apply:
 - i. The entity and the reporting entity are members of a group [which means that each parent, subsidiary and fellow subsidiary is related to the other].
 - ii. One entity 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].
 - iii. Both entities are joint ventures of the same third party.
 - iv. The entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in q(1){ii}.
 - vii. A person identified in q(1){i} has significant influence over the entity [or is a member of the key management personnel of the entity].

A related party transaction is a transfer of resources, services or obligation between a reporting entity and a related party, regardless of price charged.

3. EXPENSE BY NATURE

The following items have been charged in arriving at operating profit:

	2017	2016
	\$	\$
Direct costs		
Cost of goods sold	550,304,255	671,887,732
Installation expense - contractors	12,878,360	7,097,106
Sales commission - contractors	9,826,090	7,678,621
	<u>573,008,705</u>	<u>686,663,459</u>

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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3. EXPENSE BY NATURE (continued)

Administrative and selling expenses

	2017	2016
	\$	\$
Directors' emoluments (see note 4)	23,599,517	23,503,592
Depreciation	26,220,775	26,734,403
Auditor's remuneration - Current year	1,750,000	1,600,000
Staff costs (see note 4)	158,954,938	164,029,083
Rent, security , repairs and maintenance	63,688,611	45,573,608
Motor vehicle and other related expense	30,206,775	31,457,822
General insurance and utilities	39,021,341	40,938,208
Other expenses	61,389,324	50,459,712
	<u>404,831,281</u>	<u>384,296,428</u>

4. STAFF COSTS

	2017	2016
	\$	\$
Salaries, commissions and bonus	148,595,330	154,254,782
Statutory contributions	13,805,707	16,907,071
Staff welfare	20,153,418	16,370,822
	<u>182,554,455</u>	<u>187,532,675</u>

The average number of persons employed full-time by the company during the year under review was 77.

5. OTHER OPERATING INCOME

	2017	2016
	\$	\$
Other income	21,992,543	16,973,190
Interest income	66,540	53,957
Foreign currency exchange gain/(loss) - net	19,042,238	(4,942,692)
Gain on disposal of fixed asset	805,000	794,604
	<u>41,906,321</u>	<u>12,879,059</u>

6. FINANCE COSTS

	2017	2016
	\$	\$
Bank charges	9,614,103	6,734,514
Overdraft interest	2,791,648	4,950,067
Loan and credit card interest	35,370,686	42,351,929
Finance charge	389,960	30,489
Bad debt provision	3,264,354	8,122,588
	<u>51,430,751</u>	<u>62,189,587</u>

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

7. TAXATION

Taxation is based on profits for the year adjusted for taxation purposes, and is calculated at the rate of 25% (2016 = 25%). Taxation charge for the year comprise: -

	2017	2016
	\$	\$
Current tax	11,797,706	9,045,131
Deferred tax adjustment (see note 22)	<u>(7,861,775)</u>	<u>(4,095,308)</u>
	<u><u>3,935,931</u></u>	<u><u>4,949,823</u></u>

The taxation charge differs from the theoretical amount that would arise using the income tax rate as follows:

	2017	2016
	\$	\$
Surplus for the year before taxation	<u>58,877,106</u>	<u>35,287,437</u>
Computed "expected" tax at 25%	14,719,276	8,821,859
Income tax consequence of the following:		
Employment Tax Credit	(5,213,426)	(3,876,485)
Expenses not allowable for tax purposes	323,527	4,449
Income not taxable	(201,250)	-
Remission of tax	(433,495)	-
Unutilised timing difference	2,603,075	-
Deferred tax adjustment	<u>(7,861,775)</u>	-
	<u><u>3,935,931</u></u>	<u><u>4,949,823</u></u>

Remission of income tax:

The company's shares were listed on the Junior Market of the Jamaica Stock Exchange, effective December 19, 2017. Consequently, the company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided it complies with the criteria of the Income Tax (Jamaica Stock Exchange Junior Market) Regulation.

To obtain the remission of income taxes, the following conditions should be adhered to over the period:

- (i) The company remains listed for at least 15 years and is not suspended from the JSE for any breaches of the rules of the JSE.
- (ii) The subscribed participating voting shareholders does not exceed \$500 million.
- (iii) The company has at least 50 participating voting shareholders.

The financial statements have been prepared on the basis that the company will have the full benefit of the tax remissions. The periods are as follows:

Years 1 to 5 (December 19, 2017- December 18, 2022)	100%
Years 6 to 10 (December 19, 2022- December 18, 2027)	50%

The taxation charge in these financial statements is based on the chargeable profits of the pre-remission tax period: January 1, 2017 to December 18, 2017.

As a consequence of the company obtaining a remission of tax status, effective December 19, 2017, the deferred tax asset position at the prior year-end was reversed resulting a nil deferred tax provision at year-end.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

8. PROPERTY, PLANT & EQUIPMENT

	Freehold Land \$	Freehold Building \$	Leasehold Improvement \$	Leasehold Property \$	Equipment, Furniture & Fixtures \$	Computers \$	Motor Vehicles \$	Total \$
At cost/valuation:								
January 1, 2016	29,980,000	176,139,252	51,626,867	30,000,000	34,134,575	15,329,750	34,398,066	371,608,510
Additions	-	-	-	-	5,351,853	3,445,185	901,287	9,698,325
Disposal	-	-	-	-	-	-	(1,921,276)	(1,921,276)
December 31, 2016	29,980,000	176,139,252	51,626,867	30,000,000	39,486,428	18,774,935	33,378,077	379,385,559
Additions	-	-	-	-	1,694,930	984,186	3,813,000	6,492,116
Disposal	-	-	-	-	-	-	(1,250,000)	(1,250,000)
December 31, 2017	29,980,000	176,139,252	51,626,867	30,000,000	41,181,358	19,759,121	35,941,077	384,627,675
Accumulated Depreciation:								
January 1, 2016	-	16,742,120	22,560,248	2,250,000	16,845,695	7,325,806	13,098,990	78,822,859
Disposal	-	-	-	-	-	-	(1,470,880)	(1,470,880)
Charge for the year	-	4,403,481	5,162,687	750,000	3,948,643	4,724,360	7,745,232	26,734,403
December 31, 2016	-	21,145,601	27,722,935	3,000,000	20,794,338	12,050,166	19,373,342	104,086,382
Disposal	-	-	-	-	-	-	(1,250,000)	(1,250,000)
Charge for the year	-	4,732,851	10,942,337	750,000	3,232,030	2,161,480	4,402,077	26,220,775
December 31, 2017	-	25,878,452	38,665,272	3,750,000	24,026,368	14,211,646	22,525,419	129,057,157
Net book values:								
December 31, 2017	29,980,000	150,260,800	12,961,595	26,250,000	17,154,990	5,547,475	13,415,658	255,570,518
December 31, 2016	29,980,000	154,993,651	23,903,932	27,000,000	18,692,090	6,724,769	14,004,735	275,299,177

Revaluation of assets

The company's freehold properties including land and buildings were valued on an open market basis by independent professionals in 2009 and 2011. The surplus on revaluation is included in capital reserves (see note 20).

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

9. RELATED PARTY

	2017	2016
	\$	\$
Amount due from:		
LCCM Investment Ventures Limited	<u>124,974,974</u>	<u>67,055,414</u>

Fosrich Limited is related to LCCM Investment Ventures Limited by means of common directorship. There were not trading activities between the companies during the year.

10. INVESTMENTS

	2017	2016
	\$	\$
Deposits - First Global Bank Jamaica Limited	<u>16,768,418</u>	<u>15,221,987</u>

These funds are being held as security for the loans (*see note 19*)

11. INVENTORIES

Inventories comprise:

	2017	2016
	\$	\$
Merchandise	608,788,931	601,736,541
Goods-in-transit	<u>16,267,890</u>	<u>22,851,384</u>
	<u>625,056,821</u>	<u>624,587,925</u>

12. TRADE, OTHER RECEIVABLES AND PREPAYMENTS

	2017	2016
	\$	\$
Trade receivables	<u>89,490,193</u>	<u>101,320,228</u>
Other receivables and prepayments comprise:-		
Sundry receivables	24,441,500	18,988,654
Deposits with suppliers	32,520,414	-
Prepayments	4,838,185	3,094,682
Other deposits	<u>4,546,474</u>	<u>-</u>
	<u>66,346,573</u>	<u>22,083,336</u>

During the year, net bad debt recognised in profit or loss aggregated \$3,264,354 [2016 = \$8,122,588]. The trade receivables at year-end are stated net of provision for bad debts of \$29,480,593 [2016 = \$26,216,239]. The company's exposure to credit risk and impairment loss associated to trade and other receivables are disclosed in note 22(b).

13. CASH & BANK BALANCES

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2017	2016
	\$	\$
Short term deposit	103736000	-
Cash and current account balances	14,805,263	7,155,829
Savings account	<u>1,506,592</u>	<u>6,959,939</u>
	120,047,855	14,115,768
Bank overdraft	<u>(149,424)</u>	<u>(37,098,111)</u>
	<u>119,898,431</u>	<u>(22,982,343)</u>

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

13. CASH & BANK BALANCES (continued)

Short term deposit held with Stocks and Securities Limited (SSL).

Amounts held in savings accounts are denominated in United States Dollar and Jamaican Dollar and attract interest at the rates of 0.00% to 1% per annum during the year.

14. PAYABLES

	2017	2016
	\$	\$
Trade	246,794,030	279,074,349
Advances and other payables	47,463,916	38,653,803
Statutory payables	2,386,492	11,158,585
	<u>296,644,438</u>	<u>328,886,737</u>

15. SHARE CAPITAL

(a) Share capital

	2017	2017	2016
	Units	\$	\$
Authorised -			
512,821,000 [2016: 181,000,500] Ordinary shares of no par value			
Issued and fully paid -			
Brought forward	181,000,200	181,000,200	181,000,200
Stock split of 2.2 : 1	220,820,244	-	-
	<u>401,820,444</u>	<u>181,000,200</u>	<u>181,000,200</u>
New issue	100,455,111	200,910,222	-
	<u>502,275,555</u>	<u>381,910,422</u>	<u>181,000,200</u>
Transaction costs	-	(12,289,612)	-
	<u>502,275,555</u>	<u>369,620,810</u>	<u>181,000,200</u>

At an extra-ordinary general meeting of the company held on November 17, 2017 the company unanimously passed the following resolutions:

- i. That the authorised share capital of the company be increased by 331,820,500 ordinary shares from 181,000,500 ordinary shares to 512,821,000 ordinary shares.
- ii. That each of the existing shares in the company be split in the ratio of 2.22 : 1.
- iii. On December 19, 2017, the company raised an additional \$200,910,222 from its initial public offering of 100,455,111 ordinary shares to the public. Transaction costs of the issue was \$12,289,612. All ordinary shares carry the same voting rights. The shares are listed on the Jamaica Stock Exchange Junior Market.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

16. SHARE PREMIUM

During the year the share premium, which represented the amount received in excess of the par value of shares was re-organised.

17. CAPITAL RESERVES

Capital reserves represent unrealised surplus on the revaluation of the company's freehold properties over the period 2009 to 2011. The valuations were carried out by independent valuers.

18. EARNINGS PER STOCK UNIT

Basic earnings per ordinary stock unit is calculated by dividing the net profit attributable to equity holders by the weighted average number of stock units in issue during the year.

	2017	2016
	\$	\$
Net profit attributable to equity holders of the company	<u>54,941,175</u>	<u>30,337,614</u>
Weighted average number of ordinary stock units in issue	<u>405,398,297</u>	<u>401,820,444</u>
Basic earnings per stock unit	<u>\$0.14</u>	<u>\$0.08</u>

The weighted average number of ordinary shares in issue at year end reflects the 401,820,444 shares in issue up to December 18, 2017, the date before the IPO became binding and the 502,275,555 units in issue at the year end.

19. LONG-TERM LIABILITIES

	2017	2016
	\$	\$
Bank loans		
First Global Bank - 8% DBJ Petro Caribe	-	1,573,871
First Global Bank - 12.50%	-	16,302,704
First Global Bank - 13.50%	-	35,167,975
First Global Bank - 9.50% DBJ loan	-	8,929,988
First Global Bank - 11.25%	-	45,734,407
First Global Bank - 11.00%	-	53,155,338
First Global Bank - 13.50%	-	91,059,293
First Global Bank - Consolidated Loan	<u>306,104,291</u>	-
Total	<u>306,104,291</u>	251,923,576
Accrued interest on loans	<u>517,861</u>	404,072
	<u>306,622,152</u>	252,327,648
GK Investments - Finance lease obligation	<u>11,701,857</u>	14,624,682
	<u>318,324,009</u>	266,952,330
Less: Current portion of bank loans	<u>(23,962,063)</u>	(95,428,549)
Current portion of finance lease obligation	<u>(3,998,063)</u>	(3,728,665)
	<u>290,363,883</u>	<u>167,795,116</u>

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

19. LONG-TERM LIABILITIES (continued)

i. First Global Bank - Consolidated Loan

All bank loans were consolidated into one facility in September 2017 and interest rates revised. The existing loan attracts interest at the rate of 12.35% per annum.

The loan is secured by:

(a) The personal guarantee of two of the company's directors and supported by the directors' personal assets in the form of real estates and the assignment of life insurance policies

(b) Letters of subordination of director's loans to the bank borrowings.

(c) Debenture over the company's assets

(d) Mortgage over the company's commercial properties situated at:
77 Molyne's Road, Kingston 10
8A and 8B Maverly Avenue, Kingston 10
14 Burley Road, Kingston 10

(e) The assignment of Fire and Allied Insurance over stock-in-trade and 'keyman' life insurance policies.

ii. GK Investments assumed the lease arrangements formerly held with First Global Bank in relation to the acquisition of motor vehicles. The leases are at interest rates of 13.70% and 15.00% per annum.

20. DIRECTORS' LOAN

This represents loan to the company by Directors. The loan is interest free and has no fixed date for repayment [see note 19 (b)].

21. DEFERRED TAX

Deferred income tax liability resulted as follows: -

	2017	2016
	\$	\$
Deferred tax asset at the beginning of year	7,861,775	11,957,083
Deferred tax charge for the year* (note 7)	<u>(7,861,775)</u>	<u>(4,095,308)</u>
Deferred tax liability at end of year	<u><u>-</u></u>	<u><u>7,861,775</u></u>

* The provision for deferred tax was written back as it is not expected that the deferred tax liability will be actualised in the foreseeable future [see note 7].

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

22. FINANCIAL INSTRUMENTS

The company's activities exposes it to a variety of financial risk: market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk. It is the responsibility of the Board of Directors for the establishment and oversight of the company's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adhere to limits. Risk management policies are reviewed on a regular basis and reflect changes in market conditions and in the company's activities.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The company is exposed to currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than Jamaican Dollar. Foreign exchange risk arises from commercial transactions, primarily with respect to purchases, which are denominated in United States dollars. The company does not earn foreign currency to counter the effects of the fluctuation in exchange rates.

The company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept at an acceptable level by monitoring currency positions. The company manages this risk by maintaining foreign currency accounts to satisfy its foreign creditors.

The principal foreign currency risks of the company, represented by balances in United States Dollars are as follows:

	2017	2016
	<u>US\$</u>	<u>US\$</u>
Cash and cash equivalent	72,162	46,198
Trade and other payables	<u>(1,432,293)</u>	<u>(1,241,426)</u>
Net exposure	<u><u>(1,360,131)</u></u>	<u><u>(1,195,228)</u></u>

Sensitivity analysis

Strengthening or weakening of the currency against the Jamaica Dollar would have increased profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant.

	Increase/(decrease) in profit	
	Strengthening	Weakening
	<u>2%</u>	<u>4%</u>
United States dollar	Ja\$ <u>(3,402,873)</u>	Ja\$ <u>(7,166,827)</u>

The exchange rates applicable at balance sheet date are US\$ 1 = J\$124.0571 (2016 = J\$127.6024) in respect of foreign currency assets and US\$ 1 = J\$125.0936 (2016 = J\$128.3623) in respect of foreign currency liabilities.

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company's cash and cash equivalents are subject to interest rate risk; these are mainly in the form of bank deposits, which are held on short-term with interest rates fixed to maturity. Cash and cash equivalent are held to meet short-term demand and not for investment purposes. Interest earnings is not considered material and the company has no interest bearing liabilities.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

22. FINANCIAL INSTRUMENTS (continued)

(a) Market risk (continued)

(iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to 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 on the market. The company's exposure in relation to financial instrument is minimal as these are recorded at face value and no diminution in value is expected.

(b) Credit risk

Credit risk is the risk arising from a counterparty to a financial contract failing to discharge its obligations, and arises principally from the company's receivables from customers, cash and investment securities.

The maximum exposure to credit risk at reporting date is represented by the carrying value of its financial assets. The company's exposure to this risk is influenced by the individual characteristics of each customer.

Trade and other receivables

The company's exposure to this risk is considered 'moderate', as some major customers are classified as wholesalers, who are granted extended credit periods. Management has established a credit policy under which each customer is analysed for creditworthiness prior to being offered a credit facility. Each customer is given a maximum time allowed for having balances outstanding and procedures are in place to restrict customer orders if outstanding debts are not cleared within the credit period. The company fixes the credit limites and periods based on its assessment of the risk profile of the customers.

	2017			Total
	0 - 30 days	31 - 60 days	Over 61 days	
	<u>I\$</u>	<u>I\$</u>	<u>I\$</u>	<u>I\$</u>
Trade receivables	50,509,405	6,694,589	32,286,199	89,490,193
Deposits, prepayments and other receivables	50,986,515	537,577	14,822,481	66,346,573
	101,495,920	7,232,166	47,108,680	155,836,766

Impairment is assessed for each customer balance in excess of 90 days and a provision is made where collectibility is deemed doubtful. Trade receivables considered impaired were fully provided for. At year end the provision for bad debts amounted to \$29,480,593 (2016: \$26,216,239).

Cash and cash equivalents

Cash and investments are held with financial institutions which management considers to be sound and financially strong.

Management monitors the company's exposure to this type of risk on an ongoing basis.

(c) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet its commitments associated with financial instruments.

The company manages its liquidity risk by maintaining an appropriate level of resources in liquid or near liquid form. Its financial liability comprise payables and accruals.

FOSRICH COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

22. FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

The company's financial liabilities at December 31, 2017 and 2016 comprise payables, accruals and marketing fund activities which are due to be expended evenly throughout the year.

Assets available to meet all the above liabilities and to cover financial liabilities are substantially receivables and bank balances, which are current and are well managed.

Other than the financial liabilities quantified in these financial statements there are no *off balance sheet* items, contingent liabilities or capital commitments.

(d) Capital management

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital as well as to meet its liabilities when they fall due and to provide returns for its shareholders. The Board of directors monitors the return on capital on a regular basis.

The company is not subjected to any externally imposed capital requirements.

Other than the financial liabilities quantified in these financial statements there are no *off balance sheet* items, contingent liabilities or capital commitments.

There were no changes in the company's approach to capital management during the year.

(e) Fair value disclosure:

Due to their short-term nature, the amounts reflected in the financial statements for cash and cash equivalents, accounts receivable and payables are considered to approximate to their respective fair values. Additionally, the cost of monetary assets and liabilities has been appropriately adjusted to effect the estimated losses on realisation or discounts on settlement.

23. CONTINGENT LIABILITY & CAPITAL COMMITMENT

In the normal course of business, the company 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 company, and the amount can be reasonably estimated.

At reporting date, the company had no outstanding legal matters being pursued in the Courts. In addition, the Board, along with the company's attorney have indicated that they are not aware of any potential liability that may negatively affect the company.