

Consolidated Financial Statements of

COMMONWEALTH BREWERY LIMITED

Year ended December 31, 2016

COMMONWEALTH BREWERY LIMITED

Consolidated Financial Statements

Year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Commonwealth Brewery Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commonwealth Brewery Limited (the Company) and its subsidiaries collectively, (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

Key Audit Matters

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

Key Audit Matter	Summary of the Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Impairment of Goodwill</p>	<p>As at December 31, 2016 Goodwill of \$4,487,242 was carried in the consolidated statement of financial position and is subject to an annual impairment test, details of which are set out in note 8. Management's annual impairment assessment is considered to be a matter of key significance because the assessment process is complex and relies on significant estimates and assumptions. Management determines assumptions in respect of future market and economic conditions such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development. The details on the accounting for goodwill and disclosure requirements under IAS 36 Impairment of assets are included in notes 3 and 8 to the consolidated financial statements.</p>	<p>In evaluating the impairment of goodwill, we reviewed the value in use calculations prepared by management. We performed various procedures, including the following:</p> <ul style="list-style-type: none"> • We assessed the Group's design and implementation of controls relating to the preparation of the cash flow forecasts. • We tested key inputs into the cash flow forecast against historical performance and in comparison to the management's strategic plans. • We compared the growth rates used to historical data regarding economic growth rates. • We involved a fair value specialist to assist with the testing of the weighted average cost of capital (discount rate), inflation rate and sensitivity analysis around key assumptions used by management in the goodwill impairment testing. • We performed sensitivity analyses on the growth rates and discount rates to evaluate the extent of impact on the value in use and the appropriateness of management's disclosures.
<p>Revenue recognition</p>	<p>The Group's revenue for the year ended December 31, 2016 amounted to \$117,778,505 and the revenue accounting policy is disclosed in note 3 to the consolidated financial statements. As the Company is a listed entity, we consider there to be a heightened risk that revenue may be inappropriately recognized to achieve a desired financial result.</p>	<p>We tested the design and implementation of key controls around the main revenue streams.</p> <p>For each of the main sources of revenue, we performed test of details and substantive analytical procedures to test the accuracy and completeness of the underlying customer invoices, sales returns subsequent to year end, timing of the passing of risk and rewards to the customers and manual inputs in to the revenue recognition process. These procedures included challenging the appropriateness of management's assumptions and estimates, and agreeing input data to underlying agreements with customers.</p>

Key Audit Matter	Summary of the Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Impact of Hurricane Matthew on the consolidated financial results	Hurricane Matthew impacted The Bahamas in October, 2016 causing losses to the Group through lost sales, inventory destruction, and plant and infrastructure damage. The details of the impact and related insurance recoveries are disclosed in note 16 to the consolidated financial statements. Management has made estimates related to the losses associated with Hurricane Matthew and the insurance recoveries. Management has also applied judgment in determining the accounting treatment for any identified impairment and related recoveries, as well as the related presentation and disclosure in the consolidated financial statements.	We tailored our audit procedures to perform more responsive audit strategy considering impact of Hurricane Matthew on financial results. We assessed the reasonableness of the basis used by management to identify impairment and estimate insurance recoveries. We performed a combination of test of details and substantive analytical procedures to test the accuracy and completeness of the underlying calculations of the claims made and recoveries received to date. We assessed the presentation and disclosure of the related losses and recoveries within the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

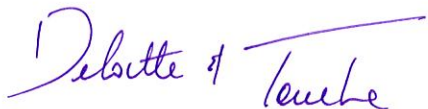
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

The engagement partner on the audit resulting in this independent auditors' report is Lawrence Lewis.



Nassau Bahamas
April 26, 2017

COMMONWEALTH BREWERY LIMITED

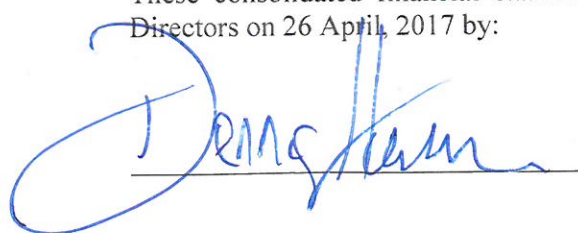
Consolidated Statement of Financial Position

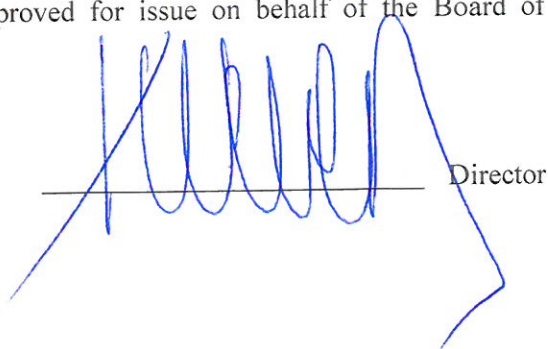
December 31, 2016, with corresponding figures for 2015
(Expressed in Bahamian dollars)

	Note(s)	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	4	\$ 9,853,627	1,345,882
Trade receivables, net	5	2,864,600	3,370,556
Prepaid expenses and other assets	6	4,514,802	2,883,761
Inventories	7	22,289,872	19,893,831
Total current assets		39,522,901	27,494,030
Non-current assets:			
Property, plant and equipment	9	36,858,468	36,556,901
Goodwill	8	4,487,242	4,487,242
Other intangible assets	10	258,603	113,418
Total non-current assets		41,604,313	41,157,561
Total assets	24	\$ 81,127,214	68,651,591
Liabilities and equity			
Current liabilities:			
Accounts payable and accrued expenses	11, 15, 24	\$ 17,383,230	13,327,296
Non-current liabilities:			
Loans and borrowings	12	\$ 5,999,993	-
Total liabilities		23,383,223	13,327,296
Equity:			
Share capital	13	150,000	150,000
Share premium		12,377,952	12,377,952
Contributed surplus		16,351,369	16,351,369
Revaluation surplus	9	7,096,254	7,096,254
Retained earnings		21,768,416	19,348,720
Total equity		57,743,991	55,324,295
Total liabilities and equity		\$ 81,127,214	68,651,591

See accompanying notes to consolidated financial statements.

These consolidated financial statements were approved for issue on behalf of the Board of Directors on 26 April, 2017 by:

 Director

 Director

COMMONWEALTH BREWERY LIMITED

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2016, with corresponding figures for 2015
(Expressed in Bahamian dollars)

	Note(s)	2016	2015
Income:			
Revenue	24	\$ 117,778,505	123,523,439
Operating expenses:			
Raw materials, consumables and services	15, 17	83,178,341	91,098,817
Personnel costs	15, 18	18,596,676	18,290,875
Depreciation	9	3,189,121	2,746,557
Amortisation	10	33,917	42,599
Total operating expenses		104,998,055	112,178,848
Other income, net	16	4,392,848	465,319
Results from operating activities		17,173,298	11,809,910
Finance expenses		53,602	8,418
Total comprehensive income	19, 24	\$ 17,119,696	11,801,492
Basic and diluted earnings per share	19	\$ 0.57	0.39

See accompanying notes to consolidated financial statements.

COMMONWEALTH BREWERY LIMITED

Consolidated Statement of Changes in Equity

Year ended December 31, 2016, with corresponding figures for 2015
(Expressed in Bahamian dollars)

		Share capital	Share premium	Contributed surplus	Revaluation surplus	Retained earnings	Total equity
Balance at December 31, 2014	\$	150,000	12,377,952	16,351,369	7,096,254	25,847,228	61,822,803
Comprehensive income		-	-	-	-	11,801,492	11,801,492
Transactions with owners, recorded directly in equity							
Dividends declared \$0.61 per share (note 20)		-	-	-	-	(18,300,000)	(18,300,000)
Balance at December 31, 2015		150,000	12,377,952	16,351,369	7,096,254	19,348,720	55,324,295
Comprehensive income		-	-	-	-	17,119,696	17,119,696
Transactions with owners, recorded directly in equity							
Dividends declared \$0.49 per share (note 20)		-	-	-	-	(14,700,000)	(14,700,000)
Balance at December 31, 2016	\$	150,000	12,377,952	16,351,369	7,096,254	21,768,416	57,743,991

See accompanying notes to consolidated financial statements.

COMMONWEALTH BREWERY LIMITED

Consolidated Statement of Cash Flows

Year ended December 31, 2016, with corresponding figures for 2015
(Expressed in Bahamian dollars)

	Note(s)	2016	2015
Cash flows from operating activities			
Net income		\$ 17,119,696	11,801,492
Adjustments for:			
Depreciation	9	3,189,121	2,746,557
Amortisation	10	33,917	42,599
Bad debt expense	5	327,489	188,977
(Gain)/Loss on disposal of property, plant and equipment	9, 16	(719)	(26,500)
Finance expense		53,602	8,418
Net cash from operation activities		20,723,106	14,761,543
Changes in non-cash working capital	21	207,319	(85,754)
Net cash from operations before changes in working capital		20,930,425	14,675,789
Cash flows from financing activities			
Dividends paid	19	(14,700,000)	(18,300,000)
Interest paid	12	(53,602)	(8,418)
Proceeds from loans and borrowings	12	5,999,993	-
Net cash used in financing activities		(8,753,609)	(18,308,418)
Cash flows from investing activities			
Additions to property, plant and equipment	9	(3,820,769)	(2,173,211)
Additions to intangible assets		(179,102)	-
Proceeds from sale of property, plant and equipment	9, 16	330,800	26,500
Net cash used in investing activities		(3,669,071)	(2,146,711)
Net increase/ (decrease) in cash and cash equivalents		8,507,745	(5,779,340)
Cash and cash equivalents, beginning of year		1,345,882	7,125,222
Cash and cash equivalents, end of year	4	\$ 9,853,627	1,345,882

See accompanying notes to consolidated financial statements.

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

1. General information

Commonwealth Brewery Limited (“CBL” or “the Company”) was incorporated under the laws of The Commonwealth of The Bahamas on November 17, 1983 and commenced trading in March 1987. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as “the Group” and individually as “Group entities”). Details of the principal subsidiaries are set out in note 21 to the consolidated financial statements.

The principal activity of the Group is the production of alcoholic and non-alcoholic beverages, liquor importation, distribution and sales.

The Group’s registered office is located at Clifton Pier, Nassau, Bahamas.

The Group is a subsidiary of Heineken International B.V. (“Heineken” or “the Parent”). Heineken is incorporated under the laws of The Netherlands and its corporate office is located at Tweede Weteringplantsoen 21, 1017 ZD, P. O. Box 28, 1000 AA Amsterdam, The Netherlands. The ultimate parent of CBL is Heineken N.V. located at the same address. 75% of shares of the Group are owned by Heineken and remaining 25% are owned by the Bahamian public.

2. New and revised international financial reporting standards (IFRSs)

Relevant Standards and Interpretations in issue and effective

In the current year, the Group has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. The adoption of these Standards and Interpretations has not led to any changes in the Group’s accounting policies.

Standards and Interpretations in issue but not yet effective

IFRS 9	(Amended) Financial Instruments [eff. 1 January 2017]
IFRS 15	Revenue from Contracts with Customers (and related Clarifications) [eff. 1 January 2018]
IFRS 16	Leases
Amendments to IFRS 2	Sale or Contribution of Assets between an investor and its Associate or Joint Venture [eff. 1 January 2018]
Amendments to IFRS 7	Disclosure Initiative [eff. 1 January 2017]

The Group is still in the process of assessing the impact of the adoption of these standards and interpretations on the financial statements and it is not practicable to provide a reasonable estimate of the effect as at the date of these consolidated financial statements. The Group does not intend to early apply these standards.

3. Significant accounting policies

(a) *Statement of compliance*

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016
(Expressed in Bahamian dollars)

3. Significant accounting policies *(continued)*

(b) *Basis of preparation*

These consolidated financial statements are prepared under the historical cost convention, except for land and buildings included in property, plant and equipment, which are carried at revalued amounts.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net relisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurement are categorised into Level 1,2,3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

(c) *Basis of consolidation*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those adopted by the Group. All intragroup assets and liabilities, equity, income and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The carrying amount of non-controlling interests is the amount of these interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity.

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

3. Significant accounting policies *(continued)*

(c) *Basis of consolidation (continued)*

Total comprehensive income is attributed to non-controlling interests even if it results in the non-controlling interests having a deficit balance.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(d) *Functional and presentation currency*

These consolidated financial statements are presented in Bahamian dollars, the Group's functional and reporting currency. The Bahamian dollar is the currency of the country where the Group entities are domiciled and is the prime operating currency.

(e) *Use of estimates and judgements*

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about critical judgements in applying accounting policies and estimates that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 3(l)	Impairment
Note 3(p)	Provisions
Note 5	Trade receivables, net
Note 6	Prepaid expenses and other assets
Note 7	Inventories
Note 8	Goodwill and intangible assets
Note 9	Property, plant and equipment
Note 10	Other Intangible assets
Note 14	Commitments and contingencies
Note 23	Financial instruments and associated risks

Following is a summary of the significant accounting policies which have been applied consistently by the Group in preparing these consolidated financial statements.

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016
(Expressed in Bahamian dollars)

3. Significant accounting policies *(continued)*

(f) *Financial instruments*

Classification

Financial instruments include financial assets and financial liabilities. Financial assets that are classified as loans and receivables include cash held with banks and trade and other receivables. Financial liabilities that are not at fair value through profit or loss include accounts payable and accrued expenses.

Recognition

The Group recognises financial instruments initially at the trade date, which is the date when it becomes a party to the contractual provisions of the instruments.

Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, financial assets and financial liabilities not at fair value through profit or loss are carried at amortised cost using the effective interest method, less in the case of financial assets, impairment losses, if any.

Derecognition

The Group derecognises a financial asset when the contractual rights for cash flows from the financial asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Group derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

(g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and cash held with banks.

(h) *Accounts receivable*

Accounts receivable are stated at amortised cost net of an allowance for doubtful debts.

(i) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work-in-progress, cost includes an allocation of those production overhead costs based on normal operating capacity, that relate to bringing the inventories to their present location and condition.

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016
(Expressed in Bahamian dollars)

3. Significant accounting policies *(continued)*

(i) *Inventories (continued)*

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provision for obsolescence is established when management determines the net realisable value of the inventories to be less than cost.

(j) *Property, plant and equipment*

Items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses, except land and buildings, which are carried at revalued amounts. The directors review the carrying value annually. Whenever the directors determine that the carrying value differs materially from the fair value, an independent valuation is obtained and the land and buildings are revalued.

The surplus on revaluation is recorded in other comprehensive income, in the revaluation surplus account, and is transferred to retained earnings when the revalued asset is derecognised. When an item of property, plant and equipment is revalued, accumulated depreciation is eliminated against the gross carrying amount of the asset.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated statement of profit or loss and other comprehensive income as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis within other income in the consolidated statement of profit or loss and other comprehensive income.

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amounts substituted for cost, less its residual value.

Depreciation is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the items of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

3. Significant accounting policies *(continued)*

(j) *Property, plant and equipment (continued)*

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives. No depreciation is charged on land and capital work in progress.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	15 to 40 years
Plant and machinery	5 to 30 years
Furniture, fixtures and equipment	3 to 25 years
Vehicles and transportation equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and are adjusted, if necessary.

(k) *Intangible assets*

Goodwill

Goodwill is carried at cost less accumulated amortisation and impairment losses, if any. Goodwill arising on the acquisition of the Group's 100% ownership interest in Butler & Sands Company Limited and its subsidiaries in the year 2000 represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of Butler & Sands Company Limited and its subsidiaries recognised at the date of acquisition less accumulated amortisation thereon to December 31, 2004, at which time amortisation ceased and goodwill was deemed to have an indefinite useful life. Thereafter, goodwill is tested for impairment annually.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The computer software is carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is computed on the straight-line method over an estimated useful life of up to five years.

(l) *Impairment*

Financial assets

Financial assets other than receivables, which are reviewed on a continuous basis, are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

COMMONWEALTH BREWERY LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 2016

(Expressed in Bahamian dollars)

3. Significant accounting policies *(continued)*

(l) *Impairment (continued)*

Financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated each year at the same time. An impairment loss is recognised if the carrying amount of the asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use represents the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income except for revalued assets where the impairment loss is first applied to the revaluation surplus and any excess is recognised in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised in respect of a CGU is allocated first to reduce the carrying amount of any goodwill associated with the CGU and then to reduce the carrying amount of other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised except for assets normally carried at revalued amounts.

(m) *Related parties*

A related party is a person or entity that is related to the entity that is preparing its financial statements ("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

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3. Significant accounting policies *(continued)*

(m) *Related parties (continued)*

- (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).
 - (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.
 - (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).
- (c) A related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

(n) *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income and expense from operating leases are recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs, if incurred, in negotiating and arranging an operating lease are recognised on a straight-line basis over the lease term.

(o) *Share capital*

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

(p) *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the

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3. Significant accounting policies *(continued)*

(p) *Provisions (continued)*

consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(q) *Foreign currencies*

Transactions in foreign currencies are translated into Bahamian dollars at exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in such currencies at the year-end date are translated at the rates prevailing at that date.

Any differences arising on translation are recognised as exchange gains/losses within other income in the consolidated statement of profit or loss and other comprehensive income.

(r) *Revenue recognition*

Products sold

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable net of customer discounts and other sales related discounts. Revenue from the sale of products is recognised in the consolidated statement of profit or loss and other comprehensive income when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably and there is no continuing management involvement with the products.

Services

Revenue from services, which is included in miscellaneous income, is recognised in the consolidated statement of profit or loss and other comprehensive income when the services are rendered.

(s) *Employee benefits*

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions to the fund. The Group has no legal or constructive obligation to pay further contributions. Contributions to the Group's defined contribution pension plans are recognised as an employee benefit expense in the consolidated statement of profit or loss and other comprehensive income in the periods during which services are rendered by employees.

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3. Significant accounting policies (continued)

(s) *Employee benefits (continued)*

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term benefits if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

(t) *Finance income*

Finance income is accrued on a daily basis using the effective interest rate method.

(u) *Earnings per share*

Earnings per share are based on consolidated net income divided by the weighted average number of ordinary shares outstanding during the year.

(v) *Dividends*

Dividends are recognised as a liability in the period in which they are declared.

(w) *Operating segments*

Business segments are components of an enterprise about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance.

Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

For management purposes, the Group is currently organised into three business segments: (i) Wholesale (ii) Retail and (iii) Production. These divisions are the basis on which the Group reports its operating segment information.

(x) *Value Added Tax (VAT)*

On January 1, 2015, the Bahamas Government implemented a consumer VAT. Output VAT related to the sale of goods is payable to the Government upon delivery of goods and property rights to customers. Input VAT related to goods and services purchased is generally recoverable against output VAT. It is presented net on the Consolidated Statement of Financial Position as it is off set and settled on a net basis.

4. Cash and cash equivalents

	2016	2015
Cash on hand	\$ 73,405	52,895
Cash held with banks	9,780,222	1,292,987
Cash and cash equivalents	\$ 9,853,627	1,345,882

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5. Trade receivables, net

	2016	2015
Trade receivables, gross	\$ 3,889,167	4,067,634
Allowance for doubtful debts	(1,024,567)	(697,078)
	\$ 2,864,600	3,370,556

Aging analysis of trade receivables, gross, as at December 31, 2016:

	2016	2015
Current (up to 30 days)	\$ 2,379,667	2,628,408
Past due but not impaired (over 30 days)	484,933	742,148
Past due and impaired	1,024,567	697,078
	\$ 3,889,167	4,067,634

Movement in the allowance for doubtful debts:

	2016	2015
Balance at beginning of the year	\$ 697,078	508,521
Increase in allowance	327,489	188,977
Amounts written off as uncollectible	-	(420)
Balance at end of the year	\$ 1,024,567	697,078

Maximum exposure to credit risk for trade receivables at December 31, by geographic region:

	2016	2015
The Bahamas	\$ 2,763,182	3,205,659
United States of America	100,224	164,897
	\$ 2,863,406	3,370,556

COMMONWEALTH BREWERY LIMITED

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6. Prepaid expenses and other assets

	2016	2015
Other receivables	\$ 3,937,830	1,988,263
Prepaid expenses	1,069,052	1,383,393
Staff loans	5,063	9,248
	5,011,945	3,380,904
Allowance for doubtful debts	(497,143)	(497,143)
	\$ 4,514,802	2,883,761

Movement in the allowance for doubtful debts created for other receivables is as follows:

	2016	2015
Balance at beginning of the year	\$ 497,143	497,143
Reversal of allowance	—	—
Balance at end of the year	\$ 497,143	497,143

7. Inventories

	2016	2015
Goods bought for resale	\$ 17,201,878	14,528,375
Raw materials and packaging	3,044,761	3,210,571
Finished goods	924,496	772,338
Work-in-progress	234,670	176,067
Spare parts	852,483	708,851
Other stock items	405,985	782,467
	22,664,273	20,178,669
Provision for obsolescence	(374,401)	(284,838)
	\$ 22,289,872	19,893,831

Movement in the provision for obsolescence:

	2016	2015
Balance at beginning of the year	\$ 284,838	465,770
Increase in provision	89,563	—
Decrease in provision	—	(180,932)
Balance at end of the year	\$ 374,401	284,838

As outlined in note 17, the cost of inventories recognised as an expense during the year was \$46,290,661 (2015: \$52,681,092).

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Notes to Consolidated Financial Statements

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8. Goodwill

Goodwill comprises the following:

	2016	2015
Balance at beginning and end of the year	\$ 4,487,242	4,487,242

Goodwill is tested for impairment annually. The recoverable amount of the CGU which includes the goodwill is based on a value in use calculation. The value in use has been determined by discounting the future cash flows generated from the continuing use of the CGU.

The key assumptions used for the value in use calculations are as follows:

- Cash flows are projected based on actual operating results and the annual plan. Cash flows for a further two year period are projected using expected annual growth rates.
- Cash flows after the first five years were projected using growth rate, based on internal sources, in order to calculate the terminal recoverable amount.
- Weighted average cost of capital ("WACC") is applied in determining the recoverable amount of the CGU.

The WACC and expected growth rate are as follows:

	2016	2015
WACC	10.06%	9.97%
Expected growth rate	1.00%	5.44%

The values assigned to the key assumptions represent management's assessment of future trends in the wine & spirits industry and are based on both external and internal sources (historical data). The directors believe that any reasonable possible change in key assumptions on which recoverable amounts are based will not lead to a materially different outcome. Based on the value in use calculation management has determined that there has not been any impairment in the carrying amount of goodwill as at December 31, 2016 and 2015.

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Notes to Consolidated Financial Statements

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9. Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Vehicle and transportation equipment	Capital work in progress	Total
Cost/revalued amount:								
Balance at December 31, 2014	\$ 5,710,254	18,164,747	2,996,424	34,935,230	14,277,162	1,562,998	1,813,015	79,459,830
Additions	-	-	-	-	-	-	2,173,211	2,173,211
Transfers	-	118,864	204,441	1,137,761	762,135	339,828	(2,563,029)	-
Write offs	-	-	-	-	-	(6,334)	-	(6,334)
Balance at December 31, 2015	5,710,254	18,283,611	3,200,865	36,072,991	15,039,297	1,896,492	1,423,197	81,626,707
Additions	-	-	-	-	-	-	3,820,769	3,820,769
Transfers	-	384,694	230,287	2,031,513	981,935	229,999	(3,858,428)	-
Write offs	-	-	(1,665,398)	(251,127)	(2,631,353)	(142,542)	(256,615)	(4,947,035)
Balance at December 31, 2016	\$ 5,710,254	18,668,305	1,765,754	37,853,377	13,389,879	1,983,949	1,128,923	80,500,441
Accumulated depreciation:								
Balance at December 31, 2014	\$ -	-	2,488,671	25,404,004	13,230,484	1,206,424	-	42,329,583
Depreciation	-	518,993	195,167	1,447,275	385,759	199,363	-	2,746,557
Write offs	-	-	-	-	-	(6,334)	-	(6,334)
Balance at December 31, 2015	-	518,993	2,683,838	26,851,279	13,616,243	1,399,453	-	45,069,806
Depreciation	-	957,250	189,873	1,432,713	395,393	213,892	-	3,189,121
Write offs	-	-	(1,665,290)	(251,127)	(2,557,993)	(142,544)	-	(4,616,954)
Balance at December 31, 2016	\$ -	1,476,243	1,208,421	28,032,865	11,453,643	1,470,801	-	43,641,973
Net book value:-								
December 31, 2016	\$ 5,710,254	17,192,062	557,333	9,820,512	1,936,236	513,148	1,128,923	36,858,468
December 31, 2015	\$ 5,710,254	17,764,618	517,027	9,221,712	1,423,054	497,039	1,423,197	36,556,901

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9. Property, plant and equipment *(continued)*

The Group's land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation. The latest revaluation of land and buildings was done on December 31, 2014 by a qualified independent appraiser, Robin Brownrigg, using the income approach, except for one property where the cost basis was used. This resulted in a surplus of \$2,826,667.

The fair value of land and buildings are included in Level 3 at the end of the reporting period. There were no transfers between the hierarchy Levels during the year.

There are no capital commitments on work in progress projects.

Revaluation surplus

	2016	2015
Balance at January 1	\$ 7,096,254	7,096,254
Surplus arising from revaluation	—	—
Balance at December 31	\$ 7,096,254	7,096,254

Had there been no revaluation, the carrying value of land would have been \$2,073,764 (2015: \$1,689,070) and of buildings would have been \$4,719,560 (2015: \$4,719,560).

10. Other intangible assets

Intangible assets consist of computer software as follows:

	2016	2015
Cost:		
Balance at January 1	\$ 3,431,977	3,431,977
Additions	179,102	-
Balance at December 31	\$ 3,611,079	3,431,977
Accumulated amortisation:		
Balance at January 1	\$ 3,318,559	3,275,960
Amortisation	33,917	42,599
Balance at December 31	\$ 3,352,746	3,318,559
Net book value:	\$ 258,603	113,418

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11. Accounts payable and accrued expenses

Accounts payable and accrued expenses comprise the following:

	2016	2015
Accounts payable - third parties	\$ 10,603,422	8,382,350
Accounts payable - related parties	3,950,697	2,949,915
Accrued expenses	2,839,974	1,995,031
	\$ 17,394,093	13,327,296

12. Loans and borrowings

As at 31 December amounts repayable to related parties amounted to with interest of 1.732% per annum:

	2016	2015
Loans from related parties	\$ 5,999,993	-

13. Share capital

Authorised, issued and fully paid share capital at December 31, 2016 and 2015:

	No. of shares	Amount
Ordinary shares of \$0.005 each	30,000,000	\$ 150,000

14. Commitments and contingencies

Operating lease commitments

The Group's commitments on operating leases are as follows:

	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
2016	\$ 245,085	1,007,331	3,668,750	976,426	5,897,592
2015	\$ 2,005,777	1,163,071	1,785,299	279,480	5,233,627

Lease expenses of \$3,415,993 (2015: \$3,170,084) (see note 17) includes rent on stores with no lease agreements. Future rentals of such stores are not included in lease commitments disclosed above.

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14. Commitments and contingencies (continued)

Other commitments and contingencies

At December 31, 2016 the Group was contingently liable under customs bond guarantees of \$867,000. These facilities are under joint and several liability of the Group in favor of each other.

At December 31, 2016 the Group had capital commitments of \$nil (2015: \$nil).

Loan facility

Effective May 30, 2014, BHL entered into a facility agreement with an affiliate for an unsecured loan of up to \$2,000,000 (2015: \$2,000,000). This facility bears interest at the rate of LIBOR plus 0.60% per annum (2015: LIBOR plus 0.60% per annum). As at December 31, 2016, \$nil (2015: \$nil) of this facility had been utilised.

Pending Litigation

Legal proceedings are pending against the Group in the ordinary course of business. Management considers that the aggregate liability resulting from these proceedings will not be material.

15. Balances and transactions with related parties

For the purpose of this note, affiliates include other Heineken group entities and directors. Additional related party transactions are disclosed in other notes to the consolidated financial statements.

	2016	2015
<i>Balances with the Parent</i>		
Accounts payable and accrued expenses (note 11)	\$ 2,925,002	1,543,002
Loans and borrowings (note 12)	\$ 5,999,993	-
<i>Transactions with the Parent</i>		
Know-how fee (note 17)	403,286	451,385
Royalties (note 17)	323,565	326,759
IT related and other fee (note 17)	685,047	519,449
Dividends paid (note 20)	11,025,000	13,725,000
<i>Balances with affiliates</i>		
Accounts payable and accrued expenses (note 11)	1,025,695	1,406,913
<i>Transactions with affiliates</i>		
Purchases of inventories (notes 7 and 17)	951,452	643,322
IT related and other fee (note 17)	168,609	660,036
Supply chain fee (note 17)	54,827	57,392
Directors' fee (note 17)	42,000	42,000

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15. Balances and transactions with related parties *(continued)*

Know-how fee

Effective May 18, 2010, the Group entered into an agreement with the Parent to pay 0.4% per annum of revenue to Heineken as a know-how fee. Related payments are made and/or accrued for in the normal course of business.

Royalties

Royalties are calculated as a percentage of revenue and are payable to the Parent based on the relevant agreement. Related payments are made and/or accrued for in the normal course of business.

Purchase of inventories, IT related fee and supply chain fee

The Group sources certain inventories from its affiliates. IT related fee, supply chain fee and other fee are charged by Heineken and other Heineken group entities as incurred and are included in other expenses (see note 17). Related payments are made and/or accrued for in the normal course of business.

Compensation of key management personnel

During the year, key management personnel received compensation amounting to \$1,191,782 (2015: \$1,087,622), comprising short-term employee benefits of \$1,073,014 (2015: \$992,850), and post-employment benefits of \$62,831 (2015: \$94,771).

Included in key management costs are costs relating to a Long Term Incentive Plan. This is a share based plan which provides senior employees with Heineken N.V. shares based on the performance of the Heineken Group as a whole. The amount recognised in personnel cost amounted to \$78,256 (2015: \$62,276).

16. Other income, net

	2016	2015
Miscellaneous (expense) income	\$ (147,436)	658,278
Insurance recovery	4,730,712	-
Exchange gain/ (loss)	(191,147)	(219,459)
Gain on disposal of property, plant and equipment	719	26,500
	<u>\$ 4,392,848</u>	<u>465,319</u>

The Group incurred losses due to inventory destruction, property damage and lost sales due to the impact of a hurricane that hit The Bahamas in October 2016. These losses were covered under the Group's comprehensive insurance plan and resulted in recoveries of stock and lost sales of \$1,930,712 and \$2,800,000 respectively for the period to December 31, 2016. These amounts are recognized in Other income as it is considered an extraordinary event. Property, plant and equipment damage recovery and restoration was ongoing at December 31, 2016, is also covered under the insurance plan and is not expected to result in any financial loss.

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17. Raw materials, consumables and services

	2016	2015
Cost of inventories (including related import duties)	\$ 46,290,661	52,681,092
Excise duties and taxes	15,779,189	15,414,678
Distribution and marketing expenses	4,811,766	6,778,208
Occupancy expenses (note 14)	3,415,993	3,170,084
Utilities	2,073,856	2,399,730
Royalties (note 15)	1,734,464	1,414,105
Bad debt expense	327,489	188,977
Insurance	781,593	961,299
Repairs and maintenance	1,771,622	1,523,942
Know-how fee (note 15)	403,286	451,385
Other expenses (note 15)	5,788,422	6,115,316
	\$ 83,178,341	91,098,816

18. Employee pension plans

In 1997, the Group commenced a defined contribution pension plan. In accordance with the terms of the plan both employer and employees are required to contribute 5% (2015: 5%) of the participants' earnings to the plan. Employees are permitted to make additional contributions in order to increase their retirement benefits. The Group's contribution net of forfeitures to the plan included in personnel costs was \$344,809 (2015: \$350,152).

Employees are eligible to become participants of the plan upon the completion of a probationary period, provided they have attained the age of 18 years. The plan is mandatory for all employees who joined the Group after January 1, 1997 and optional for those who joined prior to January 1, 1997.

Burns House Limited ("BHL") has a defined contribution plan for eligible employees. The employees contribute 5% (2015: 5%) of gross salary, and BHL contributes 5% (2015: 5%) of eligible earnings. BHL's contribution to the pension costs net of forfeitures in respect to the plan for the year included in personnel costs amounted to \$251,734 (2015: \$276,943).

19. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the consolidated net income divided by the weighted average number of ordinary shares outstanding during the year.

	2016	2015
Net income	\$ 17,119,696	11,801,492
Weighted average number of shares	30,000,000	30,000,000
Basic and diluted earnings per share	\$ 0.57	0.39

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20. Dividends

Dividends declared and paid by the Group amounted to \$14,700,000 (2015: \$18,300,000) including interim dividends of \$2,925,000 (2015: \$7,500,000). Dividends paid are based on basic earnings per share rounded to two decimal places.

21. Changes in non-cash working capital

	2016	2015
Change in trade receivables, gross	\$ 178,467	(395,825)
Change in prepaid expenses and other assets	(1,631,041)	(1,091,924)
Change in inventories	(2,396,041)	506,341
Change in accounts payable and accrued expenses	4,055,934	895,654
	\$ 207,319	(85,754)

22. Principal subsidiary and other significant operating subsidiaries

The following significant operating subsidiaries, all of which are incorporated in The Bahamas, are owned by the Group.

	<i>Percentage (%) Owned</i>	
	2016	2015
Burns House Limited	100	100
Butler & Sands Company Limited	100	100
Kerland Limited	100	100
Todhunter-Mitchell Distillers Limited	100	100
Todhunter-Mitchell Wines & Spirits Limited	100	100
Wholesale Wines and Spirits Limited	100	100

23. Financial instruments and associated risks

The Board of Directors has established a risk management framework whose primary objective is to protect the Group from events that hinder the sustainable achievement of the Group's performance objectives.

There are a number of risks inherent in the drinks industry that the Board has identified and manages on an ongoing basis. Among these risks, the more significant are market, credit and liquidity. In accordance with IFRS 7, Financial Instruments, the Group presents qualitative information about its exposure to risk and the objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout this note.

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23. Financial instruments and associated risks *(continued)*

(a) Market risk

Market risk is the risk that future changes in market conditions such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Currency risk

The Group is party to financial instruments or enters into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the Bahamian dollar. Raw materials, packaging and finished products are purchased principally from Europe and are payable in Euros. The Group does not hedge against movements in foreign currency exchange rates.

The Group's total net liability exposure to fluctuations in foreign currency exchange rates (B\$ vs. Euro) at December 31, 2016 was \$4,276,130 (2015: \$2,492,465).

The average exchange rate between the B\$ and the Euro was B\$1 = Euro 0.90 (2015: B\$1 = Euro 0.90). The spot rate at December 31, 2016 was B\$1 = Euro 0.95 (2015: B\$1 = Euro 0.92).

Sensitivity analysis

A 10 percent strengthening of the B\$ against the Euro at December 31, 2016 would have increased equity and net income by approximately \$115,485 (2015: \$97,092). This analysis assumes that all other variables, in particular interest rates, remain constant. A 10 percent weakening of the B\$ against the Euro at December 31, 2016 would have had the equal but opposite effect on equity and net income of the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Interest rate risk refers to the risk of loss due to adverse movements in interest rates. The Group's interest rate risk arises from borrowings and its banking facilities. The Group manages its exposure to fluctuations in interest rates by linking its cost of borrowing to prevailing domestic or international interest rates.

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23. Financial instruments and associated risks *(continued)*

(b) Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group.

The Group's maximum exposure to credit risk is as follows:

	2016	2015
Cash held with banks (note 4)	\$ 9,780,222	1,292,987
Trade receivables, net (note 5)	2,864,600	3,370,556
Other receivables, net (note 6)	3,937,830	1,491,120
Staff loans (note 6)	5,063	9,248
	\$ 16,587,715	6,163,911

Management actively monitors the aging of receivables and establishes an allowance as circumstances warrant. The Group does not anticipate any losses in excess of the allowance for doubtful accounts as a result of this exposure.

Cash at bank amounting to \$9,780,222 (2015: \$1,292,987) was deposited with regulated financial institutions. Accordingly management considers this to bear minimal credit risk.

The Group does not have a significant concentration of credit risk as it transacts and deals with various customers and counterparties.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities and other commitments when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has no long-term liabilities. Contractual cash flows for accounts payable and accrued expenses are equal to carrying amounts and are due within 6 months or less.

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(Expressed in Bahamian dollars)

24. Segment information

The Group has adopted IFRS 8, Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. This standard has been applied to all years presented in the consolidated financial statements. Information regarding the Group's reportable segments is presented below.

The Group's revenue from operations by reportable segment is as follows:

Segment revenue

	2016	2015
Wholesale	\$ 79,805,135	106,966,157
Retail	37,333,218	37,777,768
Production	52,866,824	51,505,983
	\$ 170,005,177	196,249,908

Inter-segment revenue

	2016	2015
Wholesale	\$ -	21,961,896
Production	52,223,398	50,764,572
	\$ 52,223,398	72,726,468

Revenue from external customers

	2016	2015
Wholesale	\$ 79,735,104	85,004,260
Retail	37,333,218	37,777,768
Production	710,183	741,411
	\$ 117,778,505	123,523,439

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24. Segment information *(continued)*

The Group's net income by reportable segment is as follows:

		2016	2015
Wholesale	\$	1,615,508	1,839,828
Retail		2,420,697	1,370,906
Production		13,083,491	8,590,758
	\$	17,119,696	11,801,492

The Group's assets by reportable segment are as follows:

		2016	2015
Wholesale	\$	35,168,525	24,541,799
Retail		5,349,334	4,359,809
Production		31,090,183	32,410,798
Total segment assets		71,608,042	61,612,406
Unallocated		9,519,172	7,339,185
Total assets	\$	81,125,214	68,651,591

For the purposes of monitoring segment performance and allocating resources between segments, the only assets allocated by segment are trade and other receivables, inventories and property, plant & equipment.

The Group's liabilities by reportable segment are as follows:

		2016	2015
Wholesale	\$	10,186,756	5,333,199
Retail		530,918	453,825
Production		6,665,556	7,540,272
	\$	17,383,230	13,327,296

The Group's additions to property, plant and equipment by reportable segment are as follows:

		2016	2015
Wholesale	\$	1,601,762	632,418
Retail		710,874	333,167
Production		1,508,133	1,207,629
	\$	3,820,769	2,173,213

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24. Segment information *(continued)*

The Group's revenue from external customers by geographical location from operations from its major products and services are as follows:

	2016	2015
Bahamas	\$ 117,144,103	122,782,028
United States	634,426	741,411
	<u>\$ 117,778,529</u>	<u>123,523,439</u>

Included in revenues arising from direct sales from the Group's wholesale segment to its customers is \$13,717,662 (2015: \$15,947,790) which arose from sales to the Group's top five customers.

25. Fair values of financial instruments

The carrying values of financial assets and liabilities are considered to approximate their fair values due to the following reasons:

- (a) immediate or short-term maturity; and/or
- (b) interest rates approximate current market rates

The fair values of cash and cash equivalents, trade and other receivables, accounts payable and accrued expenses are not considered to be materially different from their carrying values due to their short-term nature.

26. Capital management

The Group is not subject to externally imposed capital requirements except that under The Companies Act 1992, the Group may not declare and pay a dividend if there are reasonable grounds for believing that:

- (a) the Group is unable or would, after the payment of dividends be unable to meet its liabilities as they become due; or
- (b) the realisable assets of the Group will be less than the sum of its total liabilities and outstanding share capital.

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

With effect from January 1, 2011 the Group's policy is to distribute 100% of consolidated net income as dividends subject to the provisions of the The Companies' Act 1992 as outlined above. The frequency of the payout is at the discretion of the Board of Directors and is subject to approval at the annual shareholders' meeting.