HONEY BUN (1982) LIMITED

FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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I N D E X

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INDEPENDENT AUDITORS' REPORT

To the Members of
Honey Bun (1982) Limited

Report on the Financial Statements

Opinion

We have audited the financial statements of Honey Bun (1982) Limited set out on pages 6 to 43, which comprise the statement of financial position at 30 September 2021, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 30 September 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Honey Bun (1982) Limited

Key audit matters (cont'd)

Measurement of expected credit losses

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>IFRS 9, Financial Instruments, requires the company to recognize expected credit losses (ECL) on financial assets measured at amortised cost and fair value through other comprehensive income. The determination of ECL is subjective and requires management to make significant judgements and estimates and the application of forward-looking information.

• The identification of significant increases in credit risk is a key area of judgement as the criteria determine whether a 12 month or lifetime allowance is recorded.
• IFRS 9 requires the company to incorporate forward-information, reflecting a range of possible future economic conditions, in measuring expected credit losses. Significant management judgement is used in determining the economic scenarios and management overlay.

• These estimates involve increased judgment as a result of the economic impact of COVID-19 on the company's trade receivables. Management considered the following:

- Qualitative factors that create COVID-19 related changes in the business and economic environment in which specific customers operate.

- Increased uncertainty about potential future economic scenarios and their impact on credit losses.</td><td>Our audit procedures in response to this matter included:

• Obtaining an understanding of the model used by management for the calculation of expected credit losses on accounts receivable.

• Testing the completeness and accuracy of the data used in the models to the underlying accounting records.

• Review the ECL model, assess the appropriateness of the company's impairment methodology, management's assumptions and compliance with the new requirements of IFRS 9, Financial Instruments.

• Evaluate the appropriateness of economic parameters including the use of forward looking information.

• Test the company's recording and ageing of trade receivables.</td></tr>
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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Honey Bun (1982) Limited

Report on the Audit of the Financial Statements (continued)

Measurement of expected credit losses (continued)

Key Audit Matter	How the matter was addressed in our audit
We therefore determined that the estimates of impairment in respect of trade receivables have a high degree of estimation uncertainty. *See notes 5(c) (ii) of the financial statements.*	Assessing the adequacy of the disclosures of the key assumptions and judgements as well as compliance with IFRS 9. Based on the audit procedures performed, no adjustments to the financial statements were deemed necessary.

Other Information

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

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

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

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Honey Bun (1982) Limited

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
Honey Bun (1982) Limited

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that presents a true and fair view.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Report on additional matters as required by the Jamaican Companies Act

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

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

The engagement partner on the audit resulting in this independent auditors' report is Sonia McFarlane.

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Chartered Accountants

29 November 2021

HONEY BUN (1982) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 $	2020 $
REVENUE	6	2,145,397,847	1,674,779,369
COST OF SALES		(1,123,207,983)	(875,504,518)
GROSS PROFIT		1,022,189,864	799,274,851
Other operating income	7	4,778,048	9,495,787
		1,026,967,912	808,770,638
EXPENSES:			
Administrative and other		(402,054,188)	(333,747,331)
Selling and distribution		(348,067,202)	(292,484,014)
	8	(750,121,390)	(626,231,345)
Movement on impairment losses on financial assets	8	8,272,813	11,753,885
OPERATING PROFIT		285,119,335	194,293,178
Finance income – interest		5,770,341	4,020,441
Finance costs	10	(1,563,410)	(1,885,748)
		289,326,266	196,427,871
Appreciation/(depreciation) in value of investments classified as fair value through profit or loss		872,524	(5,387,732)
PROFIT BEFORE TAXATION		290,198,790	191,040,139
Taxation	11	(71,507,443)	(24,292,214)
NET PROFIT, BEING TOTAL COMPREHENSIVE INCOME		218,691,347	166,747,925
EARNINGS PER STOCK UNIT	12	0.46	0.35

HONEY BUN (1982) LIMITED

STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2021

	Note	2021 $	2020 $
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	583,871,161	553,448,405
Investments	14	95,602,465	61,326,234
Intangible assets	15	5,325,879	1,748,534
Right-of-use assets	16	3,222,160	5,799,889
		688,021,665	622,323,062
CURRENT ASSETS:			
Inventories	17	121,399,079	71,274,544
Receivables	18	107,753,383	72,992,313
Taxation recoverable		4,034,001	2,789,071
Cash and cash equivalents	19	404,250,464	296,979,198
		637,436,927	444,035,126
		1,325,458,592	1,066,358,188
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	20	46,514,770	46,514,770
Capital reserve	21	53,818,788	53,818,788
Retained earnings		928,539,488	769,227,777
		1,028,873,046	869,561,335
NON-CURRENT LIABILITIES:			
Deferred taxation	22	50,674,475	27,041,906
Long term loans	23	15,344,144	18,319,126
Lease liability	16	724,290	3,481,294
		66,742,909	48,842,326
CURRENT LIABILITIES:			
Payables	24	195,772,361	129,920,088
Taxation payable		28,338,290	12,676,799
Current portion of long term loans	23	2,974,982	2,811,929
Current portion of lease liability	16	2,757,004	2,545,711
		229,842,637	147,954,527
		1,325,458,592	1,066,358,188

Approved for issue by the Board of Directors on 29 November 2021 and signed on its behalf by:

Herbert Chong - Chairman

Charles Heholt - Director

HONEY BUN (1982) LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 SEPTEMBER 2021

	Note	Share Capital $	Capital Reserve $	Retained Earnings $	Total $
BALANCE AT 30 SEPTEMBER 2019		46,514,770	53,818,788	640,181,207	740,514,765
TOTAL COMPREHENSIVE INCOME					
Profit for the year		-	-	166,747,925	166,747,925
TRANSACTION WITH OWNERS					
Dividends	25	-	-	(37,701,355)	(37,701,355)
BALANCE AT 30 SEPTEMBER 2020		46,514,770	53,818,788	769,227,777	869,561,335
TOTAL COMPREHENSIVE INCOME					
Profit for the year		-	-	218,691,347	218,691,347
TRANSACTION WITH OWNERS					
Dividends	25	-	-	(59,379,636)	(59,379,636)
BALANCE AT 30 SEPTEMBER 2021		46,514,770	53,818,788	928,539,488	1,028,873,046

HONEY BUN (1982) LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit		218,691,347	166,747,925
Items not affecting cash resources:			
Depreciation	13	70,719,353	71,516,556
Adjustment to property, plant and equipment		-	4,539,827
Gain on disposal of property, plant and equipment		(1,008,038)	(2,865,894)
Amortisation	15	799,815	915,253
Adjustment on intangible assets	15	-	(478)
Amortisation – right-of-use assets	16	2,577,729	2,577,728
Effect of exchange rate translation		(2,838,427)	(5,698,391)
Interest income		(5,770,341)	(4,020,441)
Interest expense		1,173,249	1,300,487
Interest expense – right-of-use assets		390,161	585,261
Taxation expense	11	71,507,443	24,292,214
		356,242,291	259,890,047
Changes in operating assets and liabilities:			
Inventories		(50,124,535)	(8,626,926)
Receivables		(34,070,716)	22,641,415
Payables		65,852,273	(20,724,393)
		337,899,313	253,180,143
Taxation paid		(33,458,313)	(27,431,331)
Cash provided by operating activities		304,441,000	225,748,812
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposal of property, plant and equipment		1,304,350	2,865,898
Additions to property, plant and equipment	13	(101,438,421)	(118,900,418)
Additions to intangible assets	15	(4,377,160)	-
Investments (net)	14	(34,276,231)	30,625,790
Interest received		5,079,987	2,771,478
Cash used in investing activities		(133,707,475)	(82,637,252)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term loans		(2,811,929)	(2,657,812)
Dividends paid	25	(59,379,636)	(37,701,355)
Interest paid		(1,173,249)	(1,300,487)
Lease payment		(2,935,872)	(2,935,873)
Cash used in financing activities		(66,300,686)	(44,595,527)
Increase in cash and cash equivalents		104,432,839	98,516,033
Exchange effect on foreign cash balances		2,838,427	5,698,391
Cash and cash equivalents at beginning of year		296,979,198	192,764,774
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 19)		404,250,464	296,979,198

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

1. **IDENTIFICATION AND PRINCIPAL ACTIVITIES:**

(a) Honey Bun (1982) Limited is a limited liability company incorporated and domiciled in Jamaica. The registered office of the company is 26 Retirement Crescent, Kingston 5, Jamaica. The company is listed on the Junior Market of the Jamaica Stock Exchange since 3 June 2011. Next Incorporated, a company registered under the Belize IBC Act 2000 owns 56.5% of the issued shares of the company.

(b) The principal activities of the company are the manufacturing and distribution of baked products to the local and export markets.

2. **REPORTING CURRENCY:**

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

3. **SIGNIFICANT ACCOUNTING POLICIES:**

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented. Where necessary, prior year comparatives have been reclassified to conform to current year presentation.

(a) **Basis of preparation**

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

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

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following new standards, interpretations and amendments are immediately relevant to its operations.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

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

New, revised and amended standards and interpretations that became effective during the year (cont'd)

The company has adopted the following new and amended standards and interpretations as of 1 October 2020:

Revised Conceptual Framework for Financial Reporting (effective for accounting periods beginning on or after 1 January 2020). The revised Conceptual Framework will be used in standard-setting decisions with immediate effect; however, no changes will be made to any of the current accounting standards. Entities that apply the Conceptual Framework in determining accounting policies will need to consider whether their accounting policies are still appropriate under the revised Framework.

There was no impact from the adoption of this amendment.

New standards, amendments and interpretations not yet effective and not early adopted

The following new standards, amendments and interpretation which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the company's future financial statements:

Amendments to IAS 1 and IAS 8 on the definition of material (effective for accounting periods beginning on or after 1 January 2023). These amendments to IAS 1, 'Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The adoption of this standard is not expected to have a significant impact on the company.

Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosures', IFRS 16 Leases, (effective for accounting periods beginning on or after 1 January 2021). These amendments address issues affecting financial reporting in the period leading up to interbank offer rates (IBOR) reform. The second phase amendments apply to all hedging relationships directly affected by IBOR reform.

The amendments principally address practical expedient for modifications. A practical expedient has been introduced where changes will be accounted for by updating the effective interest rate if the change results directly from IBOR reform and occurs on an 'economically equivalent' basis. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform. In these instances, a revised discount rate that reflects the change in interest rate will be used in remeasuring the lease liability. The amendments also address specific relief from discounting hedging relationships as well as new disclosure requirements. The company is assessing the impact that the amendment will have on its 2021 financial statements.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

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

New standards, amendments and interpretations not yet effective and not early adopted (cont'd)

Amendments to IFRS 16, 'Leases' – Covid-19 related rent recessions – Extension of the practical expedient (effective for annual periods beginning on or after 1 April 2021). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 31 March 2021, the IASB published an additional amendment to extend the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the periods(s) in which the event or condition that triggers the reduced payment occurs. The adoption of this amendment is not expected to have a significant impact on the company.

Amendments to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities (effective for accounting periods beginning on or after 1 January 2023). These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectation of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The company will assess the impact of future adoption of this amendment on its financial statements.

Amendment to IAS 16, 'Property, Plant and Equipment' (effective for accounting periods beginning on or after 1 January 2022). This amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognise such sales proceeds and related cost in profit or loss. It also clarifies that an entity is 'testing whether the asset is function properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The company will assess the impact of future adoption of this amendment on its financial statements.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

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

New standards, amendments and interpretations not yet effective and not early adopted (cont'd)

Annual improvements to IFRS Standards 2018-2020 cycle (effective for accounting periods beginning on or after 1 January 2022). These amendments include minor changes to the following applicable standards:

(i) IFRS 9, 'Financial Instruments' amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

(ii) IFRS 16, 'Leases' amendment removes the illustration of payments from the lessor relating to leasehold improvements.

The company is assessing the impact the amendment will have on its 2022 financial statements.

(b) **Foreign currency translation**

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

Monetary items denominated in foreign currency are translated to Jamaican dollars using the closing rate as at the reporting date.

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

(c) **Property, plant and equipment**

Items of property, plant and equipment are measured at cost, except for freehold land and buildings and plant and machinery which are measured at valuation, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Property, plant and equipment (cont'd)**

The market value of freehold land and building is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction considering its existing condition and location. The market value of plant and machinery is estimated using depreciated replacement cost approach. Gains arising from changes in market value are taken to capital reserve in changes in equity. Losses that offset previous gains of the same asset are charged against the capital reserve; all other losses are charged to profit or loss.

Depreciation on all items of property, plant and equipment is calculated on the straight-line basis at annual rates estimated to write off the carrying value of the assets over the period of their estimated useful lives. Land is not depreciated. The expected useful lives of the other property, plant and equipment are as follows:

Buildings	40 years
Furniture and fixtures	10 years
Bakery fixtures	2 to 5 years
Computers and accessories	4 years
Motor vehicles	5 years
Plant and machinery	10 years

(d) **Investments**

The fair values of quoted instruments are based on the spread between the bid and ask prices at valuation date. Upon initial recognition, the company irrevocably classifies its equity instruments at fair value through profit or loss (FVTPL) when they meet the definition of equity under IAS 32, Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Equity instruments at FVTPL are not subject to an impairment assessment.

(e) **Inventories**

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

Finished goods	-	Cost of product plus all indirect costs to bring the item to a saleable condition.
Raw material	-	Cost of product plus duty and related cost in bringing the inventories to their present location.
Goods-in-transit	-	Cost of goods converted at the year end exchange rate.

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(f) **Provisions**

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

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

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

(g) **Revenue recognition**

Performance obligations and revenue recognition policies:

Revenue is measured based on the consideration specified in a contract with a customer. The company recognises revenue when it transfers control over a good or service to a customer.

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows:

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15.
Sale of baked products	Customers obtain control of goods when the goods are delivered to and accepted by them. Invoices are generated and the revenue is recognized at that point in time. Invoices are usually payable within 30 days.	Revenue is recognised when the goods are delivered and have been accepted by the customers.

Interest income

Interest income is recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

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

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

(i) **Borrowings**

Borrowings are recognized initially at the proceeds received, net of transaction costs Incurred. Borrowings are subsequently stated at amortized cost.

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

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

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because taxable profits exclude items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

(k) **Trade and other payables**

Trade payables are stated at amortized cost.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(l) **Intangible assets**

Computer software:

Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of three (3) years on a straight line basis.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred.

(m) **Financial instruments**

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

Financial assets

(i) **Classification**

The company classifies its financial assets as amortised cost and fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest (SPPI). They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The company's financial assets measured at amortised cost comprise cash and cash equivalents, receivables, due from related company and short term deposits.

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(m) **Financial instruments (cont'd)**

Financial assets (cont'd)

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

Fair value through profit or loss(FVTPL)

The company has made an irrevocable election to classify its investments at fair value through profit or loss rather than through other comprehensive income as the company considers this measurement to be the most representative of the business model for those assets. They are carried at fair value with changes in fair value recognized in profit or loss.

The company's financial assets measured at FVTPL are its investments securities which includes equity instruments in the statement of financial position.

(ii) **Recognition and Measurement**

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

The company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss.

(iii) **Impairment**

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses (ECL).

During this process the probability of the non-payment of the trade receivables is assessed by taking into consideration historical rates of default for each segment of trade receivables as well as the estimated impact of forward looking information. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime ECL for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within the statement of profit or loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(m) **Financial instruments (cont'd)**

Financial liabilities

The company's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. At the reporting date, the following were classified as financial liabilities: long term loans, payables and lease liability.

(n) **Segment reporting**

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

A segment is a distinguishable component of the company that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The company's activities are limited to the manufacture and distribution of baked products to Jamaican and overseas consumers. Overseas revenue is less than 10% of gross operating revenue and not considered a separate segment. No additional segment information is provided.

(o) **Share capital**

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

(p) **Other receivables**

Other receivables are stated at amortized cost less impairment losses, if any.

(q) **Dividend distribution**

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

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(r) **Leases**

All leases are accounted for by recognising a right-of-use asset and a lease liability for all leases with a term greater than 12 months.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes amounts expected to be payable under any residual value guarantee, the exercise price of any purchase option granted in favour of the company if it is reasonably certain to assess that option, any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease, initial direct costs incurred and the amount of any provision recognised where the company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset, whichever is shorter.

When the company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining lease term.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(s) **Related parties**

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

(a) A person or a close member of that person's family is related to the company if that person:

(i) has control or joint control over the company;

(ii) has significant influence over the company; or

(iii) is a member of the key management personnel of the company or of a parent of the company.

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

(i) The entity and the company 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 company or an entity related to the company.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the company or to the parent of the company.

(c) Related party transaction is a transfer of resources, services or obligations between a related parties, regardless of whether a price is charged.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

4. **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES:**

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

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

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

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

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

(i) **Income taxes**

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

(ii) **Depreciable assets**

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

4. **CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):**

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

(iii) **Net realizable value of inventories**

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

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

(iv) **Measurement of the expected credit loss allowance**

Allowances are determined upon origination of the trade receivable based on a model that calculates the expected credit loss (ECL) of the trade receivables.

Under this ECL model, the company segments its trade receivables in a matrix by days past due and determined for each age bracket an average rate of ECL, considering actual loss experience over the last 12 months and analysis of future default, that is applied to the balance of the trade receivables.

The average ECL rate increases in each segment of days past due until the rate is 100% for the segment of 365 days or more past due. The use of assumptions make uncertainty inherent in such estimates.

5. **FINANCIAL RISK MANAGEMENT:**

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

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

In common with all other businesses, the company is exposed to risks that that arise from its use of financial instruments. This note describes the company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

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

(a) **Principal financial instruments**

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

- Receivables
- Cash and bank balances
- Financial assets at fair value through profit or loss
- Payables
- Long term loans
- Investments

(b) **Financial instruments by category**

Financial assets

	Amortised cost		Fair value through profit or loss	
	2021	2020	2021	2020
	$	$	$	$
Cash and bank balances	145,993,558	99,935,128	-	-
Short term investments	258,256,906	197,044,070	-	-
Receivables	62,766,636	57,199,750	-	-
Investments	78,045,752	45,535,592	17,556,713	16,684,189
Total financial assets	545,062,852	399,714,540	17,556,713	16,684,189

Financial liabilities

	Financial liabilities at amortised cost	
	2021	2020
	$	$
Payables	166,222,404	107,033,494
Long term loans	18,319,126	21,131,055
Lease liability	3,481,294	6,027,005
Total financial liabilities	188,022,824	134,191,554

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Financial risk factors**

The Board has overall responsibility for the determination of the company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing operating processes that ensure the effective implementation of the objectives and policies to the company's finance function. The Board receives monthly reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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

(i) **Market risk**

Market risk arises from the company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Currency risk

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

Currency risk arises from transactions for sales, purchases and US Dollar denominated investments. The company manages this risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The company further manages this risk by maximising foreign currency earnings.

Concentration of currency risk

The company's exposure to foreign currency risk was as follows:

	2021 $	2020 $
Cash and bank balances	15,190,044	12,747,058
Short term investments	190,524,060	130,445,595
Investments	47,663,199	45,356,240
Receivables	7,272,341	9,745,917
Payables	(3,126,707)	(1,917,062)
	257,522,937	196,377,748

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Financial risk factors (cont'd)**

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

Foreign currency sensitivity

The following table indicates the sensitivity of profit before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank balance, short term and long term investments, accounts receivable balances and accounts payable balances, and adjusts their translation at the year-end for 8% (2020 – 6%) depreciation and a 2% (2020 – 2%) appreciation of the Jamaican dollar against the US dollar. The changes below would have no impact on other components of equity.

	% Change in Currency Rate 2021	Effect on Profit before Tax 30 September 2021 $	% Change in Currency Rate 2020	Effect on Profit before Tax 30 September 2020 $
Currency:				
USD	-8	20,601,835	-6	11,782,665
USD	+2	(5,150,459)	+2	(3,927,555)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company is exposed to the equity securities price risk arising from its holding in financial assets at fair value through profit or loss. A 5% (2020 - 7%) increase in the price of equity stocks will result in a $877,836 (2020 - $1,167,893) increase and a 5% (2020 – 5%) decrease in the price of equity stocks will result in a $877,836 (2020 - $2,085,524) increase decrease in net results or stockholders equity.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Financial risk factors (cont'd)**

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

Cash flow and fair value interest rate risk

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

Floating rate instruments expose the company to cash flow interest rate risk, whereas fixed rate instruments expose the company to fair value interest rate risk.

Short term investments, fixed deposits and borrowings are the only interest bearing assets and liabilities respectively, within the company. The company's short term investments and fixed deposits are due to mature and re-price respectively, within three months to one year of the reporting date and the company's borrowings are fixed for a period and then revised.

Interest rate sensitivity

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

There is no significant exposure to interest rate risk on borrowings. A 3% increase/0.5% decrease (2020 – 1% increase/1% decrease) in interest rates on Jamaican dollar borrowings would result in a $91,596 decrease and a $549,574 increase (2020 - $1,431,927 decrease/increase) in profit before tax for the company.

(ii) **Credit risk**

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

Cash and bank balances

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Financial risk factors (cont'd)**

(ii) **Credit risk (cont'd)**

Maximum exposure to credit risk

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

Trade receivables expected credit losses

The impairment requirements of IFRS 9 are based on the Expected Credit Loss (ECL) model. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

For trade receivables and contract assets that do not have a financing component, it is a requirement of IFRS 9 to recognize a lifetime expected credit loss. This was achieved in the current year by the development and application of historical data relating to trade receivables and write-offs, as well as forecasting payment probabilities based on historical payment pattern.

The company estimates expected credit losses (ECL) on trade receivables using a provision matrix based on historical credit loss experience. Based on the incurred loss analyses over delinquent accounts, the credit history, risk profile of each customer and aging of receivables, customers were placed in aging buckets and a default risk percentage calculated for each bucket of customers. The following table provides information about the ECLs for trade receivables.

Trade receivables impairment provision

30 September 2021

Aging	Gross Carrying Amount	Default Rate	Lifetime ECL Allowance
	$	%	$
0 -30 days	62,236,714	1.76	1,095,863
31 - 60 days	1,144,536	8.33	95,411
61 – 90 days	709,122	18.68	132,462
Over 91 days	7,189,523	100	7,189,523
	71,279,895		8,513,259

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Financial risk factors (cont'd)**

(ii) **Credit risk (cont'd)**

Trade receivables impairment provision (cont'd)

30 September 2020

Aging	Gross Carrying Amount $	Default Rate %	Lifetime ECL Allowance $
0 -30 days	53,957,183	1.48	799,346
31 - 60 days	3,845,475	7.5	289,971
61 – 90 days	531,395	8.5	44,986
Over 91 days	15,651,769	100	15,651,769
	73,985,822		16,786,072

Movements in the provision for expected credit losses are as follows:

	2021 $	2020 $
At 1 October	16,786,072	28,539,957
Provision for expected credit losses	(8,272,813)	(11,753,885)
At 30 September	8,513,259	16,786,072

The creation and release of provision for expected credit losses have been included in expenses in profit or loss. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(iii) **Liquidity risk**

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(c) **Financial risk factors (cont'd)**

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

Liquidity risk management process

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

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

Cash flows of financial liabilities

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

	Within 1 Year $	2 to 5 Years $	Over 5 Years $	Total $
Payables	166,222,404	-	-	166,222,404
Long term loans	3,933,757	15,735,030	1,639,066	21,307,853
Total financial liabilities (contractual maturity dates)	170,156,161	15,735,030	1,639,066	187,530,257

	Within 1 Year $	2 to 5 Years $	Over 5 Years $	Total $
Payables	107,033,494	-	-	107,033,494
Long term loans	3,933,757	15,735,030	5,572,823	25,241,610
Total financial liabilities (contractual maturity dates)	110,967,251	15,735,030	5,572,823	132,275,104

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

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

(d) **Capital management**

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

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

The Directors regularly review the financial position of the company at meetings and monitor the return on capital and the level of dividends to the ordinary shareholders. They seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Debt is the total of long-term loans and bank overdraft less related party loans, if any. Total capital is calculated as equity as shown in the company's statement of financial position plus debt. The gearing ratios at the year-end based on these calculations were as follows:

	2021 $	2020 $
Debt: long-term loans	21,800,420	27,158,060
Equity	1,032,472,737	869,561,335
Total capital	1,054,273,157	896,719,395
Gearing ratio	2.07%	3.03%

6. **REVENUE:**

Revenue represents the price of goods sold and transferred to customers at a point in time, after discounts and allowances.

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

7. OTHER OPERATING INCOME:

	2021 $	2020 $
Foreign exchange gains	2,838,427	4,794,193
Gain on disposal of property, plant and equipment	1,008,038	2,865,894
Dividend received	931,583	1,835,700
	4,778,048	9,495,787

8. EXPENSES BY NATURE:

Total administrative, selling and other expenses:

	2021 $	2020 $
COST OF SALES		
Depreciation	20,760,747	26,696,453
Other costs of operating revenue	26,270,805	20,680,353
Raw materials and consumables	871,252,293	648,290,111
Staff costs (note 9)	147,811,669	126,978,633
Utilities	57,112,469	52,858,968
	1,123,207,983	875,504,518
ADMINISTRATIVE		
Staff costs (note 9)	182,448,875	156,710,949
Directors’ emoluments		
- Fees	4,723,563	4,172,813
- Management remuneration (note 9)	24,968,931	15,195,748
Auditors’ remuneration	2,407,300	2,411,200
Repairs and maintenance	30,808,709	24,429,331
Depreciation	49,958,606	44,820,103
Amortisation – right-of-use assets	2,577,728	2,577,728
Amortisation	799,815	915,253
Security	5,342,859	5,327,864
Utilities	11,757,327	11,837,748
General insurance	8,968,480	8,067,550
Public company expenses	3,414,537	3,746,333
Payroll services	9,910,928	8,972,715
Rates and taxes	8,243,882	6,434,162
Bank charges	6,559,281	5,936,767
Other administrative expenses	49,163,367	32,191,067
	402,054,188	333,747,331
SELLING AND DISTRIBUTION		
Advertising and promotion	40,820,639	36,347,703
Property rental	8,756,185	7,128,236
Other distribution costs	137,133,321	106,683,119
Staff costs (note 9)	144,028,857	128,734,614
Other expenses	17,328,200	13,590,342
	348,067,202	292,484,014
Total administrative and selling and distribution	750,121,390	626,231,345

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

8. **EXPENSES BY NATURE (CONT'D):**

Included in other operating expenses are expense categories amounting to less than $5 million.

	2021 $	2020 $
Impairment losses on financial assets		
Trade receivables	(8,272,813)	(11,753,885)

9. **STAFF COSTS:**

	2021 $	2020 $
Salaries wages	406,624,739	348,817,757
Employer's statutory contributions	46,884,222	38,913,447
Other staff costs	45,749,371	39,888,740
	499,258,332	427,619,944

Included in profit or loss as follows:

	2021 $	2020 $
Direct labour (note 8)	147,811,669	126,978,633
Administrative – management (note 8)	24,968,931	15,195,748
Administrative – staff (note 8)	182,448,875	156,710,949
Selling and distribution (note 8)	144,028,857	128,734,614
	499,258,332	427,619,944

The average number of persons employed by the company during the year was two hundred and nineteen (219), (2020 – two hundred and seven (207).

10. **FINANCE COSTS:**

	2021 $	2020 $
Loan interest	1,121,829	1,275,948
Lease interest	390,161	585,261
Other	51,420	24,539
	1,563,410	1,885,748

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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11. **TAXATION EXPENSE:**

(a) Taxation is computed on the profit for the year, adjusted for tax purposes, and comprises income tax at 25%.

	2021 $	2020 $
Current taxation	72,434,776	50,935,412
Remission of income tax	(24,559,902)	(25,467,706)
Deferred taxation (note 22)	23,632,569	(1,175,492)
Taxation charge in income statement	71,507,443	24,292,214

(b) The tax on the profit before taxation differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2021 $	2020 $
Profit before taxation	290,198,790	191,040,139
Taxation calculated at 25%	72,549,698	47,760,035
Adjusted for the effects of:		
Depreciation and capital allowances	(996,386)	484,544
Net effect of other charges and allowances	24,514,033	1,515,341
Taxation charge in income statement	96,067,345	49,759,920
Adjustment for the effect of tax remission:		
Current tax	(24,559,902)	(25,467,706)
Taxation charge in income statement	71,507,443	24,292,214

(c) Remission of income tax:

The company's shares were listed on the Jamaica Stock Exchange Junior Market, effective 3 June 2011. Consequently, the company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least 15 years.

Years 1 to 5	100%	(1 June 2011 – 31 May 2016)
Years 6 to 10	50%	(1 June 2016 – 31 May 2021)

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

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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12. **EARNINGS PER SHARE:**

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

	2021 $	2020 $
Earnings per share	0.46	0.35

Earnings per share is computed by dividing the profit for the year by 471,266,950 (2020: 471,266,950) the number of shares in issue during the year.

HONEY BUN (1982) LIMITED

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

	Land & Buildings $	Plant & Machinery $	Baking Fixtures $	Motor Vehicles $	Furniture & Fixtures $	Computers & Accessories $	Total $
At cost or valuation:							
30 September 2019	299,745,724	275,255,349	72,179,694	113,829,075	17,510,348	27,815,781	806,335,971
Additions	33,891,778	30,502,674	21,014,869	27,174,834	2,947,178	3,369,085	118,900,418
Adjustments	20,455,620	(6,077,901)	279,670	17,307,971	146,499	(13,287)	32,098,572
Disposal	-	-	-	(16,861,914)	-	-	(16,861,914)
30 September 2020	354,093,122	299,680,122	93,474,233	141,449,966	20,604,025	31,171,579	940,473,047
Additions	11,854,370	15,576,494	30,683,839	33,807,435	3,300,442	6,215,841	101,438,421
Disposal	-	-	-	(16,441,997)	-	-	(16,441,997)
30 September 2021	365,947,492	315,256,616	124,158,072	158,815,404	23,904,467	37,387,420	1,025,469,471
Depreciation:							
30 September 2019	24,863,790	131,051,155	47,549,661	67,850,615	6,783,067	17,633,309	295,731,597
Charge for the year	7,062,531	26,696,453	12,411,884	19,839,173	1,611,307	3,895,208	71,516,556
Adjustments	19,895,814	(394,550)	(399,129)	17,634,139	726,888	(824,763)	36,638,399
Eliminated on disposal	-	-	-	(16,861,910)	-	-	(16,861,910)
30 September 2020	51,822,135	157,353,058	59,562,416	88,462,017	9,121,262	20,703,754	387,024,642
Charge for the year	7,099,031	20,760,747	13,774,855	23,409,671	1,802,380	3,872,669	70,719,353
Disposal	-	-	-	(16,145,685)	-	-	(16,145,685)
30 September 2021	58,921,166	178,113,805	73,337,271	95,726,003	10,923,642	24,576,423	441,598,310
Net Book Value:							
30 September 2021	307,026,326	137,142,811	50,820,801	63,089,401	12,980,825	12,810,997	583,871,161
30 September 2020	302,270,987	142,327,064	33,911,817	52,987,949	11,482,763	10,467,825	553,448,405

During the year ended 30 September 2010, the freehold land and buildings were revalued by the Directors at market value. The plant and machinery were revalued as at 12 April 2010 by Delano Reid & Associates Limited, Appraisers, Engineers and Management Consultants at fair Market Value Installed. The company's plant and machinery acquired from a company in liquidation at fire sale values were initially recorded at cost but subsequently revalued as noted. The surplus arising on the revaluation of the building and plant and machinery during 2010, were credited to capital reserves (see note 21).

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

14. **INVESTMENTS:**

	2021			2020		
	FVTPL $	Amortised Cost $	Total $	FVTPL $	Amortised Cost $	Total $
Mayberry Investments Limited (US$)	-	868,262	868,262	-	616,808	616,808
Victoria Mutual Buildings Society (US$)i	-	45,640,471	45,640,471	-	43,487,150	43,487,150
Victoria Mutual Buildings Society (US$)i	-	1,045,584	1,045,584	-	-	-
Digicel Group 7.125% 2022 Bond (US$)	-	108,882	108,882	-	1,252,281	1,252,281
Jamaica Money Market Brokers	-	30,382,553	30,382,553	-	179,352	179,352
	-	78,045,752	78,045,752	-	45,535,591	45,535,591
Quoted shares -						
General Accident Insurance Company Jamaica Limited	486,184	-	486,184	553,090	-	553,090
Pan Jam Investment Limited	3,292,302	-	3,292,302	3,585,650	-	3,585,650
NCB Financial Group Limited	3,345,360	-	3,345,360	3,423,537	-	3,423,537
Caribbean Cement Company Limited	1,565,211	-	1,565,211	709,830	-	709,830
JMMB Group Limited	745,724	-	745,724	630,663	-	630,663
Wisynco Group Limited	2,824,534	-	2,824,534	3,026,287	-	3,026,287
Seprod Limited	3,367,560	-	3,367,560	3,066,806	-	3,066,806
Kingston Properties Limited	1,929,838	-	1,929,838	1,688,326	-	1,688,326
	17,556,713	-	17,556,713	16,684,189	-	16,684,189
	17,556,713	78,045,752	17,556,713	16,684,189	45,535,591	62,219,780
Allowance for impairment loss (ii)	-	-	-	-	(893,546)	(893,546)
	17,556,713	78,045,752	95,602,465	16,684,189	44,642,045	61,326,234

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

14. **INVESTMENTS (CONT'D):**

(i) The Victoria Mutual Building Society US$ investments are held as collateral against loans from the same financial institution that were used to acquire a real estate property to expand the operations of the company (note 13).

(ii) Movement in allowance for impairment losses for investments is as follows:

	2021 $	2020 $
Balance at beginning of year	893,546	893,546
Impairment loss reversed (note 14)	(893,546)	-
Balance at end of year	-	893,546

15. **INTANGIBLE ASSETS**:

	2021 $	2020 $
Cost:		
1 October	20,845,325	20,845,325
Additions	4,377,160	-
30 September	25,222,485	20,845,325
Amortisation:		
1 October	19,096,791	18,182,016
Charge for the year	799,815	915,253
Adjustments	-	(478)
30 September	19,896,606	19,096,791
Carrying value at 30 September	5,325,879	1,748,534

16. **RIGHT-OF-USE ASSETS:**

(a) Right-of-use assets:

	2021 $	2020 $
1 October/Adoption of IFRS 16	5,799,889	8,377,617
Amortisation	(2,577,729)	(2,577,728)
30 September	3,222,160	5,799,889

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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16. **RIGHT-OF-USE ASSETS (CONT'D):**

(b) Lease liability:

	2021 $	2020 $
1 October/Adoption of IFRS 16	6,027,005	8,377,617
Interest expense	390,161	585,261
Lease payments	(2,935,872)	(2,935,873)
30 September	3,481,294	6,027,005
Less: current portion	(2,757,004)	(2,545,711)
	724,290	3,481,294

17. **INVENTORIES:**

	2021 $	2020 $
Raw materials	112,082,822	58,718,948
Finished goods	1,718,289	2,677,058
Goods in transit	-	2,842,809
	113,801,111	64,238,815
Machinery spare parts	7,597,968	7,035,729
	121,399,079	71,274,544

18. **RECEIVABLES:**

	2021 $	2020 $
Trade receivables	71,279,895	73,985,822
Provision for expected credit losses	(8,513,259)	(16,786,072)
Net trade receivables	62,766,636	57,199,750
Prepayments	2,998,660	(691,830)
Other receivables	41,988,087	16,484,393
	107,753,383	72,992,313

Included in trade receivable is $124,751 (2020: $217,596) due from a related party in the ordinary course of business (see note 26).

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2021

19. CASH AND CASH EQUIVALENTS:

	2021 $	2020 $
Cash and bank balances -		
Cash at bank and in hand	478,500	463,500
Bank balances	145,515,058	99,471,628
	145,993,558	99,935,128
Short term deposits	258,256,906	197,044,070
	404,250,464	296,979,198

Reconciliation of movements in cash flows from investing activities. Amounts represent investments at fair value through profit or loss and amortised cost.

	2021 $	2020 $
1 October	61,326,234	91,952,024
Increase/(disposal) of investment	29,330,678	(26,767,964)
Fair value movements	872,524	(5,387,732)
Foreign exchange gain	4,073,029	1,529,906
	95,602,465	61,326,234

20. SHARE CAPITAL:

	2021 $	2020 $
Authorised -		
487,500,000 ordinary shares of no par value		
Stated capital –		
Issued and fully paid –		
471,266,950 ordinary shares of no par value	46,514,770	46,514,770

21. CAPITAL RESERVE:

	2021 $	2020 $
Revaluation surplus:		
Property, plant and equipment – 2009	33,000	33,000
Property, plant and equipment – 2010	50,109,435	50,109,435
Property, plant and equipment – 2010	21,615,949	21,615,949
Deferred tax on revaluation at 25%	(17,939,596)	(17,939,596)
	53,818,788	53,818,788

Capital reserve comprises revaluation surplus on certain property, plant and equipment (see note 13).

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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22. DEFERRED TAXES:

Deferred taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

	2021 $	2020 $
Deferred tax liability	50,674,475	27,041,906

The movement in deferred tax is as follows:

	2021 $	2020 $
Balance at start of year	27,041,906	28,217,398
Charge/(credit) to profit or loss (note 11)	23,632,569	(1,175,492)
Recognised in equity on initial application of		
Balance at end of year	50,674,475	27,041,906

Deferred tax is due to the following temporary differences:

	2021 $	2020 $
Accelerated capital allowances	50,501,886	28,698,093
Interest receivables	172,589	312,241
Accrued vacation leave	-	(1,968,428)
	50,674,475	27,041,906

23. LONG TERM LOANS:

	2021 $	2020 $
Victoria Mutual Building Society (VMBS)	18,319,126	21,131,055
Less: current portion	(2,974,982)	(2,811,929)
	15,344,144	18,319,126

This loan is repayable in monthly instalments by February 2027 with fixed interest rate of 5.65% per annum. The primary collateral is a US$ investment being held with VMBS (note 14).

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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24. **PAYABLES:**

	2021 $	2020 $
Trade payables	150,609,334	94,522,455
Accrued staff vacation pay	7,873,714	7,873,714
Other payables	36,457,291	26,691,714
Distributors deposits	832,022	832,205
	195,772,361	129,920,088

25. **DIVIDENDS:**

	2021 $	2020 $
Declared and paid:		
First interim @ 0.09 (2020: 0.03) per share	42,414,026	23,563,347
Final @ 0.036 (2020: 0.03) per share	16,965,610	14,138,008
Total dividends to shareholders	59,379,636	37,701,355

By Board of Directors meeting dated 20 January 2021, dividend payment of $0.09 per share was approved by the Board.

By Board of Directors meeting dated 12 May 2021, dividend payment of $0.036 per share was approved by the Board of Directors.

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

The statements of financial position and profit or loss and other comprehensive income include balances and transactions arising in the ordinary course of business during the year, with related parties as follows:

	2021 $	2020 $
Transactions during the year		
Purchase of goods -		
Next Incorporation Limited	1,774,968	2,535,366
Donations -		
Honey Bun Foundation	4,000,000	4,500,000
Year end balances		
Due from -		
Next Incorporation Limited (note 18)	124,751	217,596
Due to -		
Honey Bun Foundation	-	(361,421)

HONEY BUN (1982) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

	2021 $	2020 $
Key management compensation		
Key management compensation (included in staff cost – (note 9)		
Key Management includes directors, (executive and Senior managers) –		
Salaries and other short-term employee benefits	55,060,801	48,799,916
Directors' emoluments:		
Fees	4,723,563	4,172,813
Management remuneration (included above)	24,968,931	15,195,748

27. **IMPACT OF COVID-19:**

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on 11 March 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activities, business operations and asset prices. This could have a negative financial effect on the company, depending on factors such as the duration and spread of the outbreak, the effects on the economy overall and the effects on the financial markets, all of which are highly uncertain and cannot be estimated reliably.

The company has performed various assessments and stress testing of its business plans under different scenarios, as part of its business continuity and contingency planning. However, at the date of approval of these financial statements, the company has determined that the situation will remain fluid for the foreseeable future, and as such, is unable to determine a reliable estimate of the financial impact on the overall business operations. The company's performance has improved year over year and management anticipate this trend to continue.