# ACCOUNTANTS= REPORT

TO THE MEMBERS OF

SKNA TRADING AND DEVELOPMENT COMPANY LIMITED AND ITS SUBSIDIARIES

On the basis of information provided by management we have compiled, in accordance with the International Standard on Auditing applicable to compilation engagements, the consolidated statement of financial position of SKNA Trading and Development Company Limited and its Subsidiaries as of 31 October 2012 and statements of consolidated income, consolidated comprehensive income, consolidated cash flows and consolidated statement of equity for the nine months then ended. Management is responsible for these financial statements. We have not audited or reviewed these financial statements and accordingly express no assurance thereon.

Chartered Accountants

BASSETERRE - St Kitts
16 March 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 31 OCTOBER 2012
(Expressed in Eastern Caribbean Dollars)
(Unaudited)

## 1 PRINCIPAL ACTIVITIES

St Kitts Nevis Anguilla Trading and Development Company Limited, incorporated in St Kitts, is the Parent Company of a diversified trading, manufacturing and service group. A list of subsidiary companies and their main activities is given at the end of this report.

The registered office of the company is situated at Fort Street, Basseterre, St Kitts.

The Company is listed on the Eastern Caribbean Stock Exchange.

## 2 SIGNIFICANT ACCOUNTING POLICIES

a) **Basis of Accounting**:

These consolidated financial statements are prepared on the historical cost basis modified to give effect to the revaluation of certain property, plant and equipment and available for sale financial assets.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The accounting policies adopted are consistent with those of the previous financial year including the adoption of the new and amended IAS, IFRS and IFRIC (International Financial Reporting Interpretations Committee) for accounting periods beginning on or after dates indicated;

**Standards and Interpretations in effect and applicable**

| | |
|---|---|
| IFRS 1 | First-time Adoption of International Financial Reporting Standards – Amendment resulting from May 2010 Annual Improvements to IFRSs - effective 1 January 2011 |
| IFRS 3 | Business Combinations – Amendments resulting from May 2010 Annual Improvements to IFRSs - effective 1 July 2010 |
| IFRS 7 | Financial Instruments: Disclosures – Amendments resulting from May 2010 Annual Improvements to IFRSs – effective January 2011 |
| IAS 1 | Presentation of Financial Statements- Amendments resulting from May 2010 Annual Improvements to IFRSs – effective 1 January 2011 |
| IAS 24 | Related Party Disclosures – Revised definition of related parties – effective 1 January 2011 |
| IAS 27 | Consolidated and separate Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRS - effective 1 July 2010 |
| IFRIC 13 | Customer Loyalty Programmes – Amendments resulting from May 2010 Annual Improvements to IFRSs – effective 1 January 2011 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments – effective 1 July 2010 |

Adoption of these standards and interpretations did not have any effect on the performance of the Group.

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) **Basis of Accounting**: (cont'd)

**Standards and interpretations in issue and effective but not applicable**

| | |
|---|---|
| IAS 34 | Interim Financial Reporting – Amendments resulting from May 2010 Annual Improvements to IFRSs – effective 1 January 2011 |
| IFRIC 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – November 2009 Amendments with respect to Voluntary prepaid contributions - effective 1 January 2011 |

**Standards and interpretations in issue but not yet effective and not early adopted**

| | |
|---|---|
| IFRS 1 | First-time Adoption of IFRSs – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs' - effective 1 July 2011 |
| IFRS 1 | First-time Adoption of IFRSs – Additional exemption for entities ceasing to suffer from severe hyperinflation – effective 1 July 2011 |
| IFRS 7 | Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets - effective 1 July 2011 |
| IFRS 7 | Financial Instruments: Disclosures – Amendments – Offsetting Financial Assets and Financial Liabilities – effective 1 January 2013 |
| IFRS 9 | Financial Instruments – Classification and Measurement - effective 1 January 2015 |
| IFRS 10 | Consolidated Financial Statements – effective 1 January 2013 |
| IFRS 11 | Joint Arrangements – effective 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities – effective 1 January 2013 |
| IFRS 13 | Fair Value Measurement - 1 January 2013 |
| IAS 1 | Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented – effective 1 July 2012 |
| IAS 12 | Income Taxes – Limited scope amendment (recovery of underlying assets) – effective 1 January 2012 |
| IAS 19 | Employee Benefits – Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects – effective 1 January 2013 |

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### a) Basis of Accounting (cont'd)

**Standards and interpretations in issue but not yet effective and not early adopted** (cont'd)

| | |
|---|---|
| IAS 27 | Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) - effective 1 January 2013 |
| IAS 28 | Investments in Associates and Joint Ventures – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) – effective 1 January 2013 |
| IAS 32 | Amendment – Offsetting Financial Assets and Financial Liabilities – effective 1 January 2014 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine – effective 1 January 2013 |

### b) Revenue Recognition:

The group principally derives its revenue from sales to third parties, rendering of services, interest income, dividends, premium income and rental income.

Sales to third parties:

Revenue from sale of products to third parties is recognized when the significant risks and rewards of ownership have been passed to the buyer and the amounts can be measured reliably.

Rendering of Services:

Revenue is recognized in the accounting period in which the services are provided by reference to the stage of completion.

Interest Income:

Interest from hire purchase is apportioned over the period in which the instalments are received, in the proportion which instalments received bear to total selling price. Other interest income is recognized as the interest accrues, unless collectibility is in doubt.

Dividend:

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b) **Revenue Recognition**: (cont'd)

Premium Income:

For general insurance business, premium income is accounted for when invoiced, which corresponds to the date insurance cover becomes effective. Any subsequent revisions are accounted for in the period during which these occur.

Rental Income:

Rental income is accounted for on a straight-line basis over the lease term.

c) **Basis of Consolidation**:

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Acquisition of subsidiaries are accounted for using the purchase method of accounting. The cost of acquisition is measured at the fair value of the assets taken up, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Where necessary, accounting policies have been changed to ensure consistency with the policies adopted by the Group.

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### d) Investment in Associated Companies:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income in the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in comprehensive income.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment as its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the value of the retaining investment and proceeds from disposal is recognized in profit or loss.

2 **SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

e) **Business Combination**:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

f) **Inventories and Goods in Transit**:

Inventories and goods in transit are valued at the lower of cost and net realizable value, which have been applied consistently with the previous financial year. The cost of finished products and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

g) **Hire Purchase Transactions**:

The gross profit and interest charges relating to hire purchase sales are apportioned over the period in which the instalments are received in the proportion which instalments received bear to the total selling price. Hire purchase stock is valued at hire purchase sale price less deferred gross profit and interest charges and less cash received on account. This value is not greater than cost or net realizable value and has been consistently applied over the years.

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### h) Policyholders' Funds

St Kitts Nevis Insurance Company Limited (SNIC), a wholly owned subsidiary, is required to set aside and maintain funds for both statutory and actuarial reasons to adequately safeguard the policyholders' interests. These funds are shown separately from the funds attributable to the shareholders and are not available for distribution. An actuary values the long term insurance funds at intervals not exceeding three years.

### i) Underwriting Profits:

Underwriting profits are on general insurance business stated after setting off reinsurance premiums and after making adequate provisions for unearned premiums, outstanding claims and claims equalization reserve.

### j) Provisions for Unearned Premiums:

Provisions for unearned premiums represent the proportions of the premiums written in the period less reinsurance thereon, which relate to periods of insurance subsequent to the end of the reporting period and have been computed on a monthly pro rata fractional basis (the "24th's" method).

### k) Outstanding Claims:

Outstanding claims comprise the estimated cost of all claims incurred but not settled at the end of the reporting period, less recoveries from re-insurers. Provision is also made for claims incurred but not reported until after the end of the reporting period. Differences between the provisions for outstanding claims and subsequent settlements and revisions are included in the revenue statements in the year the claims are settled.

### l) Claims Equalization Reserve:

Claims Equalization Reserve represents annual transfers from gross premiums on fire, motor and miscellaneous business deemed necessary by the Directors to provide for unforeseen risks and catastrophes, in keeping with standard practice in the insurance industry.

2 **SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

m) **Property, Plant and Equipment**:

The Freehold and Leasehold properties were independently and professionally revalued in January 1995 and in December 2007 at market values prevailing at those dates. Properties acquired after that date are stated at cost. Surpluses on revaluation are taken directly to Capital Reserve. Property, plant and equipment are stated at cost less related accumulated depreciation.

n) **Depreciation of Property, Plant and Equipment**:

Depreciation is provided for at varying annual rates calculated to write off the cost of Property, Plant and Equipment other than Leasehold Properties over their expected useful lives.

o) **Foreign Currencies**:

All amounts are stated in Eastern Caribbean Dollars. Transactions during the year between the Group and its customers and suppliers are converted into local currencies at the rates of exchange ruling at the dates of the transactions. Differences arising therefrom are reflected in the current year's results. Assets and liabilities in foreign currencies are translated into Eastern Caribbean Dollars at the rates of exchange prevailing at the end of the reporting period.

p) **Taxation**:

The company follows the liability method of accounting for deferred tax whereby all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes are provided for at the current corporation tax rate. Deferred tax assets are only recognized when it is probable that taxable profits will be available against which the assets may be utilized.

q) **Turnover**:

Turnover principally comprises sales to third parties, commissions and gross general insurance premiums.

2 **SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

r) **Borrowing Costs**:

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

s) **Trade and Other Payables**:

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

t) **Provisions**:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Warranty Claims Provision*:***

The Group generally offers one-year warranties on some of its products. The Group estimates the amount and cost of future warranty claims for its current period sales. These estimates are used to record accrued warranty provisions for current period product shipments. The company uses historical warranty claim information, as well as, recent trends that might suggest that past cost information may differ from future claims.

2 **SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

u) **Accounts Receivable**:

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

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized within distribution costs in the consolidated statement of income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's Accounts Receivable comprise loans receivables, trade and other receivables.

v) **Use of Estimates**:

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### w) Investments:

Available-for-Sale:

These are securities, which are not held with the intention of generating profits from market movements, and the general purpose is to hold these securities for an indefinite period.

Investments are initially recognized at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. For securities where there is no quoted market price, fair value has been estimated by management at cost less amounts written off.

Investments in companies quoted on the Eastern Caribbean Securities Exchange are carried at fair value based on quoted market prices at the year end. All unrealized gains and losses on revaluation are reported as part of shareholders' equity in the capital reserve account, until the securities are disposed of, at which time the cumulative gain or loss previously recognized in equity is included in the Income Statement.

Held to Maturity:

Investments in which management has the intent and ability to hold to the fixed maturity date are classified as held to maturity and included in non current assets and carried at cost.

### x) Cash and Cash equivalents:

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and short term investments.

### y) Intangibles:

Goodwill and Licences from Travel Agencies:

Goodwill and Licences from Travel Agencies are evaluated annually for impairment. Impairment charges are included in profit or loss.

**2 SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

y) **Intangibles:** (Cont'd)

Software:

Intangible assets are identifiable non-monetary assets without physical substance. Acquired computer software licences, upgrades to software and related costs that are expected to contribute to the future economic benefit of the company are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives at a rate of 20% per annum.

Costs associated with maintaining computer software programmes are recognized as an expense when incurred.

z) Dividends:

Dividends are recognized when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

## 3 PROPERTY, PLANT AND EQUIPMENT

| | Total | Land and Buildings | General Equipment |
|---|---|---|---|
| **Nine months ended 31 October 2012** | | | |
| Gross carrying amount - At Beginning of period | 187,370,961 | 120,548,587 | 66,822,374 |
| Additions at Cost | 3,581,216 | 305,947 | 3,275,269 |
| Disposals/Transfers at Cost | (2,428,783) | - | (2,428,783) |
| Gross carrying amount- At End of period | 188,523,394 | 120,854,534 | 67,668,860 |
| Depreciation - At Beginning of period | 49,538,026 | 5,904,736 | 43,633,290 |
| Depreciation Charge in period | 4,520,458 | 1,127,369 | 3,393,089 |
| Depreciation on Disposals | (1,997,467) | - | (1,997,467) |
| Depreciation - At End of period | 52,061,017 | 7,032,105 | 45,028,912 |
| **Net carrying amount – 31 October 2012** | $136,462,377 | $113,822,429 | $22,639,948 |

SKNA TRADING AND DEVELOPMENT COMPANY LIMITED AND ITS SUBSIDIARIES

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(Continued)
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(Unaudited)

## 3 PROPERTY, PLANT AND EQUIPMENT (cont'd)

| | Total | Land and Buildings | General Equipment |
|---|---|---|---|
| **Year Ended 31 January 2012** | | | |
| Gross carrying amount - At Beginning of year | 162,298,766 | 118,168,825 | 44,129,941 |
| Additions Re: Acquisition of a subsidiary | 25,122,363 | 2,583,845 | 22,538,518 |
| Additions at Cost | 4,772,665 | 1,313,691 | 3,458,974 |
| Disposals/Transfers at Cost | (5,141,521) | (1,507,774) | (3,633,747) |
| Gross carrying amount- At End of year | 187,052,273 | 120,558,587 | 66,493,686 |
| Depreciation - At Beginning of year | 35,977,818 | 4,409,240 | 31,568,578 |
| Depreciation Charge in year | 5,364,216 | 1,488,466 | 3,875,750 |
| Depreciation on Disposals | (2,826,675) | (64,603) | (2,762,072) |
| Additions Re: Acquisition of a subsidiary | 10,703,979 | 71,633 | 10,632,346 |
| Depreciation - At End of year | 49,219,338 | 5,904,736 | 43,314,602 |
| **Net carrying amount – 31 January 2012** | $137,832,935 | $114,653,851 | $23,179,084 |

Revaluation of Freehold and Leasehold Properties:

Revaluation in 2007

In December 2007, the Parent and Subsidiary Companies' freehold and leasehold properties were again independently revalued by Cooper Kauffman Limited, Professional Valuers. The surplus of $38,881,024 arising on this revaluation was credited to Capital Reserve during the year ended 31 January 2009. Subsequent additions have been included at cost.

The Directors are of the opinion that market values for these leasehold and freehold properties have not changed significantly from the date the valuations were obtained and the end of the year under review.

Two (2) parcels of leasehold land on which there are buildings of two subsidiary companies have been leased from Government for periods of 50 years effective 1982 and 1985 respectively.

Acquisition of a Subsidiary

During the year ended 31 January 2012, the Group purchased the controlling shares in St Kitts Bottling Company Limited thus converting it to a subsidiary of the Group. The property, plant and equipment of this subsidiary were initially recognized at fair value.

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| 4 | **INVESTMENTS AT COST AND VALUATION** | 31 October 2012 | 31 January 2012 |
|---|---|---|---|
| | Associated Companies | 7,386,210 | 7,240,939 |
| | Available-for-Sale Investments | 38,379,652 | 28,803,526 |
| | Held-to-Maturity | 14,183,238 | 14,722,295 |
| | | $59,949,100 | $50,766,760 |

| **Associated Companies:** | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Balance at beginning of period | 7,240,939 | 8,963,258 |
| Disposal | - | (2,680,886) |
| Net movement for the period (see below) | 145,271 | 958,567 |
| Balance at end of period | $7,386,210 | $7,240,939 |
| Net Movement for the period | | |
| Income before Taxation | 862,141 | 1,880,275 |
| Taxation (Note 14) | (264,727) | (587,896) |
| | 597,414 | 1,292,379 |
| Dividends | (400,000) | (331,937) |
| | 197,414 | 960,442 |
| Capital Adjustment | (52,143) | (1,875) |
| Net Movement | $145,271 | $958,567 |

The Group's investment in associates comprises:

| | | |
|---|---|---|
| St Kitts Masonry Products Limited | 50% | 50% |
| Malliouhana-Anico Insurance Company Limited | 25% | 25% |

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## 4 INVESTMENTS AT COST AND VALUATION (cont'd)

The Group's share of results, assets and liabilities of the associates are as follows:

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| **Assets** | $12,714,099 | $12,896,178 |
| **Liabilities** | $6,838,941 | $5,655,239 |
| Share of the associates' results: | | |
| Revenue | $8,159,786 | $10,746,989 |
| Profit after taxation | $597,415 | $1,292,379 |

| **Available-for-Sale Investments:** | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Balance at beginning of period | 28,803,526 | 20,900,216 |
| Additions | 9,844,399 | 9,707,382 |
| Assignment of deposit to Registrar of Insurance (see note 6) | - | (1,062,500) |
| Impairment | - | (454,442) |
| Net unrealized losses transferred to equity | (268,273) | (287,130) |
| Balance at end of period | $38,379,652 | $28,803,526 |

**Held to Maturity:**

| | | |
|---|---|---|
| Balance at beginning of period | 14,722,295 | 18,057,756 |
| Additions | 73,043 | - |
| Securities matured | (612,100) | (2,335,461) |
| Impairment provision - Government Bonds (See Note Below) | - | (1,000,000) |
| Balance at end of period | $14,183,238 | $14,722,295 |
| | | |
| Bonds maturing between 1 to 5 years | 11,335,351 | 10,900,000 |
| Bonds maturing after 5 years | 2,847,887 | 3,822,295 |
| | $14,183,238 | $14,722,295 |

| | | 31 October 2012 | 31 January 2012 |
|---|---|---|---|
| **4** | **INVESTMENTS AT COST AND VALUATION (**cont'd) | | |

Interest on bonds is earned at varying rates between 5% and 8% per annum.

**Impairment provisions**

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Balance at beginning of period | 1,454,442 | - |
| Impairment for the period - Available-for-Sale | - | 454,442 |
| - Held-to-Maturity (See Note Below) | - | 1,000,000 |
| Balance at end of period | $1,454,442 | $1,454,442 |

**Government of St Kitts and Nevis Debt Exchange Offer**
**New Discount Bonds – 50% Discount**

According to a Press Release dated 27 February 2012, the Government of St Kitts and Nevis made an offer to exchange certain bonds and commercial bank loans (collectively, 'Eligible Claims') owed by the Government, the Nevis Island Administration and public enterprises in return for new US dollar and EC dollar-denominated bonds to be issued by the Federation of St Kitts and Nevis.

Under the terms of the exchange offer, which is being supported by the Caribbean Development Bank ('CDB') through the provision of a partial guarantee, holders of Eligible Claims are being invited to tender their claims in exchange for either New Discount Bonds or New Par Bonds.

The financial terms of the exchange offer are based on the economic data and forecasts produced by the International Monetary Fund as part of the first review under the country's three-year Stand-By Arrangement, originally approved in July 2011, and take into account the feedback received from affected creditors during a nine-month period of intensive consultations. The Group tendered its claim in exchange for New Discount Bonds.

**New Discount Bonds**

The New Discount Bonds will be issued with a 50% discount on the principal amount of Eligible Claims to be tendered. These bonds will be based on a monthly mortgage-style repayment structure with no grace period on principal. The New Discount Bonds have a final maturity of 20 years, with the last payment due in March 2032. The coupon on these instruments will be 6% for the first four years, dropping to 3% from March 2016 onwards. The New Discount Bonds will benefit from a partial guarantee from the CDB of up to US$12 million that will apply on a rolling, reinstatable, and non-accelerable basis.

One of the Group's wholly-owned subsidiary companies, St Kitts Nevis Insurance Company Limited (SNIC) had an 'Eligible Claim' of $2,000,000 which suffered a 50% discount ("haircut") of $1,000,000, which is included in the figure of Other Expenses of $5,213,607 in the Consolidated Statement of Income.

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4 **INVESTMENTS AT COST AND VALUATION** (cont'd)

**Other Investments**:

The investments in Caribbean Investments Corporation and Caribbean Shoe Manufacturers Limited have been written down to a nominal value of $1 each since no further material return is anticipated.

**Associated Companies**:

Investments in Associated Companies are accounted for on the equity basis as represented in the latest Financial Statements which for one company was 30 June 2011 and the other was 31 July 2012.

**Quoted Investments**:

Investments in Companies quoted on the Eastern Caribbean Stock Exchange are carried at fair value based on quoted market prices at the end of the period.

In the opinion of the Directors the aggregate value of investments is not less than the book value.

| 5 **ACCOUNTS RECEIVABLE** | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Trade Accounts Receivable and Loans - Current (Net of Provisions) | 29,624,825 | 29,205,777 |
| Amount due by Associated Companies | 328,282 | 624,641 |
| Other Receivables and Prepayments | 7,597,804 | 6,351,597 |
| TOTAL - Current | $37,550,911 | $36,182,015 |
| **Accounts Receivable – Non Current (Net of Provisions)** | $64,859,390 | $60,593,008 |

## 5 ACCOUNTS RECEIVABLE (cont'd)

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Accounts Receivable: | | |
| Within 2 to 5 years | 33,456,098 | 31,572,068 |
| After 5 years | 31,403,292 | 29,020,940 |
| | $64,859,390 | $60,593,008 |

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Movement on Provision for impairment – current and non-current receivables: | | |
| Balance at beginning of period | 15,705,849 | 15,320,146 |
| Increase in provision for impairment | 855,669 | 2,251,399 |
| Receivables written off during the period | (1,465,618) | (197,752) |
| Impaired losses reversed | (22,818) | (1,667,944) |
| Balance at end of period | $15,073,082 | $15,705,849 |

Ageing analysis of trade receivables:

| | Total | Neither past due nor impaired | Past due but not impaired 30 to 90 days | Past due but not impaired over 90 days |
|---|---|---|---|---|
| 31 October 2012 | $29,624,825 | $20,685,518 | $3,743,011 | $5,196,296 |
| 31 January 2012 | $29,205,777 | $19,520,762 | $2,968,532 | $6,716,483 |

## 6 INSURANCE STATUTORY DEPOSIT

In accordance with the Insurance Act 2009, Section 23, all registered Insurance Companies are required to maintain a Statutory Deposit with the Accountant General. During the year under review, $1,062,500 in the form of a fixed deposit with a commercial bank was assigned to the Registrar of Insurance. This amount increased the statutory deposit held to $1,896,024 (31 January 2012 = $833,524) with an outstanding amount of $419,840 at 31 January 2012.

During the period under review, charges in favour of the Registrar of Insurance were placed on Eastern Caribbean Home Mortgage Bank bonds in the total amount of $550,000 effective 6 February 2012 and a charge on a Fixed Deposit in the amount of $1.5 million held with FINCO was accounted for during this period.

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| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| 7 **INTANGIBLES** | | |
| Goodwill: | | |
| - At initial recognition | 1,250,000 | 1,250,000 |
| - Impairment at beginning of year | 625,000 | 375,000 |
| - Current impairment | 625,000 | 250,000 |
| - Impairment at end of period | 1,250,500 | 625,000 |
| Net carrying amount | - | 625,000 |
| Licence – Travel Agency | | |
| - At initial recognition | 300,000 | 400,000 |
| - Current impairment | - | 100,000 |
| Net carrying amount | 300,000 | 300,000 |
| Software: | | |
| - At initial recognition | 521,402 | 515,341 |
| - Additions | 675,000 | 6,061 |
| | 1,196,402 | 521,402 |
| - Amortisation at beginning of year | 493,749 | 434,620 |
| - Current amortisation | 10,544 | 59,129 |
| - Amortisation end of period | 504,293 | 493,749 |
| Net carrying amount | 692,109 | 27,653 |
| TOTAL NET CARRYING AMOUNT | $992,109 | $952,653 |

## 7 **INTANGIBLES** (cont'd)

Intangibles represent:

i) Goodwill of $1,250,000 being the excess of the cost of acquisition over the net tangible assets acquired on the purchase of The City Drug Store Limited on 1 May 2005. Effective from year ended 31 January 2009, impairment was assessed annually. Goodwill was written off in full during the period under review.

ii) Purchase of licences from a travel agency in the amount of $400,000. Impairment is assessed annually;

iii) Software which is being amortised over 5 years.

In the opinion of the Directors, the fair value of these intangibles is not less than the written down value.

## 8 **CASH AND SHORT TERM INVESTMENTS**

Included in cash and short term investments is an amount of $6,155,570 (31 January 2012 = $12,937,945) which represents Government of St Kitts and Nevis and Nevis Island Administration Treasury Bills stated at cost [Face Value $6,336,000 (31 January 2012 = $13,231,680)] maturing on quarterly and annual bases. Interest is earned at rates of 6½% and 6¾% per annum free of tax.

## 9 **SHARE CAPITAL**

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Authorised | | |
| 500,000,000 Ordinary Shares of $1 each | $500,000,000 | $500,000,000 |
| Issued and Allotted | | |
| 52,000,000 Ordinary Shares of $1 each | $52,000,000 | $52,000,000 |

Dividends:

In accordance with the Company's Articles of Association, dividends are prorated on the basis of the amounts paid on application and on calls, having regard to the number of months during the year for which the amounts were paid.

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| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| **10 BANK LOANS AND OVERDRAFTS** | | |
| Overdrafts | 22,201,990 | 25,154,807 |
| Loans - Current portion | 4,487,716 | 4,548,931 |
| OVERDRAFTS/LOANS-CURRENT | $26,689,706 | $29,703,738 |
| Bank Loans | 35,693,013 | 31,453,073 |
| Less Current Portion | (4,487,716) | (4,548,931) |
| LOANS - NON-CURRENT | $31,205,297 | $26,904,142 |
| Non-current Loans: | | |
| Amounts Payable: | | |
| Within 2 to 5 years | 15,603,027 | 19,805,772 |
| After 5 years | 15,602,270 | 7,098,370 |
| TOTAL | $31,205,297 | $26,904,142 |

Secured loans are repayable over periods varying from one (1) to ten (10) years at rates of interest varying from 6% to 7%.

Collateral:

The Group=s bankers hold debentures creating fixed and floating charges and an equitable mortgage on the Group=s assets, including capital of the Parent Company and certain subsidiaries amounting to approximately $61,877,000 (31 January 2012 = $61,877,000).

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| | | 31 October 2012 | 31 January 2012 |
|---|---|---|---|
| 11 | **INSURANCE AND OTHER FUNDS** | | |
| | Insurance Funds | 26,782,775 | 25,242,434 |
| | Employee Benefit Funds | 3,668,648 | 3,514,367 |
| | Policyholders= Funds | 3,506,169 | 3,342,628 |
| | TOTAL | $33,957,592 | $32,099,429 |

| | | 31 October 2012 | 31 January 2012 (Restated) |
|---|---|---|---|
| 12 | **ACCOUNTS PAYABLE** | | |
| | Customer Deposits | 73,209,808 | 69,109,875 |
| | Trade Accounts Payable | 16,176,392 | 15,767,822 |
| | Amount due to Associated Companies | 98,120 | 656,721 |
| | Sundry Accounts Payable and Accrued Charges | 35,069,830 | 35,679,673 |
| | TOTAL - Current | $124,554,150 | $121,214,091 |
| | ACCOUNTS PAYABLE – Non-Current | $2,311,749 | $705,606 |

| | | 31 October 2012 | 31 January 2012 |
|---|---|---|---|
| 13 | **DEFERRED TAX LIABILITY** | | |
| | Deferred Tax Liability – brought forward | 2,316,442 | 3,325,128 |
| | Acquisition through business combination | - | 678,889 |
| | Deferred Tax Credit (Note 14) | (1,413,779) | (1,687,575) |
| | Deferred Tax Liability – carried forward | $902,663 | $2,316,442 |
| | Deferred Tax Liability (net) comprises: | | |
| | Deferred Tax Assets | (10,521,990) | (9,065,392) |
| | Deferred Tax Liability | 11,424,653 | 11,381,834 |
| | | $902,663 | $2,316,442 |

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## 13 DEFERRED TAX LIABILITY (Cont'd)

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Deferred Tax Assets comprise: | | |
| Unutilised Capital Allowances | 7,999,178 | 7,370,101 |
| Unutilised Tax Losses | 2,228,544 | 1,499,108 |
| Accelerated Depreciation | 294,268 | 196,183 |
| | $10,521,990 | $9,065,392 |
| Deferred Tax Liability comprises: | | |
| Accelerated Capital Allowances | $11,424,653 | $11,381,834 |

## 14 PROVISION FOR TAXATION

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Provision for Taxation | | |
| - Current Period | 523,555 | 932,894 |
| - Previous Years | 304,155 | 1,089,303 |
| TOTAL | $827,710 | $2,022,197 |
| The Charge in the Income Statement comprises the following: | | |
| Provision for Taxation | 2,429,008 | 2,872,048 |
| Under provision – previous year | 20,928 | 87,831 |
| Deferred Tax (Note 13) | (1,413,779) | (1,687,575) |
| | 1,036,157 | 1,272,304 |
| Associated Companies (Note 4) | 264,727 | 587,896 |
| TOTAL | $1,300,884 | $1,860,200 |

The Group's effective tax rate of 46.4% (31 January 2012 = 43.9%) differs from the Statutory rate as follows:

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Income before Taxation | $2,797,689 | $4,234,555 |
| Tax at statutory rate of 35% | 979,191 | 1,482,094 |
| Tax effect of expenses not deductible in determining taxable profits | 959,998 | 1,875,705 |
| Tax effect of income not assessable for taxation | (709,539) | (1,667,913) |
| Under/(over)provisions – previous years | 20,928 | 87,831 |
| Tax effect of depreciation on non-qualifying assets | 81,745 | 145,297 |
| Tax effect on gain on non-qualifying assets | - | (60,935) |
| Other | (31,439) | (1,879) |
| | $1,300,884 | $1,860,200 |

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## 15 EARNINGS PER ORDINARY SHARE

Basic earnings per share is computed by relating income attributable to ordinary shareholders to the number of ordinary shares in issue during the period.

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Net Income for the period | $1,496,806 | $2,374,355 |
| Number of ordinary shares in issue | 52,000,000 | 52,000,000 |
| Basic earnings per share | $0.03 | $0.05 |

## 16 PRIOR YEAR ADJUSTMENTS

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Prior year adjustments comprise the following: | | |
| Reversal of increased investment in subsidiary duplicated | $350,000 | - |

## 17 CONTINGENT LIABILITIES AND COMMITMENTS

a) The Company is committed for calls on the unpaid portion of shares in its wholly-owned subsidiary, TDC Tours Limited, in the amount of $70,000 (31 January 2012 = $70,000);

b) At 31 October 2012, the Parent Company guaranteed bank loans and overdrafts on behalf of subsidiary companies;

c) At 31 October 2012, commitments in respect of open Letters of Credit established in the normal course of business amounted to $1,506,144 (31 January 2012 = $1,551,987);

d) The Company is committed to the investment in Cable Bay Hotel Development project for an additional amount of $5,480,102 (31 January 2012 = $5,480,102).

## 17 **CONTINGENT LIABILITIES AND COMMITMENTS** (cont'd)

e) There was no pending litigation at 31 October 2012 (31 January 2012 = $548,000 approximately).

## 18 **TDC REAL ESTATE AND CONSTRUCTION LIMITED**

Construction on twenty seven (27) of the forty-three (43) villas at Sunrise Hill - Frigate Bay, St Kitts was completed. Two (2) villas remained unsold at year end. The project is expected to be completed by July 2015.

It is estimated to cost EC $72 million of which $43,248,515 was expended at period end. The Company was granted a five year tax-free holiday in respect of this development. This tax-free holiday has expired. As the project has not been completed, the Company has applied for a further extension of the tax-free holiday status.

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## 19 FINANCIAL INFORMATION BY SEGMENT

| SEGMENT | REVENUE 9 Months to 31 October 2012 | REVENUE 12 Months to 31 January 2012 | PRE-TAX PROFIT 9 Months to 31 October 2012 | PRE-TAX PROFIT 12 Months to 31 January 2012 |
|---|---|---|---|---|
| General Merchants and Shipping | 86,383,674 | 129,116,458 | (1,553,273) | (2,895,696) |
| Insurance and Finance | 15,168,312 | 19,179,762 | 4,799,404 | 6,847,284 |
| Rentals, Airline Agencies and Hotel | 11,288,929 | 15,850,938 | (500,203) | (974,262) |
| Real Estate | 2,752,411 | 7,551,949 | 51,762 | 1,257,229 |
| | $115,593,326 | $171,699,107 | $2,797,690 | $4,234,555 |

| SEGMENT | ASSETS 31 October 2012 | ASSETS 31 January 2012 | LIABILITIES 31 October 2012 | LIABILITIES 31 January 2012 |
|---|---|---|---|---|
| General Merchants and Shipping | 174,830,104 | 179,003,887 | 98,975,346 | 102,550,362 |
| Insurance and Finance | 145,036,541 | 132,944,188 | 114,068,967 | 106,522,997 |
| Rentals, Airline Agencies and Hotel | 38,454,760 | 40,549,538 | 2,970,572 | 3,796,676 |
| Real Estate | 21,483,974 | 22,432,531 | 4,433,982 | 2,095,610 |
| | $379,805,379 | $374,930,144 | $220,448,867 | $214,965,645 |

| SEGMENT | ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT 9 Months to 31 October 2012 | ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT 12 Months to 31 January 2012 | DEPRECIATION 9 Months to 31 October 2012 | DEPRECIATION 12 Months to 31 January 2012 |
|---|---|---|---|---|
| General Merchants and Shipping | 2,900,107 | 17,630,021 | 2,800,517 | 3,003,029 |
| Insurance and Finance | 48,415 | 84,822 | 129,819 | 169,781 |
| Rentals, Airline Agencies and Hotel | 527,819 | 1,440,016 | 1,544,261 | 2,126,663 |
| Real Estate | 104,875 | 36,190 | 45,861 | 64,743 |
| | $3,581,216 | $19,191,049 | $4,520,458 | $5,364,216 |

## 20 FINANCIAL INSTRUMENTS

a) Interest Rate Risk

Interest rates and terms of borrowing are disclosed in Note 10.

b) Credit Risk

The Group sells products and provides services to customers primarily in St Kitts-Nevis. The Group performs on-going credit evaluation of its customers and counterparties and provisions are made for potential credit losses.

c) Fair Values

The carrying amounts of the following financial assets and liabilities approximate their fair value: cash and bank balances, short-term deposits, accounts receivable, investments, accounts payable, loans and long-term liabilities.

d) Currency Risk

Substantially all of the Group=s transactions and assets and liabilities are denominated in Eastern Caribbean Dollars and United States Dollars. Therefore, the Group has no significant exposure to currency risk.

e) Liquidity Risk:

In order to manage liquidity risk, management seeks to maintain sufficient levels of cash and cash equivalents and available credit facilities such as loans and overdrafts to finance its operations and ongoing projects.

20 **FINANCIAL INSTRUMENTS** (cont'd)

e) Liquidity Risk: (cont'd)

The following table summarises the maturity profile of the Group's financial assets and liabilities:

Financial Liabilities:

Period Ended 31 October 2012:

| | Due within 1 Year | >1 Yr to 5 Yrs | >5 Years | Total |
|---|---|---|---|---|
| Overdrafts | 22,201,990 | - | - | 22,201,990 |
| Loans | 4,487,716 | 15,603,027 | 15,602,270 | 35,693,013 |
| Trade Payables | 87,172,571 | 2,311,749 | - | 89,484,320 |
| Other Payables | 35,069,830 | - | - | 35,069,830 |
| | $148,932,107 | $17,914,776 | $15,602,270 | $182,449,153 |

Year Ended 31 January 2012:

| | Due within 1 Year | >1 Yr to 5 Yrs | >5 Years | Total |
|---|---|---|---|---|
| Overdrafts | 25,154,807 | - | - | 25,154,807 |
| Loans | 4,548,931 | 19,805,772 | 7,098,370 | 31,453,073 |
| Trade Payables | 85,534,418 | 705,606 | - | 86,240,024 |
| Other Payables | 35,679,673 | - | - | 35,679,673 |
| | $150,917,829 | $20,511,378 | $7,098,370 | $178,527,577 |

20 **FINANCIAL INSTRUMENTS** (cont'd)

e) Liquidity Risk: (cont'd)

Financial Assets:

Period Ended 31 October 2012:

| | Due within 1 Year | >1 Yr to 5 Yrs | >5 Years | Total |
|---|---|---|---|---|
| Cash and Short Term Investments | 13,055,295 | - | - | 13,055,295 |
| Trade Receivables and Loans | 29,953,107 | 33,456,098 | 31,403,292 | 94,812,497 |
| Other Receivables | 7,597,804 | - | - | 7,597,804 |
| Investments | - | 11,335,351 | 48,613,749 | 59,949,100 |
| | $50,606,206 | $44,791,449 | $80,017,041 | $175,414,696 |

Year Ended 31 January 2012:

| | Due within 1 Year | >1 Yr to 5 Yrs | >5 Years | Total |
|---|---|---|---|---|
| Cash and Short Term Investments | 20,172,276 | - | - | 20,172,276 |
| Trade Receivables and Loans | 29,830,418 | 31,572,068 | 29,020,940 | 90,423,426 |
| Other Receivables | 6,351,597 | - | - | 6,351,597 |
| Investments | - | 10,900,000 | 39,866,760 | 50,766,760 |
| | $56,354,291 | $42,472,068 | $68,887,700 | $167,714,059 |

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(Unaudited)

## 21 RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with associated companies during the year.

| | 31 October 2012 $ | 31 January 2012 $ |
|---|---|---|
| Sales of Goods and Services | 9,226 537 | 12,302,049 |
| Purchases of Goods and Services | 2,021,202 | 2,694,936 |
| Dividends received | 400,000 | 331,937 |
| Management and Administrative Fees | 86,100 | 114,800 |

Compensation of key management personnel of the Company and its subsidiaries:

| | 31 October 2012 | 31 January 2012 |
|---|---|---|
| Short-term employee benefits and retirement contributions | $1,706,915 | $2,275,886 |

SKNA Trading and Development Company Limited manages the TDC Pension Savings Plan for employees of the TDC Group of Companies. There is no liability for any shortfall in the Plan. At the end of the year, the SKNA Trading and Development Company Limited was indebted to the TDC Pension Savings Plan in the amount of $4,149,767 (31 January 2012 = $4,811,688). Interest is being charged at the rate of 6 ½% per annum.

## 23 SUBSEQUENT EVENT

No event has occurred or is pending or in prospect subsequent to the end of the reporting period that would require adjustment to, or disclosure in these Consolidated Financial Statements.

## 24 RESERVE FUNDS

Section 14 sub-section (1) of the Banking Act 1991 of Saint Christopher and Nevis, No 6 of 1991, states every licensed financial institution shall maintain a reserve fund and shall, out of its net profits of each transfer to that fund a sum equal to not less than twenty percent of such profits whenever the amount of the reserve fund is less than a hundred per cent of the paid-up or, as the case may be, assigned capital of the financial institution.

**TDC GROUP OF COMPANIES – SUBSIDIARY COMPANIES**

(Wholly-owned and resident in St Kitts-Nevis
except where otherwise stated)

**GENERAL TRADING**
TDC Nevis Limited
City Drug Store (2005) Limited
City Drug Store (Nevis) Limited
St Kitts Bottling Co Limited }
Antillean Beverages Limited } 51.67%

**RENTAL AND HIRE PURCHASE**:
TDC Rentals Limited
TDC Rentals (Nevis) Limited

**INSURANCE AND REINSURERS:**
St Kitts Nevis Insurance Co Ltd (SNIC)
SNIC (Nevis) Limited
East Caribbean Reinsurance Co Ltd - (80%) - Anguilla

**FINANCE**:
St Kitts Nevis Finance Co Ltd (FINCO)
Mercator Caribbean Company Ltd - (51%)

**AIRLINE AGENTS AND TOUR OPERATORS**:
TDC Airline Services Ltd
TDC Airline Services (Nevis) Limited
TDC Tours Limited

**REAL ESTATE DEVELOPMENT**:
TDC Real Estate and Construction Ltd
Conaree Estates Limited
Dan Dan Garments Limited
TDC Real Estate and Construction (Nevis) Limited

**HOTEL OPERATOR:**
Ocean Terrace Inn Limited
OTI Pieces of Eight Limited
Pelican Cove Marina Limited

**SHIPPING SERVICES:**
Sakara Shipping NV – Tortola, BVI

**ASSOCIATED COMPANIES:**
(Holding between 20% and 50%)
**BLOCK MANUFACTURING AND READY MIX CONCRETE**
St Kitts Masonry Products Limited - 50%

**INSURERS:**
Malliouhana Anico Insurance Co Ltd - 25% (Anguilla)

SKNA TRADING AND DEVELOPMENT COMPANY LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE NINE MONTHS ENDED

31 OCTOBER 2012

# SKNA TRADING AND DEVELOPMENT COMPANY LIMITED
# AND ITS SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## FOR THE NINE MONTHS ENDED 31 OCTOBER 2012

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