

Barbados Dairy Industries Limited

Financial Statements

December 31, 2018

(expressed in Barbados dollars)



Grant Thornton Ltd
Suite 2, Berne Building
The Courtyard
Hastings
P.O. Box 94W
Christ Church B15156
Barbados W.I.

T +1 246 537 3445
F +1 246 537 8934

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Barbados Dairy Industries Limited

Qualified Opinion

We have audited the accompanying financial statements of **Barbados Dairy Industries Limited** (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

We were appointed as auditors of the Company on September 16, 2019 and thus did not observe the counting of the physical inventories as at December 31, 2018. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held as at December 31, 2018, which are stated in the statement of financial position at \$20,233,336. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and the elements making up the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *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 qualified opinion.



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. These matters were addressed in the context of our audit of the financial statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue recognition

Description of the Matter

Revenue is one of the key performance measures used to assess business performance. There is a risk that the amount of revenues presented in the financial statements is higher than the amount that was actually earned by the Company. Revenue from sale of goods is recognised when control over the goods has been transferred to the customers (i.e. generally when the customer has acknowledged receipt of the goods). In our view, revenue recognition is significant to our audit because the amount is material to the financial statements. It also involves voluminous transactions, requires proper observation of cut-off procedures and testing the validity of transactions, and directly impacts the Company's profitability.

The Company's disclosures about its revenues and related receivables, and revenue recognition policies including the adoption of IFRS 15, *Revenue from Contracts with Customers*, are included in Notes 4, 6 and 11.

How the Matter was Addressed in the Audit

Our audit procedures performed to address the risk of material misstatement relating to revenue recognition included the following:

- Obtained an understanding of the Company's processes and controls over revenue recognition, approval and documentation;
- Evaluated the appropriateness of the Company's revenue recognition policy in accordance with IFRS 15;
- Performed substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales and sales mix composition based on our expectations, investigation of variances from our expectations, and verifying that the underlying data used in the analyses were reliable;
- Tested on a sample basis, the sales invoices, delivery receipts and cash receipts of sales transactions throughout the current year to determine the validity and occurrence of sales;
- Examined evidence of subsequent collections of trade receivables, and corresponding sales invoices and proof of deliveries;



Grant Thornton

An instinct for growth™

Key Audit Matters ...continued

Revenue recognition ...continued

How the Matter was Addressed in the Audit ...continued

- Tested sales invoices and delivery receipts immediately prior and subsequent to the current period to determine whether the related sales transactions were recognised in the proper reporting period; and
- Evaluated the sufficiency and adequacy of disclosures in the Company's financial statements in accordance with IFRS.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient 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.



Grant Thornton

An instinct for growth™

Auditor's Responsibilities for the Audit of the Financial Statements ...continued

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

We communicate with 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.

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

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

Other Matters

This report is made solely to the Company's shareholders, as a body, in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders for our audit work, for this report, or for the opinion we have formed.



Grant Thornton

An instinct for growth™

Other Matters ...continued

The financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unqualified opinion on those statements on December 10, 2018.

The engagement partner on the audit resulting in this independent auditor's report is Jefferson E. Hunte.

Grant Thornton Ltd

**Chartered Accountants
March 16, 2020
Barbados**

Barbados Dairy Industries Limited

Statement of Financial Position

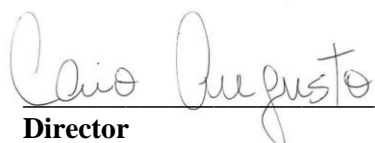
As at December 31, 2018

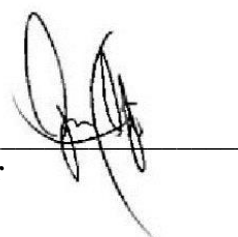
(expressed in Barbados dollars)

	2018 \$	2017 Restated \$	January 1, 2017 Restated \$
Assets			
Current assets			
Cash (note 10)	4,981,049	5,502,583	3,322,737
Receivables and prepayments (note 11)	5,958,421	6,553,142	7,278,521
Inventories (note 12)	20,233,336	11,969,292	11,387,234
Due from related companies (note 13)	11,937,356	11,001,295	5,454,138
	43,110,162	35,026,312	27,442,630
Asset classified as held for sale	–	–	40,000
	43,110,162	35,026,312	27,482,630
Current liabilities			
Accounts payable and accruals (note 15)	11,686,031	6,590,694	5,410,668
Due to related companies (note 13)	2,250,737	3,909,912	2,327,796
Current portion of loans due to parent company (note 13)	1,174,877	1,148,921	1,170,790
Current portion of long-term liabilities	–	–	740,123
	15,111,645	11,649,527	9,649,377
Working capital	27,998,517	23,376,785	17,833,253
Deferred tax asset (note 9)	1,407,652	4,746,991	6,353,247
Long-term investment (note 16)	1	1	1
Property, plant and equipment (note 17)	13,470,112	15,893,025	18,920,561
Pension plan asset (note 18)	8,970,000	7,166,805	4,029,804
Post-employment medical liability (note 19)	(256,000)	(354,355)	(325,355)
Long-term liabilities	–	–	(2,570,461)
Loans due to parent company (note 13)	(2,118,625)	(3,293,503)	(4,395,677)
	49,471,657	47,535,749	39,845,373
Equity			
Share capital (note 20)	998,028	998,028	998,028
Other reserves (note 21)	3,174,503	1,724,873	(764,777)
Retained earnings	45,299,126	44,812,848	39,612,122
Total equity	49,471,657	47,535,749	39,845,373

The notes on pages 1 to 43 are an integral part of these financial statements.

Approved by the Board of Directors on March 16, 2020.


Director


Director

Barbados Dairy Industries Limited

Statement of Income

For the year ended December 31, 2018

(expressed in Barbados dollars)

	2018 \$	2017 \$
Sales (note 6)	54,865,957	59,629,903
Cost of sales (note 7)	(47,140,319)	(47,309,306)
Gross profit	7,725,638	12,320,597
Other income	38,566	19,620
Selling, general and administrative expenses (note 7)	(3,695,771)	(4,776,021)
Profit from operations	4,068,433	7,564,196
Interest expense	(123,186)	(211,434)
Income before taxation	3,945,247	7,352,762
Taxation (note 9)	(3,458,969)	(1,166,906)
Net income for the year	486,278	6,185,856
Earnings per share – basic and diluted (note 23)	0.10	1.32

The notes on pages 1 to 43 are an integral part of these financial statements.

Barbados Dairy Industries Limited

Statement of Comprehensive Income For the year ended December 31, 2018

(expressed in Barbados dollars)

	2018 \$	2017 \$
Net income for the year	486,278	6,185,856
Other comprehensive income, net of tax		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Re-measurement gain on defined benefit plans and post-employment medical liability (notes 18 and 19)	1,330,000	2,929,000
Tax effect (note 9)	119,630	(439,350)
Total other comprehensive income, net of tax	1,449,630	2,489,650
Total comprehensive income for the year	1,935,908	8,675,506

The notes on pages 1 to 43 are an integral part of these financial statements.

Barbados Dairy Industries Limited

Statement of Changes in Equity

For the year ended December 31, 2018

(expressed in Barbados dollars)

	Share capital \$	Other reserves \$	Retained earnings \$	Total \$
Balance as at December 31, 2016	998,028	(764,777)	39,612,122	39,845,373
Comprehensive income				
Net income for the year	–	–	6,185,856	6,185,856
Other comprehensive income for the year (note 21)	–	2,489,650	–	2,489,650
Total comprehensive income for the year	–	2,489,650	6,185,856	8,675,506
Transactions with owners				
Dividends (note 20)	–	–	(985,130)	(985,130)
Balance as at December 31, 2017	998,028	1,724,873	44,812,848	47,535,749
Comprehensive income				
Net income for the year	–	–	486,278	486,278
Other comprehensive income for the year (note 21)	–	1,449,630	–	1,449,630
Total comprehensive income for the year	–	1,449,630	486,278	1,935,908
Balance as at December 31, 2018	998,028	3,174,503	45,299,126	49,471,657

The notes on pages 1 to 43 are an integral part of these financial statements.

Barbados Dairy Industries Limited

Statement of Cash Flows

For the year ended December 31, 2018

(expressed in Barbados dollars)

	2018 \$	2017 \$
Cash flows from operating activities		
Income before taxation	3,945,247	7,352,762
Adjustments for:		
Depreciation (note 17)	3,026,457	3,205,690
Pension plan income (note 18)	(569,000)	(193,000)
Interest expense	123,186	211,434
Other post-medical liability benefits paid	(24,355)	–
Post-employment medical liability expense (note 19)	23,000	15,000
Loss on disposal of property, plant and equipment	5,862	–
Pension plan contribution	(1,195)	(1,000)
Loss on disposal of asset held for sale	–	13,997
Operating profit before working capital changes	6,529,202	10,604,883
Decrease in receivables and prepayments	594,721	725,378
Increase in inventories	(8,264,044)	(582,058)
Increase in due from related companies	(936,061)	(5,547,157)
Increase in accounts payable and accruals	5,095,337	1,180,026
(Decrease)/increase in due to related companies	(1,659,175)	1,582,116
Cash generated from operations	1,359,980	7,963,188
Interest paid	(123,186)	(211,434)
Net cash from operating activities	1,236,794	7,751,754
Cash flows from investing activities		
Proceeds from disposal of asset held for sale	–	26,003
Purchase of property, plant and equipment (note 17)	(609,406)	(178,154)
Net cash used in investing activities	(609,406)	(152,151)
Cash flows from financing activities		
Dividends paid	–	(985,130)
Repayment of long-term liabilities	–	(3,310,584)
Repayment from loans due to parent company	(1,148,922)	(1,124,043)
Net cash used in financing activities	(1,148,922)	(5,419,757)
(Decrease)/increase in cash for the year	(521,534)	2,179,846
Cash at beginning of year	5,502,583	3,322,737
Cash at end of year	4,981,049	5,502,583

The notes on pages 1 to 43 are an integral part of these financial statements.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

1 Nature of operations

Barbados Dairy Industries Limited (the “Company”), a publicly listed entity in Barbados, was incorporated under the Laws of Barbados on March 12, 1964. Its parent company is Banks Holdings Limited, a publicly listed company incorporated in Barbados.

In 2015, the parent company was acquired by SLU Beverages (“SLU”), a company incorporated and domiciled in St. Lucia. SLU is a subsidiary of Cerveceria Nacional Dominicana (“CND”) headquartered in the Dominican Republic. The ultimate parent is AB-Inbev, a company incorporated and domiciled in Brazil.

The principal activity of the Company is the manufacturing, processing and distribution of dairy products and fruit juices.

The Company’s registered office is located at the Pine, St. Michael, Barbados.

2 General information compliance with International Financial Reporting Standards (IFRS) and going concern assumption

The financial statements of the Company have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, except for the long-term investment which is measured at fair value. The measurement bases are fully described in the summary of accounting policies. The financial statements have been prepared under the assumption that the Company operates on a going concern basis.

International Accounting Standard (IAS) 1, Presentation of Financial Statements, paragraph 10(f) requires an entity to present an additional statement of financial position as at the beginning of the preceding year when:

- an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or when it makes reclassifications in its financial statements; and
- the retrospective application, or retrospective restatement of the reclassification has a material effect on the information in the financial position at the beginning of the preceding period.

Related notes to the additional statement of financial position are not required.

The reclassification disclosed in note 27 has a material effect on the statement of financial position as at January 1, 2017. Therefore, the Company presents a third statement of financial position as at January 1, 2017, without related notes except for the disclosures required by IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

3 New or revised standards or interpretations

New standards and amended standards effective for the financial year beginning January 1, 2018

Certain new and revised standards became effective during the current year. The following are relevant to the Company's operations.

IFRS 9, Financial Instruments

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

The adoption of IFRS 9 did not have a material impact on the Company's financial statements as Management holds financial assets to hold and collect the associated cash flows. Financial assets previously classified as at amortised cost under IAS 39 continue to be accounted for at amortised cost as they meet the hold to collect business model and contractual cash flow characteristics test in IFRS 9.

The Company uses a simplified model of recognising lifetime expected credit losses as the financial assets do not have a significant financing component. There was no impairment of financial assets applying the expected credit loss model as the amounts are all current, performing and fully collected within the credit period.

The adoption of IFRS 9 did not have a material impact on these financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 replaces IAS 18, 'Revenue', IAS 11, 'Construction Contracts', and several Revenue related interpretations. IFRS 15 defines a comprehensive framework for determining when and to what extent revenue can be recognised. In accordance with IFRS 15, an entity shall recognise revenue as a monetary amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services in question.

According to the standard, revenue must be allocated to performance obligations based on relative transaction prices. A performance obligation is defined as a promise to transfer services to customers. The revenue recognition takes place over time or at a point in time, with the transfer of control as the key criterion.

Application of the standard did not have an impact on the recognition of revenue or the results of the Company. However, there are additional disclosure requirements, and these are outlined in note 6.

Other amendments to standards

Other standards and amendments that are effective for the first time in 2018 are as follows:

- Transfer to Investment Property (Amendments to IAS 40);
- Annual Improvements 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28);
- Applying IFRS 9, *Financial Instruments*, with IFRS 4, *Insurance Contracts*, (Amendments to IFRS 4);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2); and
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

3 New or revised standards or interpretations ...continued

*New standards and amended standards effective for the financial year beginning January 1, 2018
...continued*

Other amendments to standards ...continued

These amendments do not have an impact on these financial statements and therefore the disclosures have not been made.

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

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 16, Leases (effective from January 1, 2019)

IFRS 16 replaces IAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires that entities account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortisation. The lease liability is accounted for similar to a financial liability which is amortised using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under IAS 17 where lease payments are recognised as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to IAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management plans to adopt the modified retrospective application of IFRS 16 where the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings account at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

3 New or revised standards or interpretations ...continued

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

IFRS 16, Leases (effective from January 1, 2019) ...continued

Management is currently assessing the financial impact of this new standard on the Company's financial statements.

4 Summary of significant accounting policies

a) Revenue recognition

Revenue arises from the sale of goods. It is measured at the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. To determine whether to recognise revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

For Step 1 to be achieved, the following five criteria must be present:

- the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- each party's rights regarding the goods or services to be transferred or performed can be identified;
- the payment terms for the goods or services to be transferred or performed can be identified;
- the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and
- collection of the consideration in exchange of the goods and services is probable.

The Company derives revenue from sale of goods at a point in time, when (or as) the Company satisfies performance obligations by transferring the promised goods to its customers.

The Company recognises contract liabilities, if any, for consideration received in respect of unsatisfied performance obligations and reports these amounts as contract liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

a) Revenue recognition ...continued

In 2017 and prior periods, the Company recognised revenues based on the provisions of IAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Company. Specifically, for the sale of goods, revenues were recognised when the risks and rewards of ownership of the goods have passed to the buyer. Also, the Company applies the revenue recognition criteria set out below.

Sale of goods

Sale of goods is recognised when the significant risks and rewards of ownership of goods have passed to the buyer and the amount of revenue can be measured reliably.

Other income

Revenue earned from non-routine services and miscellaneous transactions are categorised as other revenue and recognised on the accrual basis.

b) Foreign currency translation

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”). The Company’s functional currency is Barbados dollars. The financial statements are also presented in Barbados dollars, which is the Company’s presentation currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

c) Inventories

Inventory is stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Finished goods comprise the direct cost of production and an attributable proportion of direct overheads appropriate to location and condition. Net realisable value is the price at which the stock can be realised in the normal course of business after deducting costs to complete and sell.

Supplies are valued at cost. Provisions are made for obsolete, slow moving and defective items as considered appropriate in the circumstances.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

d) Property, plant and equipment

Property, plant and equipment are stated at historical less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Capital work in progress represents assets under construction and is stated at cost. These include the design and direct costs to the extent that they are directly attributable to the acquisition or construction of the property, and any other directly attributable costs of bringing the property to working condition. Capital work in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation is charged on leasehold buildings over the term of the lease or life of the asset whichever is shorter.

Depreciation of other property, plant and equipment is charged by using the straight-line basis at rates sufficient to write off the cost of the assets over their estimated useful lives as follows:

Plant and machinery	-	3 to 20 years
Furniture, fittings and other equipment	-	3 to 10 years
Motor vehicles	-	5 years
Containers	-	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of income.

e) Impairment of non-financial assets

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

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

e) Impairment of non-financial assets ...continued

discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

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

f) Taxation

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those claims from, or obligations to fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in Barbados.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilised against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

f) Taxation ...continued

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expenses in the statement of income, except where they relate to items that are recognised in other comprehensive income, if any, or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

The financial statements are prepared using the liability method of accounting for taxation whereby the future taxable liability or asset arising from temporary differences is provided for at the estimated future corporation tax rate that is expected to apply to the period when the liability is settled, or the asset realized. Deferred tax assets in respect of unused tax losses are recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized.

g) Provision for deposits owed to customers

The quantity of containers in customers' possession, on which the provision for deposits is based, is estimated by management, having regard to the level of sales and the turnaround of containers.

h) Employee benefits

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in other payables and accruals, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

Post-employment benefits

The Company operates a defined benefit plan, the assets of which are held in a separate fund administered by Trustees. The Company meets the balance of the cost of funding the plan and the Company pays contributions of 0.1% of the employee's salary. The funding requirements are based on regular actuarial valuations of the pension plan every three years.

Typically, a defined benefit plan defines an amount of a pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognized in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

h) Employee benefits ...continued

Post-employment benefits ...continued

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the statement of income.

The Company also operates a contributory defined contribution pension scheme. Contributions are charged to the statement of income in the year to which they relate. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company also provides post-employment healthcare benefits to its employees, pensions and their registered dependents. These benefits are funded by contributions from the Company to Guardian Life. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These obligations are valued by independent qualified actuaries.

i) Interest bearing loans payable

All interest-bearing loans payable are initially recognized at cost. After initial recognition, they are measured at amortized cost using the effective interest rate method.

j) Leases – Company as a lessee

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognised as an expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

k) Cash

Cash comprises of cash at bank and in hand net of bank overdrafts, if any.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

1) Financial instruments

i) Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

ii) Measurement methods

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the statement of income.

iii) Classification and initial measurement of financial assets

At initial recognition, the Company initially measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expenses in the statement of income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

1) Financial instruments ...continued

iii) Classification and initial measurement of financial assets ...continued

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial assets are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

In the current and prior periods presented, the Company does not have any financial assets categorised as FVOCI.

The classification is determined by both the Company's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets.

All income and expenses relating to financial assets that are recognised in the statement of income are presented within finance costs, finance income or other financial items, except for loss allowance of trade and other receivables and due from related parties, which is presented within selling, general and administrative expenses.

iv) Subsequent measurement of financial assets

Financial assets at amortised cost

Under IFRS 9, financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, trade and

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

1) Financial instruments ...continued

iv) Subsequent measurement of financial assets ...continued

other receivables and due from related parties are included within this category of financial instruments.

Financial assets at FVTPL

Equity instruments are instruments that do not contain contractual obligations to pay the instrument holder and that evidence residual interests in the issuer's net assets. The Company subsequently measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. A gain or loss on equity investment that is subsequently measured at FVTPL is recognised in profit or loss.

v) Impairment of financial assets

From January 1, 2018, the Company uses the IFRS 9's impairment requirement which assesses on a forward-looking basis, the expected credit losses – the 'expected credit loss model' on its financial assets carried at amortised cost and with the exposure arising from loan commitments. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements include, trade receivables and other debt-type financial assets measured at amortised cost, other receivables, contract assets, if any, recognised and measured under IFRS 15 and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead, the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

l) Financial instruments ...continued

v) Impairment of financial assets ...continued

The Company makes use of a simplified approach in accounting for trade and other receivables and due from related parties and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses loss allowance of trade and other receivables on a collective basis as they possess shared credit risk characteristics based on the days past due. Refer to Note 24(a)(ii) for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The Company categorises trade receivables for potential write-off when a debtor fails to make contractual payments more than 90 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Company. When recoveries are made, these are recognised in the statement of income.

vi) Classification and subsequent measurement and derecognition of financial liabilities

(i) Classification and subsequent measurement

In both the current and prior periods, financial liabilities are classified as subsequently measured at amortised cost.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

1) Financial instruments ...continued

vii) Accounting policies applied until December 31, 2017

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables; and
- FVTPL.

All financial assets are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and trade and other receivables and due from related parties fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

1) Financial instruments ...continued

vii) Accounting policies applied until December 31, 2017 ...continued

Classification and subsequent measurement of financial assets ...continued

(ii) FVTPL

Investments are initially recorded at cost, being the fair value of consideration given. After initial recognition, investments, which have been classified as at FVTPL, are recorded at their fair value. The fair value of listed investments is their quoted market price at the reporting date. Fair values have been estimated by management on the basis of recent trades of similar investments. Unrealised gains or losses are recorded in the statement of income.

The values assigned to the investments are based on available information and do not necessarily represent the amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be determined until the investments are actually liquidated. Because of the inherent uncertainties of valuation, the assigned values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include accounts payable and accruals, due to related parties and loans due to parent company.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognised in income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in income.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

l) Financial instruments ...continued

vii) Accounting policies applied until December 31, 2017 ...continued

Impairment of financial assets ...continued

In relation to loans and receivables, a provision for impairment is made when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of loans and receivables is reduced through use of an allowance account.

m) Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

n) Expenses

Expenses are recognised in the statement of income upon utilisation of the service or as incurred.

o) Borrowing costs

Borrowing costs are expenses in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

p) Provisions

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. 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 discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

4 Summary of significant accounting policies ...continued

p) Provisions ...continued

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the likelihood of an outflow of resources is remote.

q) Events after the reporting date

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

r) Earnings per share

Basic earnings per share are determined by dividing profit by the weighted average number of ordinary shares outstanding during the period after giving retroactive effect to stock dividends declared, stock splits and reverse stock splits during the period, if any.

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Company does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

s) Equity, other reserves and retained earnings

Share capital represents the proceeds of shares that have been issued.

Other reserves comprise mainly of the re-measurement of defined benefit plan and post-medical benefits.

Retained earnings include cumulative balance of net income or loss, dividend distributions, effect of changes in accounting policy and other capital adjustments.

All transactions with shareholders of the parent company are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

5 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

5 Significant accounting judgements, estimates and assumptions ...continued

Estimated impairment of inventories

Management recognises a provision for inventory losses when the realisable values of inventory items become lower than cost due to obsolescence or other causes. Obsolescence is based on the physical condition of inventory items. Obsolescence is also established when inventory items can no longer be utilised. Obsolete goods when identified are charged to the statement of income. The Company believes such estimates represent a fair charge for the level of inventory losses in a given year. The Company's policy is to review on an annual basis the condition of its inventory.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Employee retirement benefits

The present value of the defined benefit funded obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. Additional information is disclosed in note 18.

6 Sales

All of the Company's sales are recognised at a point in time, being the time of delivery to and acceptance by the customer, for both 2018 and 2017.

The Company's sales disaggregated by primary geographical market are as follows:

	2018	2017
	\$	\$
Country		
Barbados	44,695,252	48,996,131
Antigua and Barbuda	2,391,821	2,472,251
St. Lucia	2,265,485	2,347,311
Guyana	1,490,847	1,397,801
Other countries	1,465,972	1,812,562
St. Kitts and Nevis	995,768	1,046,613
Grenada	895,304	830,381
St. Vincent and the Grenadines	665,508	726,853
	54,865,957	59,629,903

(18)

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

7 Operating expenses by nature

The details of operating expenses by nature are shown below.

	2018	2017
	\$	\$
Materials	31,058,093	33,544,334
Production overhead	7,005,948	6,031,664
Staff costs (note 8)	6,562,816	6,959,407
Depreciation (note 17)	3,026,457	3,205,690
Advertising and promotions	1,396,258	949,605
Management fees (note 13)	1,008,000	1,008,000
Administrative and office expenses	738,163	1,454,925
Changes in inventories	(205,495)	(1,474,271)
Information technology and communications	75,412	163,281
Professional fees	73,841	88,996
Inventory obsolescence (note 12)	62,887	59,468
Vehicle expenses	33,710	94,228
	50,836,090	52,085,327

These expenses are classified in the statement of income as follows:

	2018	2017
	\$	\$
Cost of sales	47,140,319	47,309,306
Selling, general and administrative expenses	3,695,771	4,776,021
	50,836,090	52,085,327

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

8 Staff costs

The breakdown of this account follows:

	2018	2017
	\$	\$
Salaries, wages and allowances	6,359,404	6,131,083
NIS contributions	499,567	502,879
Bonus and gratuity	231,625	468,225
Post-employment medical liability (note 19)	23,000	15,000
Other staff costs	18,220	35,220
Pension – defined benefit plan (note 18)	(569,000)	(193,000)
	<u>6,562,816</u>	<u>6,959,407</u>

9 Taxation

Change in tax rate

During the year, the Government of Barbados announced certain changes to corporation taxes. Previously, the corporation tax rate applicable to manufacturing companies was 15%. However, effective January 1, 2019, that tax rate was reduced to 5.5% to 1% on a sliding scale.

	2018	2017
	\$	\$
Statement of income		
Deferred tax expense for the year	<u>3,458,969</u>	<u>1,166,906</u>

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

9 Taxation ...continued

The tax on the income before taxation differs from the theoretical amount that would arise using the basic corporation tax rate as follows:

	2018 \$	2017 \$
Income before taxation	3,921,247	7,352,762
Taxed at statutory rates of 15% (2017: 15%)	588,187	1,102,914
Manufacturing allowance	(1,233,342)	(79)
Depreciation on assets not qualifying for capital allowances	453,969	480,854
Unutilized tax losses	271,977	–
Pension and post-employment medical benefits	(81,150)	–
Others	359	(24,750)
Losses utilized	–	(1,558,939)
Current tax expense	–	–
Deferred tax expense arising from the recognition or reversal of deferred tax asset	3,458,969	1,166,906
	3,458,969	1,166,906
Deferred tax asset		
Balance at beginning of year	4,746,991	6,353,247
Deferred tax expense recognised in statement of income		
Accelerated depreciation for accounting purposes	(894,685)	429,033
Unutilized tax losses	271,976	(1,569,089)
Post-retirement medical liability	6,450	2,250
Pension plan asset	(87,600)	(29,100)
Effect of change in tax rate	(2,755,110)	–
	(3,458,969)	(1,166,906)
Deferred tax credit/(expense) recognised in other comprehensive income		
Post-retirement medical liability	(14,550)	2,100
Pension plan asset	(184,950)	(441,450)
Effect of change in tax rate	319,130	–
	119,630	(439,350)
Balance at end of year	1,407,652	4,746,991

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

9 Taxation ...continued

The deferred tax asset is analysed as follows:

	2018 \$	2017 \$
Accelerated depreciation for accounting purposes	1,238,844	4,273,305
Unutilized tax losses	648,078	1,495,554
Post-retirement medical liability	14,080	53,153
Pension plan asset	(493,350)	(1,075,021)
	<u>1,407,652</u>	<u>4,746,991</u>

Tax losses

The Company has unutilised tax losses of \$11,783,228 (2017: \$9,970,051) available to be carried forward and applied against future taxable income. The losses have not been agreed by the Revenue Commissioner of the Barbados Revenue Authority but are not in dispute.

Income Year	Amount \$	Expiry Date
2010	401,656	2019
2011	7,700,745	2020
2012	1,867,650	2021
2018	1,813,177	2025
	<u>11,783,228</u>	

10 Cash

	2018 \$	2017 \$
Cash on hand	371	371
Cash at banks	4,980,678	5,502,212
	<u>4,981,049</u>	<u>5,502,583</u>

Cash at banks is held with several local commercial banks in non-interest-bearing accounts. The amounts held in these accounts facilitate the short-term commitments and day-to-day operations of the Company.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

11 Receivables and prepayments

	2018 \$	2017 \$
Trade receivables	4,753,844	5,589,597
Other receivables	1,039,577	788,707
Prepayments	165,000	174,838
	5,958,421	6,553,142

Trade receivables

The Company's trade receivables are amounts due from customers for the goods sold in the ordinary course of business. They are generally due for settlement within 30 to 60 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Company's impairment policies and expected credit loss measurement are disclosed in Note 24(a)(ii). Due to the short-term nature of the Company's trade receivables, their carrying amount is considered to be the same as their fair value.

As at December 31, the aging analysis of trade receivables is as follows:

Year	Total \$	Current \$	< 30 days \$	30 – 60 Days \$	60 – 90 days \$	> 90 Days \$
2018	4,753,844	4,753,844	–	–	–	–
2017	5,589,597	5,589,597	–	–	–	–

12 Inventories

	2018 \$	2017 \$
Raw materials	14,066,143	6,613,808
Finished goods	4,134,126	3,418,802
Fuel and factory supplies	3,235,982	3,042,081
Marketing materials	19,739	54,368
	21,455,990	13,129,089
Provision for inventory obsolescence	(1,222,654)	(1,159,767)
	20,233,336	11,969,292

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

12 Inventories ...continued

The movement of provision for inventory obsolescence is shown below.

	2018	2017
	\$	\$
Balance at beginning of year	1,159,767	1,100,299
Provisions during the year (note 7)	62,887	59,468
	<hr/>	<hr/>
Balance at end of year	1,222,654	1,159,767
	<hr/>	<hr/>

The net of change in provision and direct write-down of inventories recognized in the statement of income is \$62,887 (2017: \$59,468). This amount is included in cost of sales.

13 Related party transactions and balances

Related party relationship exists when one party has the ability to control directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between or among entities under common control, parent company and its key management personnel, directors and shareholders.

Related party balances

Amounts due from/to related parties

The amount due from/to related companies are unsecured, interest-free and have no fixed terms of repayment.

	2018	2017
	\$	\$
Receivables		
Entities under common control	11,937,356	11,001,295
	<hr/>	<hr/>
Payables		
Entities under common control	2,250,737	3,909,912
	<hr/>	<hr/>

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

13 Related party transactions and balances ...continued

Related party balances ...continued

Loans due to parent company

	2018 \$	2017 Restated \$
Total loans due to parent company	3,293,502	4,442,424
Less: current portion	<u>(1,174,877)</u>	<u>(1,148,921)</u>
Non-current portion	<u>2,118,625</u>	3,293,503

Interest-bearing loan

The Company obtained an unsecured, interest-bearing loan from its parent company on January 21, 2016 amounting to \$3,000,000 for working capital support. The loan bears interest at a rate of 4.25% per annum, which matures on December 21, 2020 and is repayable in equal monthly instalment of \$55,589.

Interest expense incurred in 2018 charged to the statement of income amounted to \$68,143 (2017: \$93,020).

Noninterest-bearing loan

The Company obtained an unsecured noninterest-bearing loan from its parent company amounting to \$5,500,000 on September 30, 2012 for working capital support, which matures on August 31, 2022 and repayable in equal monthly instalment of \$45,833.

Related party transactions

During the year, the Company entered into the following transactions with its parent and fellow subsidiaries:

	2018 \$	2017 \$
Sales to a related company	14,743,964	14,559,823
Purchases from related companies	13,357,052	10,776,728
Management fees paid to related company (note 7)	750,000	750,000
Management fee paid to parent company (note 7)	258,000	258,000
Interest expense	68,143	93,020
Rent charged to related parties	6,321	44,247

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

13 Related party transactions and balances ...continued

Compensation of key management personnel of the Company:

	2018	2017
	\$	\$
Short-term employee benefits	<u>36,000</u>	<u>36,000</u>

14 Bank overdraft

The security for the bank overdraft facility of \$500,000 is secured by a letter of undertaking to provide the bank with a mortgage over the Company's assets, if called upon to do so and a guarantee endorsed by the parent company, Banks Holdings Limited.

Interest is charged and payable monthly on the overdraft balance at 4.25% (2017: 4.25%).

15 Accounts payable and accruals

	2018	2017
	\$	\$
Trade payables	6,820,471	5,490,610
Dividends payable (note 20)	65,056	71,369
Other payables and accruals	4,800,504	1,028,715
	<u>11,686,031</u>	<u>6,590,694</u>

Terms and conditions of the above liabilities are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-60 day terms; and
- Other payables are non-interest bearing and are normally settled within three months.

16 Long-term investment

	2018	2017
	\$	\$
Barbados Agro Processing Company Limited (in receivership)	<u>1</u>	<u>1</u>

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

17 Property, plant and equipment

	Buildings on leasehold land \$	Plant and machinery \$	Furniture, fittings and other equipment \$	Motor vehicles \$	Containers \$	Capital works in progress \$	Total \$
At December 31, 2016							
Cost	15,573,954	40,690,573	1,873,757	57,262	414,644	724,849	59,335,039
Accumulated depreciation	(9,617,570)	(28,486,604)	(1,842,543)	(53,117)	(414,644)	–	(40,414,478)
Net book value	5,956,384	12,203,969	31,214	4,145	–	724,849	18,920,561
Year ended							
December 31, 2017							
Opening net book value	5,956,384	12,203,969	31,214	4,145	–	724,849	18,920,561
Additions	–	15,309	–	–	–	162,845	178,154
Transfers, cost	–	724,849	–	–	–	(724,849)	–
Adjustments, cost	–	(2,782,859)	60,505	59,399	8,603	–	(2,654,352)
Adjustments, accumulated depreciation	–	2,697,109	21,972	(59,399)	(5,330)	–	2,654,352
Depreciation charges (note 7)	(381,154)	(2,782,279)	(38,027)	(957)	(3,273)	–	(3,205,690)
Closing net book value	5,575,230	10,076,098	75,664	3,188	–	162,845	15,893,025
At December 31, 2017							
Cost	15,573,954	38,647,872	1,934,262	116,661	423,247	162,845	56,858,841
Accumulated depreciation	(9,998,724)	(28,571,774)	(1,858,598)	(113,473)	(423,247)	–	(40,965,816)
Net book value	5,575,230	10,076,098	75,664	3,188	–	162,845	15,893,025

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

17 Property, plant and equipment ...continued

	Buildings on leasehold land \$	Plant and machinery \$	Furniture, fittings and other equipment \$	Motor vehicles \$	Containers \$	Capital works in progress \$	Total \$
Year ended							
December 31, 2018							
Opening net book value	5,575,230	10,076,098	75,664	3,188	–	162,845	15,893,025
Additions	–	–	–	–	–	609,406	609,406
Transfers	157,115	37,080	–	–	–	(194,195)	–
Adjustments, cost	–	(1,500)	341,489	–	–	303	340,292
Adjustments, accumulated depreciation	–	1,197	(341,489)	–	–	–	(340,292)
Disposals	–	–	(22,512)	–	–	–	(22,512)
Writeback of depreciation	–	–	16,650	–	–	–	16,650
Depreciation charges (note 7)	(393,539)	(2,602,274)	(29,687)	(957)	–	–	(3,026,457)
Closing net book value	5,338,806	7,510,601	40,115	2,231	–	578,359	13,470,112
At December 31, 2018							
Cost	15,731,069	38,683,452	2,253,239	116,661	423,247	578,359	57,786,027
Accumulated depreciation	(10,392,263)	(31,172,851)	(2,213,124)	(114,430)	(423,247)	–	(44,315,915)
Net book value	5,338,806	7,510,601	40,115	2,231	–	578,359	13,470,112

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

18 Pension plan asset

The amounts recognised in the statement of financial position are as follows:

	2018 \$	2017 \$
Statement of financial position		
Present value of funded obligations	(6,459,941)	(9,305,941)
Fair value of plan assets	<u>15,429,941</u>	<u>16,472,746</u>
Net asset recognised in the statement of financial position	<u>8,970,000</u>	<u>7,166,805</u>
Statement of income		
Interest cost	837,000	886,000
Current service cost	47,000	60,000
Administrative fees	38,000	55,000
Expected return on plan assets	<u>(1,491,000)</u>	<u>(1,194,000)</u>
Total, included in staff costs (note 8)	<u>(569,000)</u>	<u>(193,000)</u>
Actual return on plan assets	<u>(352,000)</u>	<u>1,397,000</u>
Statement of other comprehensive income		
Gain from change in assumptions	(2,146,000)	(1,900,000)
Gain from experience	(930,000)	(840,000)
Actual return on plan assets	352,000	(1,397,000)
Expected return on plan assets	<u>1,491,000</u>	<u>1,194,000</u>
Other comprehensive income	<u>(1,233,000)</u>	<u>(2,943,000)</u>
Net movement in pension plan asset recognised in the statement of financial position		
Balance at beginning of year	7,166,805	4,029,805
Net benefit income	569,000	193,000
Employer contributions	1,195	1,000
Other comprehensive income	<u>1,233,000</u>	<u>2,943,000</u>
Balance at end of year	<u>8,970,000</u>	<u>7,166,805</u>

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

18 Pension plan asset ...continued

Changes in present value of the funded obligations are as follows:

	2018	2017
	\$	\$
Balance at beginning of year	9,305,941	11,630,941
Interest cost	837,000	886,000
Current service cost	47,000	60,000
Benefits paid	(728,000)	(625,000)
Contributions by employee	36,000	39,000
Administrative fees	38,000	55,000
Actuarial gain on obligation	(3,076,000)	(2,740,000)
	<hr/>	<hr/>
Balance at end of year	6,459,941	9,305,941

Changes in the fair value of plan assets are as follows:

Balance at beginning of year	16,472,746	15,660,746
Actual return on plan assets	(352,000)	1,397,000
Contributions by employer and employee	37,195	40,000
Benefits paid	(728,000)	(625,000)
	<hr/>	<hr/>
Balance at end of year	15,429,941	16,472,746

	2018	2017
	%	%

Principal actuarial assumptions as at year were:

Discount rate at end of year	13.00	9.25
Future promotional salary increases	2.00	2.00
Future inflationary salary increases	3.00	3.50
Future increases in NIS ceiling for earnings	4.25	4.25
Future pension increases	3.75	3.75
Mortality	UP94-AA	UP94-AA

A quantitative sensitivity analysis for significant assumptions on the present value of the funded obligations as at December 31, 2018 is shown below.

	Increase	Decrease
	\$	\$
Change in discount rate by 1%	(690,000)	733,000
Change in salary increase by 0.5%	149,000	(135,000)

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

18 Pension plan asset ...continued

Life expectancy at age 60 for current pensioners in years:

Male – 23.4

Female – 26.0

The weighted duration of the defined benefit obligation was 15 years.

The Company expects to contribute \$1,513 to its defined benefit pension plans in 2019 (2018: \$1,441)

The major categories of plan assets as a percentage of the fair value of plan assets are as follows:

	2018	2017
	%	%
Bonds	33	35
Real estate	19	17
Mortgages	17	11
Equities	15	18
Mutual funds	14	14
Others	2	5

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

19 Post-employment medical liability

The amounts recognised in the statement of financial position are as follows:

	2018	2017
	\$	\$
Present value of unfunded obligation	256,000	354,355
Liability recognised in the statement of financial position	256,000	354,355

The amounts recognised in the statement of income are as follows:

Interest cost	31,000	25,000
Current service cost	12,000	9,000
Past service costs-vested benefits	(20,000)	(19,000)
	23,000	15,000

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

19 Post-employment medical liability ...continued

	2018 \$	2017 \$
Statement of other comprehensive income		
Gain from change in assumptions	(123,000)	(148,000)
Loss from experience	26,000	162,000
	<hr/>	<hr/>
Other comprehensive (income)/loss	(97,000)	14,000

	2018 \$	2017 \$
Movements in the net liability recognized in the statement of financial position are as follows:		
Net liability at beginning of year	354,355	325,355
Net expense recognised in the statement of income	43,000	34,000
Other comprehensive (income)/loss	(97,000)	14,000
Benefits paid	(44,355)	(19,000)
	<hr/>	<hr/>
Net liability at end of year	256,000	354,355

Changes in the present value of the unfunded obligation are as follows:

	2018 \$	2017 \$
Obligation at beginning of year	354,355	325,355
Interest cost	31,000	25,000
Current service cost	12,000	9,000
Benefits paid	(44,355)	(19,000)
Actuarial (gain)/loss	(97,000)	14,000
	<hr/>	<hr/>
Obligation at end of year	256,000	354,355

Principal actuarial assumptions used for accounting purposes at December 31, were as follows:	2018 %	2017 %
Discount rate at end of year	13.00	9.25
Future medical claims/premium inflation	4.25	4.25

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

19 Post-employment medical liability ...continued

A one percentage point change in the assumed rate of the following assumptions would have the following effect on the present value of the obligation:

	Increase \$	Decrease \$
Change of medical inflation by 1%	38,000	(31,000)
Change of discount rate by 1%	(28,000)	30,000

The weighted duration of the defined benefit obligation was 16 years.

Assuming no changes in the premium rates the Company expects to pay premiums of \$21,800 during the 2019 financial year (2018: \$19,127).

20 Share capital

Authorized

The Company is authorized to issue an unlimited number of shares without nominal or par value designated as common shares.

Issued

	Number of Shares			
	2018	2017	2018 \$	2017 \$
Balance at beginning and end of year	<u>4,691,094</u>	4,691,094	<u>998,028</u>	998,028

Dividends

In 2017, the Company's Board of Directors approved the declaration of cash dividends amounting to \$985,130. As at December 31, 2018, unpaid dividends amounting to \$65,056 is shown as part of accounts payable and accruals in the statement of financial position (2017: \$71,369) (see note 15).

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

21 Other reserves

The movement of other reserves is as follows:

	2018	2017
	\$	\$
Balance at beginning of year	1,724,873	(764,777)
Re-measurement gain on defined benefit plan and post-employment medical liability, net of tax	1,449,630	2,489,650
	<hr/>	<hr/>
Balance at end of year	3,174,503	1,724,873
	<hr/>	<hr/>

22 Commitments and contingencies

Operating lease commitments

The lease expenses for the year for motor vehicles and leasehold land were \$28,637 and \$6,321, respectively (2017: \$71,904 and \$44,247).

	2018	2017
	\$	\$
Future minimum lease payments under operating leases are as follows:		
Within one year	25,598	19,258
After one year but not more than five years	17,670	24,822
	<hr/>	<hr/>
	43,268	44,080
	<hr/>	<hr/>

Capital commitment

Capital expenditure of \$nil (2017: \$nil) was approved by the Directors and there were no amounts subject to contract in 2018 or 2017.

23 Earnings per share

	2018	2017
	\$	\$
Profit for the year	486,278	6,185,856
Divided by weighted average number of outstanding shares	4,691,094	4,691,094
	<hr/>	<hr/>
Basic and diluted earnings per share	0.10	1.32
	<hr/>	<hr/>

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

23 Earnings per share ...continued

Earnings per share are based on a net income of \$486,278 (2018: \$6,185,856) and a weighted average of 4,691,094 (2017: 4,691,094) common shares in issue during the year.

24 Financial risk management

a) Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company has not entered into forward contracts to reduce risk exposures. The Company's risk management focuses on actively seeking to minimise potential adverse effects on its financial performance.

The Company's risk management is coordinated with the Board of Directors and focuses on actively securing the Company's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

i) Market risk

i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates primarily in the Barbados market and is therefore not subject to significant foreign currency risk. Management monitors its exposure to foreign currency fluctuations and employs appropriate strategies to mitigate any potential losses.

The Company has transactional currency exposures. Such exposure arises from purchases by an operating unit in currencies other than the unit's functional currency. Approximately 70% (2017: 57%) of the Company's purchases are denominated in a currency other than the functional currency. However, the majority of these are in US\$ which has a fixed exchange rate to the functional currency. Fluctuations in currencies other than US\$ are not considered significant.

ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company manages its interest rate exposure by using a variable rate debt. The Company's exposure to the risk of changes in the market interest rates relates primarily to its long-term liabilities. As at the end of financial year 2018, the Company's only interest-bearing loans are with its parent company. As a result, management does not consider that there is any significant risk to the company with respect to changes in market interest rates.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

24 Financial risk management ...continued

a) Financial risk factors ...continued

i) Market risk ...continued

iii) Price risk

The Company is not materially exposed to equity securities price risk as the equity investment held by the Company and classified in the statement of financial position as financial assets classified as FVTPL is not significant to the financial statements.

ii) Credit risk

Credit risk management

Credit risk arises from cash at banks, contractual cash flows of financial assets carried at amortised cost as well as credit exposure to customers, including outstanding trade and other receivables and due from related parties.

The Company's credit risk is managed on an individual basis. The Company has made adequate provision for any potential credit losses and the amount of the Company's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position, as summarized below.

	2018	2017
	\$	\$
Cash at banks	4,980,678	5,502,212
Trade and other receivables	5,793,421	6,378,304
Due from related parties	11,937,356	11,001,295
	<u>22,711,455</u>	<u>22,881,811</u>

Credit quality and expected credit loss measurement

The credit quality of financial assets and expected credit loss measurement was determined as follows:

- Cash at banks is only placed with well-known reputable banks. The credit quality of this financial asset is considered to be of high grade. While cash at banks are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.
- Trade and other receivables are considered to have low credit risk as these amounts are all current and were all performing and fully collected within the credit period. Accordingly, there is no impairment allowance for trade and other receivables provided as these financial assets were substantially collected subsequent to the statement of financial position date.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

24 Financial risk management ...continued

a) Financial risk factors ...continued

ii) Credit risk ...continued

Credit quality and expected credit loss measurement ...continued

- Due from related parties are considered to have low credit risk. There is no impairment allowance for the due from related parties as the counterparties have access to sufficient highly liquid assets in order to repay the receivables, if demanded at the reporting date.

Geographic

The Company's counterparties are located in Barbados, Antigua and Barbuda, Guyana, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines and other Caribbean territories.

Credit risk management policies applied until December 31, 2017

Credit risk arises from cash held with banks and financial institutions. For banks and financial institutions, only independently rated parties with a good rating are accepted.

In 2017 and prior years, trade and other receivables and due from related parties were assessed individually, to determine whether there was any objective evidence that an impairment loss was recognised in a separate provision for impairment. The Company considered that there was evidence of impairment, if any, of the following indicators were present:

- Significant financial difficulties of the debtors;
- Probability that the customers will enter bankruptcy or financial reorganization; and
- Default or late payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised were written-off against the provision when there was no expectation of recovering additional cash.

The Company has made adequate provision for any potential credit losses and the amount of the Company's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

The credit risk for cash at banks is considered negligible, since the cash is held with highly-rated financial institutions.

The credit risk for trade and other receivables are standard grade financial instruments with satisfactory financial capability and credit standing but with some elements of risks where a certain measure of control is necessary in order to mitigate risk of default.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

24 Financial risk management ...continued

a) Financial risk factors ...continued

ii) Credit risk ...continued

Credit risk management policies applied until December 31, 2017 ...continued

The classification of trade receivables as at December 31, 2017 is as follows:

Total	Neither past due nor impaired	Past due but not impaired			
		< 30 Days	30 – 60 Days	60 – 90 Days	> 90 Days
\$	\$	\$	\$	\$	\$
5,589,597	5,589,597	–	–	–	–

iii) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company monitors its liquidity risk by considering the maturity of both its financial assets and projected cash flows from operations. Where possible, the Company utilizes available credit facilities such as loans, overdrafts and other financing options.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, based on contractual undiscounted payments.

As at December 31, 2018	Less than 1 year \$	More than 1 year \$	Total \$
Accounts payable and accruals	11,686,031	–	11,686,031
Due to related companies	2,250,737	–	2,250,737
Loans due to parent company	1,217,064	2,133,731	3,350,795
Total	15,153,832	2,133,731	17,287,563

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

24 Financial risk management ...continued

a) Financial risk factors ...continued

iii) Liquidity risk ...continued

As at December 31, 2017, restated	Less than 1 year \$	More than 1 year \$	Total \$
Accounts payable and accruals	6,590,694	–	6,590,694
Due to related companies	3,909,912	–	3,909,912
Loans due to parent company	1,217,064	2,794,908	4,011,972
Total	11,717,670	2,794,908	14,512,578

b) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2018.

c) Fair value of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial statements:

	Carrying amount		Fair value	
	2018 \$	2017 \$	2018 \$	2017 Restated \$
Financial assets				
Cash	4,981,049	5,502,583	4,981,049	5,502,583
Trade and other receivables	5,793,421	6,378,304	5,793,421	6,378,304
Due from related companies	11,937,356	11,001,296	11,937,356	11,001,296
	22,711,826	22,882,183	22,711,826	22,882,183
Financial liabilities				
Accounts payable and accruals	11,686,031	6,590,694	11,686,031	6,590,694
Due to related companies	2,250,737	3,909,912	2,250,737	3,909,912
Loans due to parent company	3,293,502	4,442,424	3,133,590	4,188,319
	17,230,270	14,943,030	17,070,358	14,688,925

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

24 Financial risk management ...continued

c) Fair value of financial assets and liabilities ...continued

Short-term financial assets and liabilities

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise cash, trade and other receivables and due from related companies. Short-term financial liabilities comprise accounts payable and accruals and due to related companies.

Long-term financial liabilities

The estimated fair value of loans due to parent company not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

d) Fair value hierarchy

The Company measures financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- i. In the principal market for the asset or liability, or
- ii. In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured, using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identifiable assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

24 Financial risk management ...continued

d) Fair value hierarchy ...continued

Fair value measurement of financial assets

As at December 31, 2018, the Company held the following financial instruments carried at fair value on the statement of financial position:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As at December 31, 2018				
Long-term investment	1	–	–	1
	<hr/>			
As at December 31, 2017				
Long-term investment	1	–	–	1
	<hr/>			

25 Comparatives

The classification of certain items in the financial statements has been changed from the prior period to achieve a clearer or more appropriate presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current period.

26 Subsequent events

Effective December 2019, the Company had its shares suspended on the Barbados Stock Exchange Inc. (BSE) pursuant to Rule 3.01.5 1(a) and (b) of the Rules of the BSE as a consequence of the requirement to submit the quarterly and annual audited financial statements to the Financial Services Commission and annual audited financial statements to the BSE within the time period stipulated by those regulatory bodies. Management is in the process of re-aligning its internal processes in order to rectify these instances of non-compliance.

27 Reclassification

The portion of loans due to parent company and repayable later than one year after the statement of financial position date, and previously shown and classified as part of current liabilities have been reclassified to non-current liabilities to accurately reflect the repayment terms of the loans. The comparative figures have been similarly formatted and reclassified in order to achieve comparability with the current period. There was no cash flow impact as a result of reclassification of the loans due to parent company.

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

27 Reclassification ...continued

The impact of reclassification is shown below.

	January 1, 2017 As previously stated \$	Reclassification \$	January 1, 2017 Restated \$
Effect on statement of financial position			
Current liabilities			
Accounts payable and accruals	5,410,668	–	5,410,668
Due to related companies	2,327,796	–	2,327,796
Current portion of loans due to parent company	–	1,170,790	1,170,790
Current portion of long-term liabilities	740,123	–	740,123
Loans due to parent company	5,566,467	(5,566,467)	–
Total current liabilities	14,045,054	(4,395,677)	9,649,377
Working capital			
	13,437,576	4,395,677	17,833,253
Deferred tax asset	6,353,247	–	6,353,247
Long-term investment	1	–	1
Property, plant and equipment	18,920,561	–	18,920,561
Pension plan asset	4,029,804	–	4,029,804
Post-employment medical liability	(325,355)	–	(325,355)
Long-term liabilities	(2,570,461)	–	(2,570,461)
Loans due to parent company	–	(4,395,677)	(4,395,677)
	39,845,373	–	39,845,373

Barbados Dairy Industries Limited

Notes to Financial Statements

December 31, 2018

(expressed in Barbados dollars)

27 Reclassification ...continued

	2017 As previously stated \$	Reclassification \$	2017 Restated \$
Effect on statement of financial position			
Current liabilities			
Accounts payable and accruals	6,590,694	–	6,590,694
Due to related companies	3,909,912	–	3,909,912
Current portion of loans due to parent company	–	1,148,921	1,148,921
Loans due to parent company	4,442,424	(4,442,424)	–
	<hr/>		<hr/>
Total current liabilities	14,943,030	(3,293,503)	11,649,527
	<hr/>		<hr/>
Working capital	20,083,282	3,293,503	23,376,785
Deferred tax asset	4,746,991	–	4,746,991
Long-term investment	1	–	1
Property, plant and equipment	15,893,025	–	15,893,025
Pension plan asset	7,166,805	–	7,166,805
Post-employment medical liability	(354,355)	–	(354,355)
Loans due to parent company	–	(3,293,503)	(3,293,503)
	<hr/>		<hr/>
	47,535,749	–	47,535,749
	<hr/>		<hr/>