
CAC 2000 LIMITED

FINANCIAL STATEMENTS

OCTOBER 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Members of
CAC 2000 LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CAC 2000 Limited ("the Company"), set out on pages 8 to 45, which comprise the statement of financial position as at October 31, 2018, the statements of profit or loss and other comprehensive income, changes in stockholders' net equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at October 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' 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 opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
CAC 2000 LIMITED

Report on the Audit of the Financial Statements (continued)*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 statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. *Recoverability of debtor balances****The key audit matter***

The Company has significant overdue balances with customers. There is significant judgement involved in determining the levels of allowance for impairment on these balances, because of the uncertainty involved in estimating the timing and amount of future collections given the nature of the customers and the specific industry in which the Company operates.

The use of judgement increases the risk that management's estimate could be materially misstated.

How the matter was addressed in our audit

Our procedures in this area included:

- Testing the manual and automated controls over recording and ageing receivables. Our testing of automated controls involved using our own Information Technology Audit specialists to test the design, implementation and operating effectiveness of automated controls;
- Testing subsequent receipts for selected customers;
- Evaluating the adequacy of the allowance for impairment recognised in respect of the Company's receivables, testing the underlying data used and re-performing the calculation;
- Evaluating the adequacy of the disclosures about the degree of estimation involved in arriving at the impairment allowance;
- Reviewing the accuracy of the disclosures in respect of the ageing of the trade receivables and the impairment allowance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
CAC 2000 LIMITED

Report on the Audit of the Financial Statements (continued)*Key Audit Matters (continued)*2. *Revenue recognition using the percentage of completion method****The key audit matter***

The Company recognises revenue from its engineering contracts based on the percentage of completion (POC) method.

Significant management judgement is involved in :

- Estimating the physical proportion of the completed work for the contracts;
- The estimation of the total costs on the completed contracts, including contingencies that could arise from variations to original contract terms and claims.

How the matter was addressed in our audit

Our procedures in this area included:

- Reviewing the progress claims reports from the engineers for those claims not certified and assessing the reasonableness of the estimates made.
- Evaluating the effectiveness of management's controls over the input costs.
- Recomputing the revenues and the costs recognised for the current financial year based on the respective stage of completion and the contract values.
- Evaluating the adequacy of the disclosures in respect of the revenue from construction contracts.
- Reviewing the certification received from external Quantity Surveyors and comparing the related revenue recognised to the amounts certified.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
CAC 2000 LIMITED

Report on the Audit of the Financial Statements (continued)

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
CAC 2000 LIMITED

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 6 to 7, forms part of our auditors' report.

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

The engagement partner on the audit resulting in this independent auditors' report is Rajan Trehan.

KPMG

Chartered Accountants
Kingston, Jamaica

December 21, 2018



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
CAC 2000 LIMITED

Appendix to the Independent Auditors' Report

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
CAC 2000 LIMITED

Appendix to the Independent Auditors' Report (continued)

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 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 auditors' 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.


CAC 2000 LIMITEDStatement of Financial Position
October 31, 2018

| | <u>Notes</u> | <u>2018</u> \$ | <u>2017</u> \$ |
|--|--------------|-----------------------------|---------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 51,854,814 | 45,550,889 |
| Long-term receivables | 4 | - | 228,069 |
| Total non-current assets | | <u>51,854,814</u> | <u>45,778,958</u> |
| Current assets | | | |
| Income tax recoverable | | 7,311,478 | 3,019,665 |
| Inventories | 5 | 367,004,488 | 208,385,972 |
| Due from related parties | 12(a) | 11,696,022 | - |
| Trade and other receivables | 6 | 485,472,990 | 536,331,072 |
| Investments | | 269,759 | - |
| Cash and bank deposits | 7 | <u>117,041,833</u> | <u>191,695,143</u> |
| Total current assets | | <u>988,796,570</u> | <u>939,431,852</u> |
| Total assets | | <u>1,040,651,384</u> | <u>985,210,810</u> |
| EQUITY AND LIABILITIES | | | |
| Stockholders' equity | | | |
| Share capital | 8 | 129,189,757 | 129,189,757 |
| Capital redemption reserve | 9 | 56,070,657 | - |
| Retained earnings | | <u>302,275,721</u> | <u>293,903,431</u> |
| Total stockholders' equity | | <u>487,536,135</u> | <u>423,093,188</u> |
| Non-current liabilities | | | |
| Loans and borrowings | 10 | 210,096,707 | 4,013,104 |
| Obligations under finance lease | 11 | <u>1,080,789</u> | <u>4,076,643</u> |
| Total non-current liabilities | | <u>211,177,496</u> | <u>8,089,747</u> |
| Current liabilities | | | |
| Loans and borrowings | 10 | 2,964,038 | 249,887,100 |
| Due to related parties | 12(b) | 6,803,481 | 5,422,439 |
| Trade and other payables | 13 | 328,728,403 | 295,903,418 |
| Current portion of obligations under finance lease | 11 | 2,995,854 | 2,658,668 |
| Taxation payable | | <u>445,977</u> | <u>156,250</u> |
| Total current liabilities | | <u>341,937,753</u> | <u>554,027,875</u> |
| Total equity and liabilities | | <u>1,040,651,384</u> | <u>985,210,810</u> |

The financial statements on pages 8 to 45 were approved for issue by the Board of Directors on December 21, 2018, and signed on its behalf by:



Chairman & CEO
Steven Marston



Director
Patrick Smith

The accompanying notes form an integral part of the financial statements.

CAC 2000 LIMITEDStatement of Profit or Loss and Other Comprehensive Income
For the year ended October 31, 2018

| | <u>Notes</u> | <u>2018</u> \$ | <u>2017</u> \$ |
|--|--------------|-------------------|--------------------|
| Revenue | 14 | 1,210,990,427 | 1,210,935,472 |
| Cost of sales | | (757,800,261) | (786,500,045) |
| Gross profit | | 453,190,166 | 424,435,427 |
| Distribution expenses | | (37,014,671) | (37,421,374) |
| Administrative expenses | | (347,140,225) | (271,478,122) |
| Total distribution and administrative expenses | 15 | (384,154,896) | (308,899,496) |
| | | <u>69,035,270</u> | <u>115,535,931</u> |
| Other income | 17 | <u>19,032,213</u> | <u>2,115,167</u> |
| Profit before finance cost and taxation | | 88,067,483 | 117,651,098 |
| Other gains/(losses) | | 6,046,281 | (2,277,238) |
| Interest income | | 3,325,094 | 1,090,090 |
| Interest expense | | (22,673,331) | (15,949,599) |
| Net finance cost | 18 | (13,301,956) | (17,136,747) |
| PROFIT BEFORE TAXATION | | 74,765,527 | 100,514,351 |
| Taxation | 19 | <u>-</u> | <u>221,812</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>74,765,527</u> | <u>100,736,163</u> |
| Earnings per stock unit: | | | |
| Based on stock units in issue | 21 | <u>0.58</u> | <u>0.78</u> |

The accompanying notes form an integral part of the financial statements.

CAC 2000 LIMITEDStatement of Changes in Stockholders' Net Equity
For the year ended October 31, 2018

| | <u>Share capital</u> (note 8) \$ | <u>Capital Redemption reserve</u> (note 9) \$ | <u>Retained earnings</u> \$ | <u>Total</u> \$ |
|---|--|---|------------------------------------|----------------------|
| Balances at October 31, 2016 | 129,189,757 | - | 193,167,268 | 322,357,025 |
| Total comprehensive income for the year | <u>-</u> | <u>-</u> | <u>100,736,163</u> | <u>100,736,163</u> |
| Balances at October 31, 2017 | 129,189,757 | - | 293,903,431 | 423,093,188 |
| Total comprehensive income for the year | - | - | 74,765,527 | 74,765,527 |
| Redemption of preference shares | - | 56,070,657 | (56,070,657) | - |
| Transactions with owners of the Company: | | | | |
| Dividends (note 20) | <u>-</u> | <u>-</u> | <u>(10,322,580)</u> | <u>(10,322,580)</u> |
| Balances at October 31, 2018 | <u>129,189,757</u> | <u>56,070,657</u> | <u>302,275,721</u> | <u>487,536,135</u> |

The accompanying notes form an integral part of the financial statements.

CAC 2000 LIMITED

Statement of Cash Flows

For the year ended October 31, 2018

| | <u>Notes</u> | <u>2018</u> \$ | <u>2017</u> \$ |
|--|--------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit for the year | | 74,765,527 | 100,736,163 |
| Adjustments for: | | | |
| Taxation | 19 | - | (221,812) |
| Depreciation | 3 | 22,925,849 | 20,505,700 |
| Gain on disposal of property, plant and equipment | | (7,031,186) | - |
| Gain on revaluation of investments | | (100,312) | - |
| Allowance for doubtful debts | 6 | 5,552,988 | (10,938,210) |
| Provision for inventory obsolescence | | (2,291,905) | (4,090,136) |
| Interest expense | 18 | 22,673,331 | 15,949,599 |
| Interest income | 18 | (3,325,094) | (1,090,090) |
| Operating cash flows before movements in working capital | | 113,169,198 | 120,851,214 |
| Movements in working capital: | | | |
| Inventories | | (156,326,611) | 76,006,585 |
| Trade and other receivables | | 45,452,978 | (167,245,183) |
| Trade and other payables | | 32,824,985 | (64,872,775) |
| Due from related parties | | (11,696,022) | 1,664,849 |
| Cash generated/(used) by operations | | 23,424,528 | (33,595,310) |
| Interest paid | | (22,673,331) | (14,945,983) |
| Income tax paid | | (4,002,085) | (789,908) |
| Net cash used by operating activities | | (3,250,888) | (49,331,201) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of property, plant and equipment | 3 | (29,632,558) | (14,353,635) |
| Proceeds from disposal of property, plant and equipment | | 7,433,970 | - |
| Purchase of investments | | (169,447) | - |
| Interest received | | 3,405,279 | 1,028,036 |
| Net cash used by investing activities | | (18,962,756) | (13,325,599) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | | (10,322,580) | - |
| Repayment of bank loans | | (111,970,721) | (10,659,815) |
| Repayment of preference shares | | (148,037,000) | - |
| Due to related parties | | 1,381,042 | 1,902,055 |
| Finance lease, net | | (2,658,668) | (3,673,346) |
| Proceeds from bank loans | | 19,168,261 | 108,908,495 |
| Proceeds from issue of redeemable preference shares | | 200,000,000 | - |
| Net cash (used)/provided by financing activities | | (52,439,666) | 96,477,389 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (74,653,310) | 33,820,589 |
| Cash and cash equivalents at beginning of year | | 191,695,143 | 157,874,554 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 7 | 117,041,833 | 191,695,143 |

The accompanying notes form an integral part of the financial statements.

CAC 2000 LIMITED

Notes to the Financial Statements For the year ended October 31, 2018

1. Identification

CAC 2000 Limited (the Company) is incorporated and domiciled in Jamaica. On January 7, 2016, the Company's ordinary shares were listed on the Jamaica Junior Stock Exchange through an Initial Public Offering. The ultimate parent company is Caribbean Air Conditioning Company Limited, a company incorporated and domiciled in St. Lucia. The principal activities of the Company are the sale of air conditioning equipment and installation and maintenance of such systems. The Company's registered office is 231 Marcus Garvey Drive, Kingston 11.

2. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

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

New, revised and amended standards and interpretations that became effective during the year:

Certain new, revised and amended standards and interpretations came into effect during the year under review. The adoption of the new standards, interpretations and amendments did not result in any change in amounts and disclosures in the financial statements.

New and amended standards and interpretations that are not yet effective:

At the date of approval of these financial statements, certain new and amended standards and interpretations were in issue, but were not yet effective and had not been early adopted. The Company has assessed their relevance with respect to its operations and has concluded that the following may be relevant:

The following standards are expected to have a material impact on the Company's financial statements in the period of initial application.

- The Company is required to adopt IFRS 9 *Financial Instruments* from November 1, 2018. IFRS 9 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

New and amended standards and interpretations that are not yet effective (continued):

- IFRS 9 *Financial Instruments* (continued)

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of IFRS 9 impairment model. However, the Company is still in the process of determining the likely financial impact on its financial statements.

IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The Company’s assessment will include an analysis to identify data gaps against current processes.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 2018

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

New and amended standards and interpretations that are not yet effective (continued):

- IFRS 9 *Financial Instruments* (continued)

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at November 1, 2018.
- The Company will need to determine the business model within which a financial asset is held based on the facts and circumstances that exist at the date of initial application.

The Company is still performing its assessment of the estimated impact of IFRS 9 on its retained earnings as at November 1, 2018.

- The Company is required to adopt IFRS 15 *Revenue from Contracts with Customers*, effective November 1, 2018. IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which falls in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange monetary assets to facilitate sales to other parties.

The Company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when an entry transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects that entity's performance.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

New and amended standards and interpretations that are not yet effective (continued):

- IFRS 15 *Revenue from Contracts with Customers* (continued)

(i) Sale of goods

For the sale of goods, which comprises the sale of equipment and spare parts, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made.

(ii) Installation contracts

Contract revenue currently includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When a claim or variation is recognised, the measure of contract progress or contract price is revised and the cumulative contract position is reassessed at each reporting date.

Under IFRS 15, claims and variations will be included in the contract accounting when they are approved.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

New and amended standards and interpretations that are not yet effective (continued):

- IFRS 15 *Revenue from Contracts with Customers* (continued)

(iii) Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 November 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

The Company is still performing its assessment of the estimated impact of IFRS 15 on its retained earnings as at November 1, 2018.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.

The Company is assessing the impact that this standard will have on its future financial statements.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

New and amended standards and interpretations that are not yet effective (continued):

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income or initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.

An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held.

The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Company is assessing the impact that this interpretation will have on its future financial statements.

- Amendments to IFRS 9, *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:

(i) Prepayment features with negative compensation:

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

(ii) Modifications to financial liabilities:

If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The Company is assessing the impact that this amendment will have on its future financial statements.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(b) Basis of preparation:

The financial statements are presented in Jamaica dollars (\$), which is the functional currency of the Company.

The financial statements are prepared on the historical cost basis. The significant accounting policies stated in paragraphs (c) to (y) below conform in all material respects with IFRS.

(c) Use of estimates and judgements:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the reporting date and the income and expense for the year then ended. Actual amounts could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment of losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, based on default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(ii) Net realisable value of inventories:

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

Estimates of net realisable value also take into consideration the purpose for which the inventory is held.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

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

(iii) Revenue recognised from construction contracts:

Revenues from construction contracts are determined on the cost-plus basis with reference to the stage of completion. Estimates of the total costs of the contract is made at the initial stage of the contract and is reassessed on an ongoing basis. The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate. The changed estimates are used in the determination of the amount of revenue and expenses recognised in the statement of profit or loss and other comprehensive income in the period in which the change is made and in subsequent periods.

When the outcome of the contract cannot be estimated reliably, no profit is recognised. However, even though the outcome of the contract cannot be estimated reliably, it may be probable that total contract costs will exceed total contract revenues. In such cases, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from those assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

(d) Property, plant and equipment:

- (i) Property, plant and equipment are measured at historical cost or deemed cost, less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(i) Property, plant and equipment (continued):

(ii) Depreciation:

Depreciation is computed on a straight-line basis at annual rates estimated to write down the property, plant and equipment to their estimated residual values at the end of their expected useful lives, as follows:

| | |
|---------------------------------|--|
| Leasehold improvements | - Over the shorter of the useful life of the asset or the term of the lease. |
| Motor vehicles | - 5 years |
| Plant and machinery | - 10 years |
| Furniture and fixtures | - 10 years |
| Tools and equipment | - 5 years |
| Computers and related equipment | - 3 years |

The depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted as appropriate.

(ii) Impairment of tangible assets:

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(iii) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, investments, amounts due from related parties and trade and other receivables. Similarly, financial liabilities includes accounts payable, loans and borrowings and amounts due to related parties.

(iv) Inventories:

Inventories are measured at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis. The cost of finished goods and work-in-progress comprises raw and packaging materials, direct labour, other direct costs and a proportion of related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(v) Accounts receivable:

Trade and other receivables are measured at amortised cost, less impairment losses.

(vi) Related parties:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

(a) A person or a close member of that person’s family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(i) Related parties (continued):

(b) An entity is related to a reporting entity if any of the following conditions applies (continued):

- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity or its parent is provided with key management personnel services by the management entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(j) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances and other short-term investments with maturities ranging between one and three months from the reporting date, and which are readily convertible to known amounts of cash without significant change in value.

(k) Share capital:

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(k) Share capital (continued):

In the case of its preference share capital, it is classified as:

- (i) equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary; in such a case, dividends thereon are recognised as distributions within equity;
- (ii) liability if it is redeemable on a specific date or at the option of the stockholders, or if dividends are not discretionary; in such a case dividends thereon are recognised as interest in profit or loss.

The Company's redeemable preference shares are classified as financial liabilities as they bear non-discretionary dividends and are redeemable in cash by the holders. Non-discretionary dividends are recognised as interest expense in profit or loss as a component of net finance costs/income as accrued.

(l) Borrowing costs:

Banks and other loans are recognised initially at cost. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost, with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowing on an effective interest basis.

(m) Leases:

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations to the lessor, net of finance charges, are recorded in long term liabilities.

The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The motor vehicles acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(n) Accounts payable:

Trade and other payables are measured at amortised cost.

(o) Taxation:

Income tax expense represents the sum of tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted, or subsequently enacted at the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(p) Employee benefits:

(i) Short-term employee benefits:

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave for services rendered by employees up to the end of the reporting period.

(ii) Defined contribution plans:

Obligation for contributions to defined contribution plans is expensed as the related services are provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(q) Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business. Revenue is reduced for discounts, rebates and other similar allowances.

(i) Installations

The Company recognises the revenues and costs of installation contracts in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. Full provision is made for all anticipated losses based on estimated final completion costs.

(ii) Service contracts

The Company recognises revenue when service is provided under the terms of the contract.

(iii) Construction contracts

Construction contract revenue recognised results from infrastructure improvements and renovations under contracts specifically negotiated with a customer under a joint arrangement (see note 23).

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(q) Revenue recognition (continued):

(iii) Construction contracts (continued)

If the outcome of a construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to the contract costs incurred in relation to the estimated total contract costs. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Contract expenses are recognised as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in profit or loss.

(iv) Sale of goods

Revenue arising on the outright sale of equipment and spare parts is recognised on invoicing and the customer taking delivery of items.

(r) Joint operations:

The Company entered into a joint arrangement that is not structured through a separate vehicle and as such is accounted for as a joint operation. The contractual arrangement between the Company and the other party to the joint arrangement outlines each parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

The Company accounts for the assets, liabilities, revenues and expenses relating to its involvement in the joint operation in accordance with the relevant IFRSs.

(s) Segment reporting:

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

The Company has three reportable segments, as described below, which are the Company's strategic business units. The strategic business units offer different products and services, to different customer base, and are managed separately because they require different resources and marketing strategies.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(s) Segment reporting (continued):

Segment results, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The primary reportable segments are:

- (i) Engineering – Sale and installation of industrial equipment
- (ii) Residential, Light and Commercial (RLC) – Sale of smaller turnkey equipment
- (iii) Service – After sale service and maintenance

The Company's operations are primarily carried out in Jamaica. Transactions between business segments have been eliminated.

(t) Net finance cost:

Net finance cost comprises interest payable on long-term loan, calculated using the effective interest rate method, interest income on funds invested and foreign exchange gains and losses recognised in profit or loss.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of the income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(u) Foreign currencies:

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are measured at historical cost, are translated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising from fluctuations in exchange rates are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are measured at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the values were determined.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)

For the year ended October 31, 20182. Statement of compliance, basis of preparation and significant accounting policies (continued)

(v) Dividends:

Dividends are recognised in the period in which they are declared.

(w) Provisions:

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

(x) Determination of profit and loss:

Profit is determined as the difference between the revenues from the goods and services rendered and the costs and other charges incurred during the year. Profits on transactions are taken in the year in which they are realised. A transaction is realised at the moment of delivery. Losses are taken in the year in which they are realised or determinable.

(y) Determination of fair value:

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. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

3. Property, plant and equipment

| | <u>Leasehold Improvements</u> | <u>Plant machinery & tools</u> | <u>Furniture fixtures & equipment</u> | <u>Computers & related equipment</u> | <u>Motor vehicles</u> | <u>Work-in- progress</u> | <u>Total</u> |
|---------------------------------|-----------------------------------|--|---|--|---------------------------|------------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | | |
| October 31, 2016 | 23,410,579 | 3,016,363 | 3,835,144 | 17,563,063 | 36,834,506 | - | 84,659,655 |
| Additions | 33,958 | 836,235 | 39,541 | 565,135 | 3,297,584 | 9,581,182 | 14,353,635 |
| Transfers | - | - | - | 9,581,182 | - | (9,581,182) | - |
| October 31, 2017 | 23,444,537 | 3,852,598 | 3,874,685 | 27,709,380 | 40,132,090 | - | 99,013,290 |
| Additions | 485,471 | 144,110 | 650,926 | 2,881,198 | 25,470,853 | - | 29,632,558 |
| Disposal | - | - | - | - | (6,761,420) | - | (6,761,420) |
| October 31, 2018 | <u>23,930,008</u> | <u>3,996,708</u> | <u>4,525,611</u> | <u>30,590,578</u> | <u>58,841,523</u> | <u>-</u> | <u>121,884,428</u> |
| Accumulated depreciation | | | | | | | |
| October 31, 2016 | 5,343,231 | 2,590,667 | 1,306,161 | 11,062,369 | 12,654,273 | - | 32,956,701 |
| Charge for the year | <u>4,400,948</u> | <u>202,753</u> | <u>325,685</u> | <u>6,610,363</u> | <u>8,965,951</u> | <u>-</u> | <u>20,505,700</u> |
| October 31, 2017 | 9,744,179 | 2,793,420 | 1,631,846 | 17,672,732 | 21,620,224 | - | 53,462,401 |
| Charge for the year | 4,498,042 | 303,990 | 393,323 | 6,464,972 | 11,265,522 | - | 22,925,849 |
| Disposal | - | - | - | - | (6,358,636) | - | (6,358,636) |
| October 31, 2018 | <u>14,242,221</u> | <u>3,097,410</u> | <u>2,025,169</u> | <u>24,137,704</u> | <u>26,527,110</u> | <u>-</u> | <u>70,029,614</u> |
| Net book values | | | | | | | |
| October 31, 2018 | <u>9,687,787</u> | <u>899,298</u> | <u>2,500,442</u> | <u>6,452,874</u> | <u>32,314,413</u> | <u>-</u> | <u>51,854,814</u> |
| October 31, 2017 | <u>13,700,358</u> | <u>1,059,178</u> | <u>2,242,839</u> | <u>10,036,648</u> | <u>18,511,866</u> | <u>-</u> | <u>45,550,889</u> |

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

3. Property, plant and equipment (continued)

The Company leases various motor vehicles under non-cancellable finance lease agreements (note 11). The lease terms are four years. At year end, the net book value of motor vehicles acquired under finance leases was \$4,076,643 (2017: \$6,735,311).

4. Long-term receivables

These represent loans granted to employees for the purpose of purchasing motor vehicles. The loans are repayable by monthly installments over a period of five years. These loans carry an interest rate of 8.95%. The current portion of these loans, due within twelve months from the year-end amounting to \$233,976 (2017: \$228,069) is included in other receivables (note 6).

5. Inventories

| | <u>2018</u> \$ | <u>2017</u> \$ |
|----------------------------|----------------------|----------------------|
| Merchandise/equipment | 101,078,213 | 69,645,369 |
| Work-in-progress | 37,209,699 | 7,859,718 |
| Service supplies/parts | 114,797,153 | 103,004,914 |
| Goods in transit | <u>127,407,254</u> | <u>43,655,708</u> |
| | 380,492,319 | 224,165,709 |
| Provision for obsolescence | <u>(13,487,831)</u> | <u>(15,779,737)</u> |
| | <u>367,004,488</u> | <u>208,385,972</u> |

The cost of inventories recognised as cost of sales during the year was \$507,802,495 (2017: \$573,263,229).

6. Trade and other receivables

| | <u>2018</u> \$ | <u>2017</u> \$ |
|------------------------------|----------------------|----------------------|
| Trade | 472,726,129 | 522,896,488 |
| Allowance for doubtful debts | <u>(25,662,212)</u> | <u>(20,447,912)</u> |
| | 447,063,917 | 502,448,576 |
| Other receivables* | 28,436,575 | 24,662,964 |
| Prepayments | <u>9,972,498</u> | <u>9,219,532</u> |
| | <u>485,472,990</u> | <u>536,331,072</u> |

* Included in other receivables is \$16,552,093 (2017: \$16,053,772) held by a financial institution and hypothecated to support performance guarantees issued by the institution on behalf of the Company.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

6. Trade and other receivables (continued)

Ageing of trade receivables at the reporting date was:

| | <u>2018</u> | | <u>2017</u> | |
|--------------------|--------------------|-------------------|--------------------|-------------------|
| | Gross | Impairment | Gross | Impairment |
| | \$ | \$ | \$ | \$ |
| 0-30 days | 73,428,772 | - | 111,842,998 | - |
| 31-60 days | 27,223,494 | - | 94,791,561 | - |
| 61-180 days | 129,824,322 | - | 128,737,645 | - |
| More than 180 days | <u>242,249,541</u> | <u>25,662,212</u> | <u>187,524,284</u> | <u>20,447,912</u> |
| | <u>472,726,129</u> | <u>25,662,212</u> | <u>522,896,488</u> | <u>20,447,912</u> |

Movement in allowance for doubtful debts on trade receivables

| | <u>2018</u> | <u>2017</u> |
|------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Balance at beginning of year | 20,447,912 | 32,453,138 |
| Amount charged/(released) | 5,552,988 | (10,938,210) |
| Amount written off | (338,688) | (1,067,016) |
| Balance at end of year | <u>25,662,212</u> | <u>20,447,912</u> |

During the year, impairment losses charged to the profit and loss amounted to \$5,552,988. In the prior year, impairment losses reversed and credited to the profit and loss amounted to \$10,938,210. Trade receivables written off amounted to \$486,130 (2017: \$1,064,891).

7. Cash and bank deposits

Cash and bank deposits include:

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| | \$ | \$ |
| Cash on hand and in bank | 44,689,874 | 90,926,189 |
| Short-term deposits denominated in Jamaican dollars | 4,935,204 | 2,954,180 |
| Short-term deposits denominated in foreign currencies | <u>67,416,755</u> | <u>97,814,774</u> |
| | <u>117,041,833</u> | <u>191,695,143</u> |

Interest rates on the J\$ deposits range from 0% - 6.58 % (2017: 0% - 5%) and US\$ deposits from 0% - 0.75% (2017: 0% - 1.22%). Interest on Sterling deposit is 0.17% (2017: 0.12%).

CAC 2000 LIMITEDNotes to the Financial Statements (Continued)
For the year ended October 31, 20188. Share capital

| | <u>2018</u> \$ | <u>2017</u> \$ |
|---|--------------------|--------------------|
| Authorised in shares: | | |
| 200,000,000 (2017: 200,000,000) Ordinary units of no par value | | |
| 350,000,000 (2017: 350,000,000) Fixed and variable rate cumulative redeemable preference shares | | |
| Stated capital: | | |
| Issued and fully paid as stock units: | | |
| 129,032,258 (2017: 129,032,258) ordinary units of no par value | 138,773,634 | 138,773,634 |
| Less: Share issue costs | (9,583,877) | (9,583,877) |
| | 129,189,757 | 129,189,757 |
| 200,000,000 (2017: 148,037,000) Fixed and variable rate cumulative redeemable preference shares | <u>200,000,000</u> | <u>148,037,000</u> |
| | 329,189,757 | 277,226,757 |
| Less: Redeemable preference shares reclassified as liability (see note 10) | (200,000,000) | (148,037,000) |
| | <u>129,189,757</u> | <u>129,189,757</u> |

9. Capital redemption reserve

This represents the value of the cumulative redeemable preference shares redeemed from retained earnings.

10. Loans and borrowings

| | <u>2018</u> \$ | <u>2017</u> \$ |
|----------------------------------|--------------------|--------------------|
| Bank loans | | |
| Motor vehicle loans (a) | 13,060,745 | 5,863,204 |
| Bridging loan (b) | - | 100,000,000 |
| Redeemable preference shares (c) | <u>200,000,000</u> | <u>148,037,000</u> |
| | 213,060,745 | 253,900,204 |
| Less: Current Portion | (2,964,038) | (249,887,100) |
| Long-term Portion | <u>210,096,707</u> | <u>4,013,104</u> |

- (a) The loans represent amounts borrowed by the Company to facilitate the purchase of motor vehicles for employees. The loans are secured by charges over the motor vehicles purchased and comprehensive insurance endorsed in favour of the bank on the motor vehicles.

The loans are repayable in monthly installments. Interest rates on the loans are fixed at 8% and 10.5% (2017: 8.95% and 10.5%) p.a.

CAC 2000 LIMITEDNotes to the Financial Statements (Continued)
For the year ended October 31, 201810. Loans and borrowings (continued)

- (b) This loan represented an unsecured bridging loan from VM Wealth Management Limited. The loan attracted interest at a rate of 6.75% p.a. The loan was repaid on April 13, 2018.

- (c) Redeemable preference shares:

| | <u>2018</u> |
|--|----------------------|
| | \$ |
| Balance at beginning of year | 148,037,000 |
| Redemption of preference shares (i) | <u>(148,037,000)</u> |
| | - |
| Issue of redeemable preference shares (ii) | <u>200,000,000</u> |
| Balance at end of year | <u>200,000,000</u> |

- (i) During the year, the Company redeemed the preference shares previously held.
- (ii) 350,000,000 fixed and variable rate redeemable preference shares were authorized with an issue price of \$1 per share (see note 8). Of this, \$200,000,000 issued shares are fully paid. Redeemable preference shares do not carry the right to vote or rank equally with other shares with regard to the Company's residual assets, except that holders of redeemable preference shares participate only to the extent of the face value of the shares.

The redeemable preference shares are mandatorily redeemable at par on March 16, 2023 and the Company is obliged to pay holders of redeemable preference shares dividends of 9.5 percent per annum for the first four years and thereafter a variable rate of 3 percent points above the weighted average yield rate applicable to the six month Jamaica Treasury Bill Tender (WATBY), held immediately prior to the commencement of each quarterly interest period until maturity. Dividend is paid quarterly.

11. Obligations under finance lease

The Company entered into finance lease agreements for the purchase of motor vehicles. Obligations under these agreements are as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| In the year ended October 31, 2018 | | |
| 2017 | - | 553,972 |
| 2018 | 553,972 | 3,323,830 |
| 2019 | 3,323,830 | 3,323,830 |
| 2020 | <u>553,972</u> | <u>553,972</u> |
| Total Minimum lease payments | 4,431,774 | 7,755,604 |
| Less: Future interest payments | <u>(355,131)</u> | <u>(1,020,293)</u> |
| Net obligations under finance leases | 4,076,643 | 6,735,311 |
| Less: Current portion | <u>(2,995,854)</u> | <u>(2,658,668)</u> |
| | <u>1,080,789</u> | <u>4,076,643</u> |

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default (note 3).

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

12. Balances and transactions with related parties

The following balances were due to/from related parties at the end of the year:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| | \$ | \$ |
| (a) Due from related parties: | | |
| Cool Airco Limited | <u>11,696,022</u> | <u>-</u> |
| (b) Due to related parties: | | |
| Cool Airco Limited | 6,484,983 | 5,422,439 |
| Due to shareholders | <u>318,498</u> | <u>-</u> |
| | <u>6,803,481</u> | <u>5,422,439</u> |
| (c) During the year, the Company had the following significant transactions with related parties in the normal course of business. | | |
| | <u>2018</u> | <u>2017</u> |
| | \$ | \$ |
| Purchases - Cool Airco Limited | <u>88,955,000</u> | <u>38,284,975</u> |
| Consultancy fees paid - Cool Airco Limited | <u>31,573,280</u> | <u>15,460,854</u> |
| (d) Key management personnel compensation is as follows: | | |
| | <u>2018</u> | <u>2017</u> |
| | \$ | \$ |
| Short-term employee benefits | <u>53,462,615</u> | <u>41,224,720</u> |

13. Trade and other payables

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|--------------------|--------------------|
| | \$ | \$ |
| Trade payable | 124,431,937 | 98,281,971 |
| Customer deposits | 81,936,411 | 54,454,650 |
| Other payables and accruals | <u>122,360,055</u> | <u>143,166,797</u> |
| | <u>328,728,403</u> | <u>295,903,418</u> |

Included in other payables and accruals is \$68,212,506 (2017: \$68,222,121) representing court awarded damages and other related costs. (See note 22).

14. Gross operating revenue

Gross operating revenue includes the invoiced value of goods, installation and service and amounts recognised under construction contracts.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

15. Total distribution and administrative expenses

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| | \$ | \$ |
| Directors fees | 4,000,000 | 3,541,667 |
| Directors remuneration | 53,462,615 | 41,224,720 |
| Staff costs | 138,315,543 | 121,569,174 |
| Audit fees | 4,500,000 | 2,800,000 |
| Bad debt expenses/(recovered) | 6,039,118 | (9,873,320) |
| Depreciation | 22,925,849 | 20,505,700 |
| Legal and professional fees | 57,734,065 | 33,201,664 |
| Promotion, advertising and entertainment | 8,588,171 | 9,059,690 |
| Repairs and maintenance of property, plant and equipment | 7,700,564 | 5,195,289 |
| Insurance | 18,658,645 | 18,521,261 |
| Occupancy, utilities and communication | 19,124,248 | 19,107,588 |
| Local and foreign travel | 7,369,628 | 5,134,154 |
| Office supplies and computer | 14,706,489 | 14,670,594 |
| Security service | 6,200,490 | 6,158,195 |
| Warranty and guarantee | 811,553 | 5,358,298 |
| Donations | 5,062,915 | 4,139,662 |
| Other | <u>8,955,003</u> | <u>8,585,160</u> |
| | <u>384,154,896</u> | <u>308,899,496</u> |

16. Personnel expenses

Included in:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Administrative expenses: | | |
| Salaries and other employee benefits | 153,582,604 | 130,161,492 |
| Statutory contributions | <u>15,164,692</u> | <u>12,280,531</u> |
| | 168,747,296 | 142,442,023 |
| Selling and distribution: | | |
| Salaries and wages | 13,629,153 | 11,117,127 |
| Statutory contributions | 2,212,482 | 1,736,730 |
| Commission | <u>7,189,227</u> | <u>7,498,014</u> |
| | <u>23,030,862</u> | <u>20,351,871</u> |
| | <u>191,778,158</u> | <u>162,793,894</u> |
| Directors remuneration | 53,462,615 | 41,224,720 |
| Staff costs | <u>138,315,543</u> | <u>121,569,174</u> |
| | <u>191,778,158</u> | <u>162,793,894</u> |

17. Other income

Other income comprises gain on disposal of property, plant and equipment, commission income earned on projects and other miscellaneous income.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

18. Finance costs

| | <u>2018</u> \$ | <u>2017</u> \$ |
|--------------------------------------|---------------------|---------------------|
| Foreign exchange gains/(losses), net | <u>6,046,281</u> | <u>(2,277,238)</u> |
| Interest income - Third party | <u>3,325,094</u> | <u>1,090,090</u> |
| Interest expense - Bank loans | (3,897,147) | (1,700,620) |
| - Dividend on preference shares | (16,972,330) | (12,610,071) |
| - Finance lease | (665,162) | (994,739) |
| - Other | <u>(1,138,692)</u> | <u>(644,169)</u> |
| | <u>(22,673,331)</u> | <u>(15,949,599)</u> |
| | <u>(13,301,956)</u> | <u>(17,136,747)</u> |

19. Taxation

- (a) Taxation is based on net profit for the year adjusted for taxation purposes and represents income tax charged at 25%.

| | <u>2018</u> \$ | <u>2017</u> \$ |
|--|---------------------|---------------------|
| The total charge for the year comprises: | | |
| Current tax credit: | | |
| Prior year over accrual | <u>-</u> | <u>(221,812)</u> |
| Profit before taxation | <u>74,765,527</u> | <u>100,514,351</u> |
| Computed “expected” tax expense at rate of 25% | 18,691,382 | 25,128,588 |
| Difference between results for financial statements and taxation reporting purposes in respect of: | | |
| Effect of excess depreciation over capital allowances | 4,934,688 | 3,200,728 |
| Disallowed items, net | 14,986,674 | 4,799,440 |
| Prior year overprovision | <u>-</u> | <u>(221,812)</u> |
| | 38,612,744 | 32,906,944 |
| Adjustment for the effect of tax remission (note b) | <u>(38,612,744)</u> | <u>(33,128,756)</u> |
| | <u>-</u> | <u>(221,812)</u> |

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

19. Taxation (continued)

(b) Remission of income tax (continued):

The Company's shares were listed on the Junior Market of the Jamaica Stock exchange, effective January 7, 2016. Consequently, the Company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least fifteen (15) years:

| | |
|---------------|------|
| Years 1 to 5 | 100% |
| Years 5 to 10 | 50% |

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

The Company's shares were listed on the Junior Market of the Jamaica Stock exchange, effective January 7, 2016. Consequently, the Company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least fifteen (15) years:

| | |
|---------------|------|
| Years 1 to 5 | 100% |
| Years 5 to 10 | 50% |

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

20. Dividends and distributions

Dividends and distributions paid, gross, are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------|
| | \$ | \$ |
| Ordinary stock units @ \$0.08 (2017: \$Nil) | | |
| per stock unit | <u>10,322,580</u> | <u>-</u> |

On May 30, 2018, the directors declared interim dividends of \$0.08 per stock unit.

21. Earnings per stock unit

Earnings per ordinary stock unit, is calculated by dividing the profit attributable to shareholders by the weighted average number of stock units in issue during the year.

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| | \$ | \$ |
| Profit attributable to shareholders | <u>74,765,527</u> | <u>100,736,163</u> |
| Weighted average number ordinary stock units in issue | <u>129,032,258</u> | <u>129,032,258</u> |
| Basic and diluted earnings per stock unit | <u>0.58</u> | <u>0.78</u> |

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

22. Contingencies and commitments

- (i) Damages were assessed in favour of a claimant who brought a claim against the Company whereby the claimant was seeking to recover US\$586,165 and J\$1,015,171 for replacement of equipment and J\$7,077,874 for loss of profit. This was appealed by the Company and the judgment delivered by the Court allowed the Company's appeal and remitted the matter to the Supreme Court for a retrial. The case was heard at a trial held December 7, 2015. On October 21, 2016, judgment was handed down in favour of the claimant. The court awarded damages of US\$372,100 and J\$568,186.64 plus loss of profits of \$7,077,874. Interest at commercial rates and legal fees were also awarded.

Included in other payables and accruals is an accrual of \$68,212,506 (2017: \$68,222,121) covering the related interest on charges for the court awarded damages and estimated legal costs payable to the claimant's lawyers.

On December 2, 2016, the Company's lawyers filed a Notice of Appeal. The appeal relates to the basis used by the trial Judge to determine the interest component of the award for the period June 2009 to 2016.

- (ii) Lease commitments

At October 31, 2018, there were unexpired operating lease commitments in respect of office buildings terminating November 1, 2020 aggregating J\$7,919,328 (2017: J\$11,878,992) of which J\$3,959,664 (2017: J\$3,959,664) is payable within one year.

23. Joint operation

During 2015, the Company entered into a Joint arrangement with an independent third party, Inica Ingenieria de Instalaciones S.A.L (INICA), a company registered in the Dominican Republic with registered office at the INICA Business Building, Santo Domingo, to carry out infrastructure improvements and renovations of The Braco Hotel in Jamaica; and to share the profits 50:50. A separate company was not formed as a vehicle to carry out this project. Consequently, the Company has accounted for its interest in the joint arrangement as a joint operation.

The general principles of the agreement includes:

- All assets would be jointly held and disposed at the end of the project. The Company would have the first option to buy INICA's share of each asset (subject to fair valuation by an independent entity);
- A project team would be setup with jointly agreed signing authorities and controls for cheque signing, purchases, petty cash etc. This project team would also be charged to the project (including INICA personnel and travel costs); and
- There would be an advisory board for the project comprising of two senior managers each from INICA and the Company.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

23. Joint operation (continued)

Revenue from the joint operation includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is assessed by reference to the percentage of the contract costs incurred in relation to the total estimated contract costs.

The following table summarises the financial information of the joint arrangement as included in these financial statements on a line by line basis:

| | <u>2018</u> \$ | <u>2017</u> \$ |
|------------------|-------------------|---------------------|
| Revenue | - | 20,283,845 |
| Cost of sales | <u>-</u> | <u>(11,786,949)</u> |
| Gross profit | <u>-</u> | <u>8,496,896</u> |
| Trade receivable | <u>33,057,061</u> | <u>32,514,894</u> |

24. Segment financial information

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before taxation, as included in the internal management reports that are reviewed by the Chief Operating Decision Maker. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the related industries.

| | <u>2018</u> | | | |
|---------------------------|--------------------|---|--------------------|----------------------|
| | <u>Engineering</u> | <u>Residential Light and Commercial</u> | <u>Service</u> | <u>Total</u> |
| External segment revenues | <u>796,587,971</u> | <u>226,763,712</u> | <u>187,638,744</u> | <u>1,210,990,427</u> |
| Segment gross profit | <u>286,769,601</u> | <u>85,201,784</u> | <u>81,218,781</u> | <u>453,190,166</u> |

| | <u>2017</u> | | | |
|---------------------------|--------------------|---|--------------------|----------------------|
| | <u>Engineering</u> | <u>Residential Light and Commercial</u> | <u>Service</u> | <u>Total</u> |
| External segment revenues | <u>762,004,975</u> | <u>284,253,530</u> | <u>164,676,967</u> | <u>1,210,935,472</u> |
| Segment gross profit | <u>249,207,206</u> | <u>106,470,036</u> | <u>68,758,185</u> | <u>424,435,427</u> |

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

25. Retirement scheme

The Company participates in a contributory retirement scheme for employees who have satisfied certain minimum requirements. The scheme is accounted for as a defined contribution plan in the financial statements, i.e. pension contributions are expensed as and when they fall due. The scheme, is administered by The Scotia Jamaica Life Insurance Company Limited, a company domiciled in Jamaica.

The Company's contributions to the scheme for the year aggregated to \$1,812,107 (2017: \$1,029,443).

26. Financial risk management

The Company's financial risk management policies are directed by the Board of Directors, assisted by the management. The Company's activities expose it to credit related risks, liquidity risks and market risks that include foreign currency risks and interest rate risks.

The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The board of directors has monitoring oversight of the risk management policies.

Derivative financial instruments are not presently used to reduce exposure to fluctuation in interest and foreign exchange rates.

Annual budgeting and the continuing monitoring of the operations of the Company against the budgets allow the Board and the management to achieve its objectives and to manage relevant financial risks that could be faced by the Company.

(a) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Market risks mainly arise from changes in foreign currencies and interest rates. Market risk exposures are measured using sensitivity analysis.

(i) Foreign currency risk management

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

The Company incurs foreign currency risk primarily on purchases, related parties transaction, and investments that are denominated in a currency other than the Jamaica dollar. The main foreign currency risks of the Company are denominated in United States dollars (US\$), which is the principal intervening currency for the Company; however, there are other transactions denominated in Great Britain Pound (GBP).

CAC 2000 LIMITEDNotes to the Financial Statements (Continued)
For the year ended October 31, 201826. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign currency risk management (continued)

The Company's exposure to foreign currency was as follows:

| | <u>2018</u> | | <u>2017</u> | |
|-----------------------------|--------------------|--------------|--------------------|--------------|
| | <u>US\$</u> | <u>GBP</u> | <u>US\$</u> | <u>GBP</u> |
| Cash and bank deposits | 626,659 | 5,312 | 1,089,069 | 5,305 |
| Trade and other receivables | 256,744 | - | 265,086 | - |
| Due to related parties | (50,591) | - | (42,493) | - |
| Trade and other payables | <u>(1,191,764)</u> | <u>-</u> | <u>(1,067,462)</u> | <u>-</u> |
| Net exposure | <u>(358,952)</u> | <u>5,312</u> | <u>244,200</u> | <u>5,305</u> |

Foreign currency sensitivity analysis:

Average exchange rates for the US dollar, in terms of Jamaica dollars, were as follows:

| | <u>US\$</u> | <u>GBP</u> |
|----------------------|---------------|---------------|
| At October 31, 2018: | <u>129.82</u> | <u>166.21</u> |
| At October 31, 2017: | <u>126.64</u> | <u>165.58</u> |

Sensitivity analysis:

A 4% (2017: 6%) strengthening of the United States dollar (the Company's principal foreign currency) and the Great Britain Pound (GBP) against the Jamaica dollar would have decreased equity or decreased profit by \$1,828,649 (2017: profit and equity would have increased by \$1,908,233). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 2% (2017: 2%) weakening of the United States dollar and the Great Britain Pound against the Jamaica dollar at year end would have increased equity or increased profit by \$914,324 (2017: \$636,077).

The analysis was performed on the same basis for 2017.

The foreign currency sensitivities have varied due to the relative changes in the level of trade payables and related party balances held in foreign currency compared to that held for cash and bank deposits.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

26. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk management

Interest rate risk is the potential that the value of a financial instrument will fluctuate due to changes in market interest rates. Financial instruments subject to fixed interest rates are exposed to fair value interest rate risk while those subject to floating interest rates are exposed to cash flow interest rate risk.

The Company manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

Interests bearing financial assets are primarily represented by investments, which have been contracted at fixed and floating interest rates for the duration of the term.

Financial liabilities subject to interest include primarily third party and related party loans which are contracted at fixed rates of interest.

The nature of the Company's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior period.

At the reporting date, the interest profile of the Company's interest-bearing financial instruments was:

| | <u>Carrying amount</u> | |
|---------------------------|------------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| | \$ | \$ |
| Fixed rate instruments: | | |
| Financial assets | 72,351,959 | 101,366,661 |
| Financial liabilities | (17,137,388) | (112,598,515) |
| | <u>55,214,571</u> | (11,231,854) |
| Variable rate instrument: | | |
| Financial liability | (200,000,000) | (148,037,000) |
| | <u>(144,785,429)</u> | <u>(159,268,854)</u> |

Sensitivity analysis for fixed rate instruments

The Company's fixed rate financial instruments are not carried at fair value. Therefore a change in interest rate would not affect the profit for the year.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

26. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk management (continued)

Cash flow sensitivity analysis for variable rate instruments:

Interest rate sensitivity has been determined based on the exposure to interest rates for the Company's short-term deposits, third-party loans at the end of reporting period as these are substantially the interest sensitive instruments impacting financial results.

A change of 100 (2017: 100) basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

| | 2018 | | 2017 | |
|-----------------------|---------------------------------|------------------|---------------------------------|------------------|
| | <u>Effect on profit or loss</u> | | <u>Effect on profit or loss</u> | |
| | <u>100bp</u> | <u>100bp</u> | <u>100bp</u> | <u>100bp</u> |
| | <u>Increase</u> | <u>Decrease</u> | <u>Increase</u> | <u>Decrease</u> |
| Cash flow sensitivity | <u>2,000,000</u> | <u>2,000,000</u> | <u>1,480,370</u> | <u>1,480,370</u> |

(b) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk exposure arises principally from cash and cash equivalents, trade and other receivables and long-term receivables.

In relation to bank accounts and short-term deposits, the Company has a policy to deal with credit worthy counterparty to minimize credit risk exposures. The credit risk on cash and cash equivalents is limited as the Company minimises this risk by seeking to limit its obligations to substantial recognised financial institutions. In respect of trade receivables, the risk is minimised by discontinuing the services and also by making adequate provisions for uncollectible amounts.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. The average credit period extended by the Company is 30 days. No interest is charged on trade and other receivables. The Company has provided for receivables over 180 days after due assessment and as considered necessary, because historical experience is such that receivables that are past due beyond this period are generally difficult to collect.

Credit risks on long-term receivables are mitigated by providing financing only to contracted employees with long standing relationship with the Company who are creditworthy.

The maximum credit exposure is represented by the carrying amount of the financial assets on the statement of financial position.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

26. Financial risk management (continued)

(c) Liquidity risk management

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and other liquid assets, and maintaining the availability of funding through an adequate amount of committed credit facilities.

Management of liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors and management. The Company manages liquidity risk by maintaining adequate reserves, banking facilities, continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate tables

The following table details the Company's contractual maturity for its non-derivative financial liabilities, including interest payments and excluding the impact of off-setting agreements.

| | 2018 | | | | |
|--------------------------|----------------------|---------------------------|--------------------|-------------------|--------------------|
| | Carrying amount | Contractual cash flows | 0 - 12 months | 1 – 2 years | 2 – 5 years |
| Trade and other payables | 328,728,403 | 328,728,403 | 328,728,403 | - | - |
| Due to related parties | 6,803,481 | 6,803,481 | 6,803,481 | - | - |
| Loans and borrowings | 213,060,745 | 305,000,719 | 23,716,937 | 24,026,640 | 257,257,142 |
| Finance leases | <u>4,076,643</u> | <u>4,431,774</u> | <u>3,323,830</u> | <u>1,107,944</u> | <u>-</u> |
| | <u>\$552,669,272</u> | <u>644,964,377</u> | <u>362,572,651</u> | <u>25,134,584</u> | <u>257,257,142</u> |
| | 2017 | | | | |
| | Carrying amount | Contractual cash flows | 0 - 12 months | 1 – 2 years | 2 – 5 years |
| Trade and other payables | 295,903,418 | 295,903,418 | 295,903,418 | - | - |
| Due to related parties | 5,422,439 | 5,422,439 | 5,422,439 | - | - |
| Loans and borrowings | 253,900,204 | 269,348,243 | 264,791,685 | 1,817,043 | 2,739,515 |
| Finance leases | <u>6,735,311</u> | <u>7,755,604</u> | <u>3,323,830</u> | <u>3,323,830</u> | <u>1,107,943</u> |
| | <u>\$561,961,372</u> | <u>578,429,704</u> | <u>569,441,372</u> | <u>5,140,873</u> | <u>3,847,458</u> |

(d) Capital risk management

The capital structure of the Company consists of equity attributable to the equity holders comprising issued capital and retained earnings.

CAC 2000 LIMITED

Notes to the Financial Statements (Continued)
For the year ended October 31, 2018

26. Financial risk management (continued)

(d) Capital risk management (continued)

The Company's objectives when managing its capital structure, which is a broader concept than the equity on the face of the statement of financial position are:

- i) To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for stakeholders; and
- ii) Maintain a strong capital base to support the business development.

The Company's overall strategy remains unchanged from 2017.

(e) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available for some of the financial assets and liabilities of the Company, the fair values in the financial statements have been presented using various estimation techniques based on market conditions existing at the end of the reporting period. Generally, judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that the Company would realise in a current market exchange.

The following method and assumption have been used in determining the fair values of financial assets and financial liabilities:

The carrying amount of cash and cash equivalents, trade and other receivables, trade and other payables, amounts due from related parties and other assets and liabilities maturing within one year (including the short-term elements of non-current instruments) is assumed to approximate their fair value because of the short-term maturity of these instruments.

- (i) The fair value of bank loans is assumed to approximate their carrying amounts as interest rates are contractually adjusted by issuer with movement in underlying bank base rates.
- (ii) The fair value of long-term receivables which is due from the Company's contract staff is considered to be the amount receivable (the carrying value) given the special nature of the arrangement.