LASCO MANUFACTURING LIMITED

FINANCIAL STATEMENTS

31 MARCH 2014

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31 MARCH 2014

I N D E X

BDO

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Chartered Accountants
26 Beechwood Avenue
P.O. Box 351
Kingston 5, Jamaica

INDEPENDENT AUDITORS' REPORT

To the Members of
Lasco Manufacturing Limited

Report on the Financial Statements

We have audited the financial statements of Lasco Manufacturing Limited set out on pages 3 to 32, which comprise the statement of financial position as at 31 March 2014, and the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Lasco Manufacturing Limited

Opinion

In our opinion, the financial statements give a true and fair view of the company's financial position as at 31 March 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.

Report on additional requirements of 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 and the financial statements are in agreement therewith, and give the information required by the Jamaican Companies Act, in the manner so required.

BDO

Chartered Accountants

29 May 2014

LASCO MANUFACTURING LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2014

	Note	2014 $'000	2013 $'000
REVENUE	6	4,023,673	3,659,094
COST OF SALES		(2,967,310)	(2,609,670)
GROSS PROFIT		1,056,363	1,049,424
Other operating income	7	1,636	8,366
		1,057,999	1,057,790
EXPENSES:			
Administrative and other expenses		(385,592)	(351,549)
Selling and promotion expenses		(73,387)	(61,707)
	8	(458,979)	(413,256)
OPERATING PROFIT		599,020	644,534
Finance costs	10	(14,570)	(4,314)
PROFIT BEFORE TAXATION		584,450	640,220
Taxation	11	-	-
NET PROFIT FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME FOR THE YEAR		584,450	640,220
EARNINGS PER STOCK UNIT	12	$0.14	$0.16

LASCO MANUFACTURING LIMITED

STATEMENT OF FINANCIAL POSITION

31 MARCH 2014

	Note	2014 $'000	2013 $'000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	14	2,942,178	1,905,738
CURRENT ASSETS:			
Inventories	15	741,884	489,860
Receivables	16	811,932	628,938
Tax recoverable		10,494	12,591
Related companies	17	3,157	3,151
Director's current account	17	2,377	2,918
Short term investment	18	77,871	69,214
Cash and bank balances	19	59,352	122,959
		1,707,067	1,329,631
		4,649,245	3,235,369
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	20	305,298	305,298
Retained earnings		2,218,855	1,634,405
		2,524,153	1,939,703
NON-CURRENT LIABILITY:			
Long term loan	21	1,301,385	804,148
CURRENT LIABILITIES:			
Payables	22	636,092	258,853
Bank overdraft	19	-	30,958
Current portion of long term loan	21	187,615	201,707
		823,707	491,518
		4,649,245	3,235,369

Approved for issue by the Board of Directors on 29 May 2014 and signed on its behalf by:

L A Chin Chairman

Eileen Chin Director

LASCO MANUFACTURING LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED 31 MARCH 2014

	Note	Share Capital $'000	Retained Earnings $'000	Total $'000
BALANCE AT 1 APRIL 2011		305,298	1,051,404	1,356,702
TOTAL COMPREHENSIVE INCOME				
Net profit		-	640,220	640,220
TRANSACTION WITH OWNERS				
Dividends	13	-	(57,219)	(57,219)
BALANCE AT 31 MARCH 2013		305,298	1,634,405	1,939,703
TOTAL COMPREHENSIVE INCOME				
Net profit		-	584,450	584,450
BALANCE AT 31 MARCH 2014		305,298	2,218,855	2,524,153

LASCO MANUFACTURING LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 31 MARCH 2014

	2014 $'000	2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	584,450	640,220
Items not affecting cash resources		
Depreciation	26,941	19,272
Interest income	(1,195)	(775)
Gain on disposal of property, plant and equipment	(10)	-
Interest expense	14,570	4,314
	624,756	663,031
Changes in operating assets and liabilities:		
Inventories	(252,024)	(211,167)
Receivables	(182,966)	(182,042)
Related companies	(6)	7,570
Taxation recoverable	2,097	(116)
Payables	377,239	26,880
Director's current account	541	(2,918)
Cash provided by operating activities	569,637	301,238
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	1,167	521
Short term investment	(8,657)	(69,214)
Purchase of property, plant and equipment	(1,063,784)	(915,404)
Proceeds from disposal of property, plant and equipment	413	-
Cash used in investing activities	(1,070,861)	(984,097)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest paid	(14,570)	(4,314)
Loan received	483,145	1,005,855
Dividends paid	-	(57,219)
Cash provided by financing activities	468,575	944,322
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(32,649)	261,463
Cash and cash equivalents at beginning of year	92,001	(169,462)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	59,352	92,001

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

1. **IDENTIFICATION AND PRINCIPAL ACTIVITIES**:

(a) Lasco Manufacturing Limited is a limited liability company incorporated and domiciled in Jamaica. The registered office of the company is 27 Red Hills Road, Kingston 10 and it currently operates from leased premises at 38½ Red Hills Road, Kingston 10. The company is listed on the Junior Market of the Jamaica Stock Exchange.

(b) The principal activities of the company are the manufacturing of soy based products and packaging of milk based products. Distribution of these products is done in the local and export markets.

2. **REPORTING CURRENCY:**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). These financial statements are presented in Jamaican dollars, which is considered the company's functional and presentation currency.

3. **SIGNIFICANT ACCOUNTING POLICIES:**

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented. Where necessary, prior year comparatives have been restated and reclassified to conform to current year presentation. Amounts are rounded to the nearest thousand, unless otherwise stated.

(a) **Basis of preparation -**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board, and have been prepared under the historical cost convention. They are also prepared in accordance with provisions of the Jamaican Companies Act.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also 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 in Note 4.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

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

(a) **Basis of preparation (cont'd) -**

Amendments to published standard effective in the current year that is relevant to the company's operations

IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in IFRS 7, 'Financial instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The adoption of this standard has no significant impact on the company's financial statements.

Standards and amendments to published standard that are not yet effective and have not been early adopted by the company

IAS 32 (Amendment), 'Financial Instruments: Presentation' (effective for annual periods beginning on or after 1 January 2014). Amendments relating to the offsetting of assets and liabilities.

IAS 36, 'Impairment of Assets' (effective for annual periods beginning on or after 1 January 2014). Amendments arising from Recoverable Amount Disclosures for Non-Financial Assets.

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2015). IFRS 9 addresses classification and measurement of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

Classification of financial assets under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9 also removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortised cost or fair value.

For financial liabilities IFRS 9 retains most of the IAS 39 requirements including amortised cost accounting for most financial liabilities and the requirement to separate embedded derivatives. The main changer is where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather that in profit or loss, unless this creates an accounting mismatch.

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

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

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

(b) **Segment reporting -**

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

Based on the information presented to and reviewed by the CODM, the entire operations of the company are considered as one operating segment.

(c) **Foreign currency translation –**

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated to Jamaican dollars using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in profit or loss.

(d) **Property, plant and equipment -**

Items of property, plant and equipment are recorded at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation on all other items of property, plant and equipment is calculated on the straight-line basis at annual rates estimated to write off the carrying value of the assets over the period of their estimated useful lives. Land is not depreciation. Annual rates are as follows:

Buildings	2½%
Furniture and fixtures	10%
Machinery and equipment	10%
Computer equipment	20%
Motor vehicles	20%
Leasehold improvement	20%

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

(e) **Inventories -**

Inventories are stated at the lower of cost and fair value less costs to sell. Cost is determined as follows:

Finished goods	-	Cost of product plus all indirect costs to bring the item to a saleable condition.
Goods-in-transit	-	Cost of goods converted at the year end exchange rate.

Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

(f) **Provisions -**

Provisions for restructuring costs and legal claims are recognized when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(g) **Financial instruments -**

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

Financial assets

(i) **Classification**

The company classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

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

(g) **Financial instruments (cont'd) -**

Financial assets (cont'd)

(i) **Classification (cont'd)**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recongised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

(ii) **Recognition and Measurement**

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial liabilities

The company's financial liabilities are initially measured at fair value net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

At the reporting date the following items were classified as financial liabilities: long term loan and payables.

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

(h) **Impairment of non-current assets -**

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows.

(i) **Trade receivables -**

Trade receivables are carried at original invoiced amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not 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, being the expected cash flows discounted at the market rate of interest for similar borrowings. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(j) **Current and deferred income taxes -**

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because taxable profits exclude 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 the reporting date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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 statement of income, except where it relates to items charged or credited to other comprehensive income or equity, in which case deferred tax is also dealt with in other comprehensive income or equity.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

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

(k) **Cash and cash equivalents -**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short term deposits with original maturities of three months or less, net of bank overdraft.

(l) **Trade and other payables -**

Trade and other payables are stated at amortized cost.

(m) **Employee benefits -**

(i) Deferred contributions plans

Contributions to defined contribution pension plans are charged to the statement of comprehensive income in the year to which they relate.

(ii) Profit-sharing and bonus plan

The company recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's stockholders after certain adjustments. The company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Other employee benefits

Employee entitlement to annual leave and other benefits are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and other benefits as a result of services rendered by employees up to the end of the reporting period.

(n) **Revenue recognition -**

Revenue is recognized in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and discounts.

Interest income is recognised in the income statement for all interest bearing instruments on an accrual basis unless collectibility is doubtful.

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

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

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

(o) **Share capital -**

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity.

(q) **Dividend distribution -**

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders. In the case of interim dividends to equity shareholders, this is when declared by the shareholders.

Dividend for the year that are declared after the reporting date are dealt with in the subsequent events note.

(r) **Borrowings and borrowing costs -**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost.

Borrowing costs incurred for the construction of the qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:**

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) **Critical judgements in applying the company's accounting policies -**

In the process of applying the company's accounting policies, management has not made any judgements that it believes would cause a significant impact on the amounts recognized in the financial statements.

(b) **Key sources of estimation uncertainty -**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts and assets and liabilities within the next financial year are discussed below:

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D):**

(b) **Key sources of estimation uncertainty (cont'd) -**

(i) **Fair value estimation**

A number of assets and liabilities included in the company's financial statements require measurement at, and/or disclosure of, at fair value.

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

The fair value measurement of the company's financial and non financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique are.

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices(or indirectly (that is, derived from prices).

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

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

Transfers of items between levels are recognised in the period they occur.

The fair value of financial instruments traded in active markets, such as available-for-sale investments, is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1 and comprise equity instruments traded on the Jamaica Stock Exchange.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D):**

(b) **Key sources of estimation uncertainty (cont'd) -**

(i) **Fair value estimation (cont'd)**

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

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

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

(ii) **Depreciable assets**

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

(iii) **Income taxes**

Estimates are required in determining the provision for income tax. There are some transactions and calculations for which the ultimate tax determination is uncertain. The company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. **FINANCIAL RISK MANAGEMENT:**

The company is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price, and
- Liquidity risk

In common with all other businesses, the company's activities expose it to a variety of risks that arise from its use of financial instruments. This note describes the company's objectives, policies and processes for managing those risks to minimize potential adverse effects on the financial performance of the company and the methods used to measure them.

There have been no substantive changes in the company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(i) **Principal financial instruments**

The principal financial instruments used by the company, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Due from related company
- Long term loan

(ii) **Financial instruments by category**

Financial assets

	Loans and Receivable	
	2014	**2013**
	$'000	**$'000**
Cash and bank balances	59,352	122,959
Short term investment	77,871	69,214
Receivables	811,932	628,938
Total financial assets	949,155	821,111

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(ii) **Financial instruments by category (cont'd)**

	Financial liabilities at amortised cost	
	2014 $'000	2013 $'000
Payables	636,092	258,853
Bank overdraft	-	30,958
Long term loan	1,489,000	1,005,855
Total financial liabilities	2,125,092	1,295,666

(iii) **Financial instruments not measured at fair value**

Financial instruments not measured at fair value includes cash and cash equivalents, receivables, payables, long term loan.

Due to their short-term nature, the carrying value of cash and cash equivalents, receivables and payables approximates their fair value.

(iv) **Financial risk factors -**

The Board of Directors has overall responsibility for the determination of the company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the company's finance function. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investments of excess liquidity.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the company's competitiveness and flexibility. Further details regarding these policies are set out below:

(**i**) **Market risk**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

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NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd) -**

(**i**) **Market risk (cont'd)**

Currency risk (cont'd)

Foreign exchange risk arises from transactions for purchases and US Dollar denominated investments. The company's exposure to foreign currency risk was as follows:

	2014 $'000	2013 $'000
Cash and bank balances	54,765	122,548
Short term investment	77,871	69,214
Receivables	110,548	122,012
Payables	(476,907)	(160,246)
	(233,723)	153,528

Foreign currency sensitivity

The following table indicates the sensitivity of profit before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank, accounts receivable balances and accounts payables balances, and adjusts their translation at the year-end for 15% (2013 – 10%) depreciation and a 1% (2013 – 1%) appreciation of the Jamaican dollar against the US dollar. The changes below would have no impact on other components of equity.

	% Change in Currency Rate 2014	Effect on Profit before Tax 31 March 2014 $'000	% Change in Currency Rate 2013	Effect on Profit before Tax 31 March 2013 $'000
Currency:				
USD	+1	2,377	+1	(1,535)
USD	-15	(35,058)	-10	15,353

Exchange rates in terms of Jamaican dollar for US$1 were as follows:

31 March 2014	109.28
31 March 2013	98.62

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd) -**

(**i)** **Market risk (cont'd)**

Foreign currency sensitivity (cont'd)

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

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 equity securities price risk arising from its holding of available-for-sale investments. As the company does not have a significant exposure, market price fluctuations are not expected to have a material effect on the net results or stockholders' equity.

Cash flow and fair value interest rate risk

Cash flow is the risk that the future cash flows associated with monetary financial instrument will fluctuate in amount. The company manages this risk through budgetary measures, ensuring as far as possible that fluctuation in cash flows relating to monetary financial assets and liabilities are matched to mitigate any significant adverse cash flows.

Interest rate sensitivity

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

There is no significant exposure to interest rate risk on short term deposits, as these deposits have a short term to maturity and are constantly reinvested at current market rates.

The company's interest rate risk arises from cash and cash equivalents, loan and bank overdraft. Loan interest is fixed for three years hence there is no significant exposure to interest rate fluctuations.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd) -**

(ii) **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises from trade receivables, due from related company and cash and bank balances.

Trade receivables

Revenue transactions in respect of the company's primary operations are settled either in cash or by using major credit cards. For its operations done on a credit basis, the company has policies in place to ensure that sales are made to customers with an appropriate credit history.

Cash and bank balances

Cash transactions are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any one financial institution.

Maximum exposure to credit risk

The maximum exposure to credit risk is equal to the carrying amount of trade and other receivables and cash and cash equivalents in the statement of financial position.

Trade receivables that are past due but not impaired

At as 31 March 2014, trade receivables of $115,877,000 (2013 - $231,327,000) were past due but not impaired. These relate to customers for whom there is no recent history of default.

(iii) **Liquidity risk**

Liquidity risk is the risk that the company will be unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd) -**

(iii) **Liquidity risk (cont'd)**

The company's liquidity management process, as carried out within the company and monitored by the Finance Department, includes:

(i) Monitoring future cash flows and liquidity on a bi-weekly basis.
(ii) Maintaining a portfolio of short term deposit balances that can easily be liquidated as protection against any unforeseen interruption to cash flow.
(iii) Maintaining committed lines of credit.
(iv) Optimising cash returns on investments.

Cash flows of financial liabilities

The maturity profile of the company's financial liabilities, based on contractual undiscounted payments, is as follows:

	Within 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
31 March 2014					
Payables	636,092	-	-	-	636,092
Long term loan	187,615	342,946	958,439	-	1,489,000
Total financial liabilities (contractual maturity dates)	823,707	342,946	958,439	-	2,125,092

	Within 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
31 March 2013					
Payables	258,853	-	-	-	258,853
Bank overdraft	30,958	-	-	-	30,958
Long term loan	-	187,615	342,946	475,294	1,005,855
Total financial liabilities (contractual maturity dates)	289,811	187,615	342,946	475,294	1,295,666

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(v) **Capital management -**

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders. The Board of Directors monitors the return on capital, which the company defines as net operating income, excluding non-recurring items, divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to stockholders.

There are no particular strategies to determine the optimal capital structure. There are also no external capital maintenance requirements to which the company is subject.

6. **REVENUE:**

Revenue represents the price of goods sold after discounts and allowances.

7. **OTHER OPERATING INCOME:**

	2014 $'000	2013 $'000
Interest income	1,195	774
Management fees	-	2,839
Rental income	-	189
Other income	441	4,564
	1,636	8,366

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

8. **EXPENSES BY NATURE:**

Total administrative, selling and other expenses:

	2014 $'000	2013 $'000
Staff costs (note 9)	147,233	156,350
Directors' fees	2,833	2,598
Auditors' remuneration –		
current year	4,000	3,815
prior year	(35)	(360)
Legal and professional	16,147	10,149
Security	22,699	12,597
Insurance	40,224	25,251
Repairs and maintenance	9,248	11,651
Building rental	11,655	12,399
Advertising and promotion	73,387	61,707
Foreign exchange loss	8,279	15,507
Travelling and entertainment	21,299	24,747
Depreciation	26,941	19,272
Donation and subscription	7,309	8,001
Bank charges	7,372	4,031
Utilities	44,150	31,444
Other operating expenses	16,238	14,097
	458,979	413,256

9. **STAFF COSTS:**

	2014 $'000	2013 $'000
Salaries and related costs	75,391	82,789
Directors' emoluments	45,242	44,335
Profit related pay	2,937	3,200
Termination costs	2,479	7,330
Pension costs	3,032	2,621
Staff welfare	16,188	13,299
	145,269	153,574
Redundancy costs	1,964	2,776
	147,233	156,350

The average number of persons employed by the company during the year was forty-two (42), (2013 – thirty-seven (37)).

Also included in cost of sales is an amount of $37,515,599 (2013 - $22,965,446) representing production workers staff costs.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

10. **FINANCE COSTS:**

	2014 $'000	2013 $'000
Interest expense	14,570	4,314

11. **TAXATION EXPENSE:**

(a) Reconciliation of theoretical tax charge that would arise on profit before tax using the applicable tax rate to actual tax charge.

	2014 $'000	2013 $'000
Profit before taxation	584,450	640,220
Taxation calculated at 25%	146,113	160,055
Adjusted for the effects of:		
Expenses not deducted for tax purposes	9,095	8,536
Net effect of other charges and allowances	(36,466)	(2,961)
	118,742	165,630
Adjustment for the effect of tax remission:		
Current tax	(118,742)	(165,630)
Taxation in income statement	-	-

(b) Remission of income tax:

The company's shares were listed on the Jamaica Stock Exchange Junior Market, effective 12 October 2010. Consequently, the company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least 15 years.

Years 1 to 5	100%
Years 6 to 10	50%

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

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

12. **EARNINGS PER STOCK UNIT:**

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the number of ordinary stock units in issue at year-end.

	2014	2013
Net profit attributable to stockholders ($'000)	584,450	640,220
Number of ordinary stock units ('000)	4,087,130	4,087,130
Earnings per stock unit ($ per share)	0.14	0.16

The number of shares for both years reflects the ten (10) split in the number of shares in issue up to 5 July 2013.

13. **DIVIDENDS:**

	2014 $'000	2013 $'000
In respect of 2012 (0.14¢ per share)	-	57,219

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

14. **PROPERTY, PLANT AND EQUIPMENT:**

	Land & Buildings $'000	Machinery & Equipment $'000	Leasehold Improvement $'000	Assets under Construction $'000	Motor Vehicles $'000	Furniture & Fixtures $'000	Computer Equipment $'000	Total $'000
At cost:								
1 April 2012	149,479	155,820	5,277	796,617	18,383	6,309	195,154	1,327,039
Additions	-	3,306	-	911,236	-	685	177	915,404
Retirement/disposal	-	-	-	-	(2,685)	-	-	(2,685)
31 March 2013	149,479	159,126	5,277	1,707,853	15,698	6,994	195,331	2,239,758
Transfer	747,377	(26)	-	(747,377)	-	-	26	-
Additions	-	1,336	-	1,001,304	-	85	61,059	1,063,784
Retirement/disposal	-	-	-	-	-	(518)	-	(518)
At 31 March 2014	896,856	160,436	5,277	1,961,780	15,698	6,561	256,416	3,303,024
Depreciation:								
1 April 2012	12,020	97,452	2,142	-	10,182	3,546	192,091	317,433
Charge for the year	2,584	11,445	698	-	2,348	458	1,739	19,272
Retirement/disposal	-	-	-	-	(2,685)	-	-	(2,685)
31 March 2013	14,604	108,897	2,840	-	9,845	4,004	193,830	334,020
Adjustment	-	(4)	-	-	-	-	5	1
Charge for the year	5,698	10,910	698	-	2,347	349	6,939	26,941
Retirement/disposal	-	-	-	-	-	(116)	-	(116)
At 31 March 2014	20,302	119,803	3,538	-	12,192	4,237	200,774	360,846
Net Book Value:								
31 March 2014	876,554	40,633	1,739	1,961,780	3,506	2,324	55,642	2,942,178
31 March 2013	134,875	50,229	2,437	1,707,853	5,853	2,990	1,501	1,905,738

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

14. **PROPERTY, PLANT AND EQUIPMENT (CONT'D):**

Included in land and buildings is a property located at White Marl, St. Catherine which is owned as Tenants in common in equal shares with a related company.

The net book value of property, plant and equipment includes assets under construction amounting to $1,961,780,000 (2013 - $1,707,853,000) relating to the construction of new warehouse, plant and equipment to be located at White Marl, St. Catherine.

The cost will be depreciated once the property is complete and available for use. The estimated (additional) cost of completion of the facility and to which the company is contractually committed is $100,000,000.

Interest and commitment fees capitalised during the year amounted to $120,455,978

15. **INVENTORIES:**

	2014 $'000	2013 $'000
Raw materials	341,266	298,301
Finished goods	18,220	10,264
Goods in transit	382,398	181,295
	741,884	489,860

16. **RECEIVABLES:**

	2014 $'000	2013 $'000
Trade receivables	781,632	549,784
Other receivables	30,300	79,154
	811,932	628,938

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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17. **RELATED PARTY TRANSACTIONS AND BALANCES:**

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

The following transactions were carried out with related parties:

	2014 $'000	2013 $'000
Transactions		
Purchase of goods/foreign currency:		
Lasco Distributors Limited	32,953	33,053
Lasco Financial Services Limited	2,348,512	2,585,199
Sale of goods/services:		
Lasco Distributors Limited	3,622,535	3,339,219
Management fees income/(expense):		
Lasco Distributors Limited	-	2,839
Lasco Financial Services Limited	(143)	(512)
Building rental expense	6,840	6,840
Key management compensation (included in staff cost – note 9):		
Key management includes directors, (executive and senior managers) -		
Salaries and other short-term employee benefits	52,908	51,061
Directors' emoluments:		
Fees	2,833	2,598
Management remuneration (included above)	48,179	47,535
Year end balances		
With related companies:		
Due from –		
Lasco Distributors Limited	7	10
Lasco Foods Limited	3,141	3,141
Lasco Financial Services Limited	9	-
	3,157	3,151
Lasco Distributors Limited (included in trade receivables)	669,379	464,839
Lasco Financial Services Limited (included in trade receivables)	1,203	253

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

17. **RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D):**

Year end balances (cont'd)

	2014 $'000	2013 $'000
Due to –		
Lasco Distributors Limited (included in payables)	13,628	10,799
Lasco Financial Services Limited (included in payables)	542	1,104

There is a thirty (30) day repayment term of the amounts due to and from related companies.

	2014 $'000	2013 $'000
With directors and other key management:		
Director's current account	2,377	2,918

18. **SHORT TERM INVESTMENT:**

This represents US$ interest bearing deposit which have been invested for a period of one (1) year at a weighted average interest rate of 1.24%.

19. **CASH AND CASH EQUIVALENTS:**

	2014 $'000	2013 $'000
Cash and bank balances -		
Petty cash	20	20
Cash in hand	25	25
Certificate of deposit	35,830	32,146
Foreign currency savings account	13,563	37,167
Foreign currency current accounts	5,372	53,237
Local current accounts	4,542	364
	59,352	122,959
Bank overdraft	-	(30,958)
	59,352	92,001

20. **SHARE CAPITAL:**

	2014 $'000	2013 $'000
Authorised -		
4,427,500,000 (2013 – 442,750,000) ordinary shares of no par value		
Stated capital –		
Issued and fully paid –		
4,087,130,170 (2013 – 408,713,017) ordinary shares of no par value	305,298	305,298

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

20. **SHARE CAPITAL (CONT'D):**

Increase in authorised and stated capital

At an Extra Ordinary General Meeting held 26 June 2013, the following Resolution was passed:

That each of the shares of no par value in the present capital of the company whether issued or unissued be sub-divided into ten (10) shares of no par value.

21. **LONG TERM LOAN:**

	2014 $'000	2013 $'000
FirstCaribbean International Bank (Jamaica) Limited	1,489,000	1,005,855
Less: current portion	(187,615)	(201,707)
	1,301,385	804,148

The loan attracts an interest rate of 8.4% per annum which is fixed for three years to 31 May 2015. Thereafter, either a new fixed rate is to be determined for the remaining two years of the facility or a variable rate of 6 month weighted average treasury bill yield rate plus 2%, with the interest rate to be reset semi-annually based on the most recent 6 month treasury bill yield rate immediately prior to the date of reset, will be applied. There will be an initial twelve month moratorium on principal repayments during which time, interest only, will be payable at monthly rests, in arrears.

The loan is secured by the following:

(i) First mortgage issued by Lasco Manufacturing Limited and Lasco Distributors Limited over each mortgagor's interest in commercial property located at White Marl, St. Catherine and registered at Volume 1092 Folio 796 ("White Marl") in the names of the mortgagors and which mortgage is to be issued by each mortgagor to secure:

(a) its indebtedness arising from its borrowing from and other direct liabilities incurred to the bank; and

(b) its indebtedness as guarantor of payment of the other mortgagor's indebtedness to the bank as at (a), such guarantee to be limited in each cases to the value of the mortgagor's interest in White Marl. The said mortgage to be stamped to cover JMD$1.207 billion (with power to upstamp) and to be the principal security intended to secure indebtedness arising from advances to Lasco Manufacturing Limited pursuant to this facility letter as well as advances to Lasco Distributors Limited pursuant to a facility letter of even date hereto, issued to Lasco Distributors Limited and in the case of each company, such other indebtedness as may arise pursuant to other agreements with the bank.

LASCO MANUFACTURING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

21. **LONG TERM LOAN (CONT'D):**

(ii) First debenture over fixed and floating assets of the company.

(iii) Hypothecation of credit balances held, whether in foreign or local currencies or both, being not less than US$1.05 million or equivalent.

(iv) Fire or peril insurance including all risks over building, content (inventories, machinery, equipment) with the interest of FirstCaribbean International Bank (Jamaica) Limited noted thereon.

22. **PAYABLES:**

	2014 $'000	2013 $'000
Trade payables	578,040	223,443
Other payables and accruals	58,052	35,410
	636,092	258,853

23. **PENSION SCHEME:**

The company operates a defined contribution pension scheme which is administered by BPM Financial Limited and is open to all permanent employees.

The scheme is funded by the company's and employees' contributions. The company's contributions to the scheme are expensed and amounted to $3,032,276 (2013 - $2,621,342) for the year.

24. **CONTINGENT LIABILITIES:**

The company's banker, FirstCaribbean International Bank (Jamaica) Limited has issued guarantees in favour of third parties totalling nil (2013 – J$8,000,000).