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CHARTERED ACCOUNTANTS

"Continuous Improvement and Innovation are our Duties....."

HONEY BUN (1982) LIMITED

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30 September 2015

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To the Members of
Honey Bun (1982) Limited

Independent Auditors' Report

We have audited the accompanying financial statements of Honey Bun (1982) Limited (the Company) which comprise the Company's statement of financial position as of September 30, 2015 and the statement of profit and loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**McKENLEY
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CHARTERED ACCOUNTANTS

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To the Members of
Honey Bun (1982) Limited

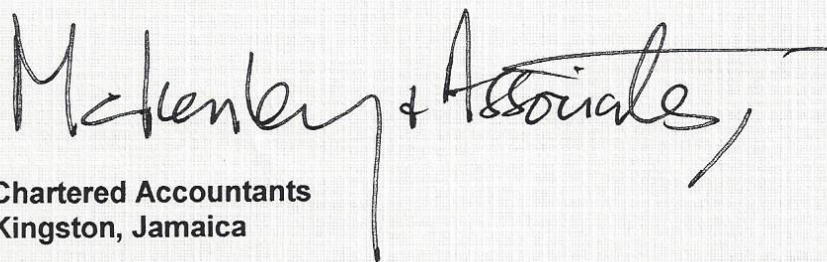
Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of September 30, 2015, and of the financial performance and cash flows of the Company for the year then ended, so far as concerns the members of the Company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

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 accompanying financial statements are in agreement and give the information required by the Act, in the manner so required.



**Chartered Accountants
Kingston, Jamaica**

November 23, 2015

HONEY BUN (1982) LIMITED
Statement of Profit and Loss and Other Comprehensive Income
30 September 2015

	<u>Note</u>	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Revenue	2 (r)	885,669,774	741,950,751
Cost of sales		506,315,931	437,749,558
Gross profit		379,353,843	304,201,193
Finance income - interest		146,030	204,056
Exchange gains and other income	4	1,619,680	4,443,294
		381,119,553	308,848,543
Expenses			
Administrative and other expenses		(187,884,046)	*(171,847,195)
Selling & distribution costs		(118,893,008)	(108,497,166)
		(306,777,054)	(280,344,361)
Profit from operations		74,342,499	28,504,182
Finance costs		(6,177,165)	(5,204,150)
Profit before taxation		68,165,334	23,300,032
Taxation	7	-	-
Net profit for the year		68,165,334	23,300,032
Other comprehensive income			
Unrealised gain/(loss) on investments		1,810,563	(994,011)
Profit, being total comprehensive income for the year		69,975,897	22,306,021
Earnings per stock unit	8	0.72	0.25


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

*Reclassified for comparative purposes. Minimum business tax reclassified to administrative and other expenses.

HONEY BUN (1982) LIMITED
Statement of Financial Position
30 September 2015

	<u>Note</u>	<u>2015</u> \$	<u>2014</u> \$
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant and equipment	9	278,775,252	296,611,652
Investments	10	28,291,806	25,343,421
Intangible assets	11	1,902,611	5,662,195
		<u>308,969,669</u>	<u>327,617,268</u>
CURRENT ASSETS			
Inventories	12	45,419,998	38,411,875
Receivables	13	68,880,502	69,183,563
Taxation recoverable		112,493	112,493
Cash & cash equivalents	14	64,017,625	21,331,039
		<u>178,430,618</u>	<u>129,038,970</u>
CURRENT LIABILITIES:			
Payables	15	68,398,911	74,650,703
Bank overdraft	17	-	16,138,286
Current portion of long term loans	20	8,464,618	10,097,387
		<u>76,863,529</u>	<u>100,886,376</u>
Net current assets		<u>101,567,089</u>	<u>28,152,594</u>
		<u>410,536,758</u>	<u>355,769,862</u>
EQUITY & LIABILITIES:			
Shareholders' equity			
Share capital	18	46,514,770	46,514,770
Capital reserves	19	72,759,535	70,948,972
Retained earnings		248,387,774	191,532,847
		<u>367,662,079</u>	<u>308,996,589</u>
NON-CURRENT LIABILITY			
Long term loans	20	42,874,679	46,773,273
		<u>410,536,758</u>	<u>355,769,862</u>

Approved for issue by the Board of Directors on November 23, 2015 and signed on its behalf by:



Herbert Chong - Director



Charles Heholt - Director

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

HONEY BUN (1982) LIMITED
Statement of Changes in Shareholders' Equity
30 September 2015

	<u>Note</u>	<u>Capital Reserves</u> \$	<u>Share Capital</u> \$	<u>Retained Earnings</u> \$	<u>Total</u> \$
Balance: 30 September 2012		71,829,608	46,514,770	151,766,278	270,110,656
Unrealised gains on securities available for sale		113,375	-	-	113,375
Dividends	16	-	-	(14,138,009)	(14,138,009)
Net profit for the year		-	-	35,317,216	35,317,216
Balance: 30 September 2013		71,942,983	46,514,770	172,945,485	291,403,238
Unrealised losses on securities available for sale		(994,011)	-	-	(994,011)
Dividends	16	-	-	(4,712,670)	(4,712,670)
Net profit for the year		-	-	23,300,032	23,300,032
Balance: 30 September 2014		70,948,972	46,514,770	191,532,847	308,996,589
Unrealised gains on securities available for sale		1,810,563	-	-	1,810,563
Dividends		-	-	(11,310,407)	(11,310,407)
Net profit for the year		-	-	68,165,334	68,165,334
Balance: 30 September 2015		72,759,535	46,514,770	248,387,774	367,662,079

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

HONEY BUN (1982) LIMITED
Statement of Cash Flows
30 September 2015

	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Cash flows from operating activities:		
Profit before taxation	68,165,334	*23,300,032
Adjustments for:		
Depreciation	35,631,210	29,996,693
Loss/(gain) on sale of property, plant and equipment	389,533	(853,398)
Amortization	3,619,584	3,395,380
Other non-cash items:		
Investment income	(146,030)	(204,056)
Finance costs paid	6,177,165	5,204,150
Operating cash flows before movement in working capital	<u>113,836,796</u>	<u>60,838,801</u>
Movements in working capital:-		
Inventories	(7,008,123)	(4,676,061)
Receivables	303,061	8,903,373
Payables	(6,251,792)	59,173
Net cash from operating activities	<u>100,879,942</u>	<u>65,125,286</u>
Cash flows from investing activities:-		
Sales proceeds from property, plant and equipment	1,641,307	10,250,224
Payment for property, plant and equipment	(19,685,650)	(145,602,054)
Payment for intangible assets	-	(377,075)
Interest received	146,030	204,056
Purchase of investments	(1,137,822)	(22,185,752)
Net cash used in investing activities	<u>(19,036,135)</u>	<u>(157,710,601)</u>
Cash flows from financing activities:-		
Loans received	15,000,000	52,586,675
Repayment of long term borrowings	(20,531,363)	(9,025,505)
Finance costs paid	(6,177,165)	(5,204,150)
Dividend paid	(11,310,407)	(4,712,670)
Net cash (used in)/provided by financing activities	<u>(23,018,935)</u>	<u>33,644,350</u>
Net increase/(decrease) in cash and cash equivalents	58,824,872	(58,940,965)
Net cash balances at beginning of year	5,192,753	64,133,718
Net cash and cash equivalents at end of year	<u>64,017,625</u>	<u>5,192,753</u>
Represented by:		
Cash and cash equivalents	64,017,625	21,331,039
Short-term borrowings	-	(16,138,286)
	<u>64,017,625</u>	<u>5,192,753</u>

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

*Restated for comparative purposes. Minimum Business Tax reclassified.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

1. COMPANY IDENTIFICATION AND PRINCIPAL ACTIVITY

Honey Bun (1982) Limited (the “Company”) is a limited liability company incorporated under the laws of Jamaica. Its principal activities comprise the manufacture and distribution of baked products to the local and export market. The Company operates within Jamaica from its registered office located at 26 Retirement Crescent, Kingston 5.

The Company’s shares were listed on the Junior Market of the Jamaica Stock Exchange (JSE) on 3 June 2011.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation and compliance

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. They are also prepared in accordance with the provisions of the Jamaican Companies Act.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and liabilities at the reporting date and the income and expenses for the year then ended. Although these estimates are based on management’s best knowledge of current events and action, actual results could differ from those estimates.

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

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

(i) Provision for impairment of receivables.

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

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation and compliance (Continued)

Use of estimates and judgments (Continued)

(ii) Income Tax

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 provisions in the period in which such determination is made.

(iii) Expected useful life and residual value of property, plant and equipment

The expected useful life and residual value of an asset are reviewed at each financial year end. Useful life of an asset is defined in terms of the asset's expected utility to the company. The useful life is based on management's best estimate.

(iv) Fair value of financial assets

Management uses its judgement, where necessary, in selecting appropriate valuation techniques to determine fair value of financial assets adopting valuation techniques commonly used by market practitioners supported by appropriate assumptions.

(v) Net realizable value of inventories

Estimates of net realisable value of the amounts the inventories are expected to realise are based on the most reliable evidence available at the time they are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after the end of the year.

(vi) Going concern

The preparation of financial statements in accordance with IFRS assumes that the Company will continue in operational existence for the foreseeable future. This means that the Company has no intention of or necessity to liquidate or curtail the scale of operations.

During the year, the Company has experienced no liquidity or adverse conditions to cast doubt as to its ability to continue in business for the foreseeable future.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation and compliance (Continued)

Standards, interpretations and amendments to published standards effective in the reporting period.

During the reporting period, certain new standards, interpretations and amendments to existing standards that have been published became effective during the current financial year. The Company assessed the relevance of all such new standards, interpretations and amendments and has determined that they had no significant effect on the amounts and disclosures in these financial statements. The Company, where applicable, has adopted the following:

Improvements to IFRS, 2011-2013 cycle, contain amendments to certain standards and interpretations and are effective for annual reporting periods beginning on or after July 1, 2014. The main amendments applicable to the Company are as follows:

- **IFRS 13, Fair Value Measurement**, has been amended to clarify that issuing of the standard and consequential amendments to IAS 39 and IFRS 9 did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.
- **IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets**, have been amended to clarify that, at the date of revaluation:
 - (i) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking account of accumulated impairment losses; or
 - (ii) The accumulated depreciation is eliminated against the gross carrying amount of the asset.
- **IAS 24, Related Party Disclosures**, has been amended to extend the definition of “related party” to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. For related party transactions that arise when key management personnel services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity.

New, revised and amended standards and interpretations that are not yet effective.

At the date of authorisation of the financial statements, certain new and revised and amended standards and interpretations were in issue but were not yet effective for the current year and which the Company has not early adopted. The Company has assessed all such new standards, amendments and interpretation with respect to its operations and has determined that the following may be relevant:

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation and compliance (Continued)

New, revised and amended standards and interpretations that are not yet effective (continued).

- **IFRS 9, Financial Instruments, which is effective for annual reporting periods beginning on or after January 1, 2018**, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS39. Effectively, IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model, which means that a loss event will no longer need to occur before an impairment is recognized.
- **IFRS 15, ‘Revenue from Contract with Customers’ is effective for annual reporting periods beginning on or after January 1, 2017**. This applies to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts. It specifies how and when an entity will recognise revenue as well as requiring entities to provide more informative and relevant disclosures. The standard supersedes IAS 18, ‘Revenue’, IAS 11, ‘Construction Contracts’ and a number of revenue-related interpretations.

Improvements to IFRS, 2012-2014 cycle, contain amendments to certain standards and interpretations and are effective for annual reporting periods beginning on or after January 1, 2016. The main amendments applicable to the Company are as follows:

- **IAS 16, Property, Plant and Equipment and IAS 18, Intangible Assets**, were amended by the issue of “*Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortization*”, which is effective for annual reporting periods beginning on or after January 1, 2016 as follows:
 - (i) The amendment to IAS 16 explicitly states that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.
 - (ii) The amendment to IAS 38 introduces a rebuttable presumption that the use of revenue-based amortisation methods is inappropriate for intangible assets.

The Company is assessing the possible impact that these new standards and the amendments will, when they become effective, have on its 2016 financial statements.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(b) Segment reporting

A business segment is a distinguishable component of a company's operation engaged in providing products or services that are subject to risks and returns that are different from those of other business segments and whose results are regularly reviewed by the Chief Operating Decision Maker (CODM) to facilitate allocating resources based on performance.

The CODM, which is identified as the Board of Directors that makes strategic decisions, considers the operations of the Company as one operating segment.

(c) Income taxes

Taxation expense in the statement of profit and loss comprises current and deferred tax charges. Current and deferred taxes are recognized as income tax expense or benefit in the statement of profit and loss except where they relate to items recorded in equity, in which case, they are also charged or credited to equity.

i. Current taxation

Current income tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the year-end date, and any adjustment to tax payable in respect of previous years.

ii. Deferred taxation

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred income tax assets are recognized for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on the enacted rates.

The Company was granted a remission of income tax after admission to the Jamaica Stock Exchange Junior Market and thus no income or deferred tax is recorded in the financial statements for the year ended 30 September 2015.

(d) Property, plant and equipment

Items of property, plant and equipment are measured at cost, except for freehold land and buildings 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 capitalized as part of that equipment.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (Continued)

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 equipment is estimated using depreciated replacement cost approach. Gains arising from changes in market value are taken to revaluation reserve in shareholder's equity. Losses that offset previous gains of the same asset are charged against the revaluation reserve; all other losses are charged to statement of comprehensive income.

Depreciation is calculated on the straight line basis at such rates that will write off the carrying value of the assets over the period of their estimated useful lives. Each financial year, the depreciation methods, useful lives and residual values are reassessed. No depreciation is charged on freehold land as it is deemed to have an indefinite life or capital work-in-progress.

i. Depreciation

Annual depreciation rates are as follows:

Buildings	2.5%
Furniture & fixtures	10%
Machinery & equipment	10%
Motor vehicles	20%
Computers	25%
Plastic bread trays	50%
Metal baking equipment	20%

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

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognized in other income in operating profit. On disposal of revalued assets, amounts in revaluation reserves relating to those assets are transferred to profit and loss.

Repairs and maintenance expenditure are charged to the income statement during the financial period in which they are incurred.

(e) Inventories

Inventories are valued on a first in first out basis at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of selling expenses. Cost is determined as follows:

Finished goods – cost of product plus all indirect costs to bring the item to a saleable condition
 Work-in-progress – cost of direct material plus a portion of direct overheads
 Raw material and sundry spare parts – purchase cost of item
 Goods-in-transit – cost of goods converted at the year end exchange rate

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Finance income and costs

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognized as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings and foreign currency losses. Borrowing costs are recognized in the income statement using the effective interest method.

(g) Foreign currency translation

Transactions in foreign currencies are converted into the functional currency at the exchange rates prevailing at the dates of the transactions and gains or losses recognized in profit or loss. At the end of the reporting period, 30 September 2015, monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rates ruling at the end of 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 the statement of other comprehensive income.

(h) Government grant funds

The Company accounts for government grants in accordance with International Accounting Standard 20 (IAS 20) as follows:

- (i) Non-current asset grants – over the useful economic life of the asset
- (ii) For past costs incurred – immediately in the profit and loss account
- (iii) For current/future costs – in the period that the costs are recognized.

(i) Trade receivables

Trade receivables are carried at original invoice amounts less provision for doubtful receivables and impairment based on a review of the balances at the year end. Bad debts are written off when identified. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the transactions.

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(j) Cash and cash equivalents

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 banks and in hand and other short-term deposits and investments with original maturities of three months or less, net of bank overdraft.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets

i. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired Company at the acquisition date. Goodwill is tested annually by the Directors for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed.

ii. 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 for software.

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

(l) 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. The carrying amounts of the Company's non financial assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of profit and loss and other comprehensive income.

Assets that have an indefinite useful life, for example, goodwill are not subject to amortization and are tested annually for impairment.

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

(m) Employee benefits

Employee benefits include current or short –term benefits such as salaries, statutory contributions paid, annual vacation and sick leave, and non-monetary benefits such as medical care. Additional details are noted below:

i. Pension obligations

The Company does not operate either a contributory or defined benefit pension scheme and thus has no pension obligations.

ii. Other employee benefits

The Company does not provide any supplementary medical and life insurance benefits to employees upon retirement. Employee entitlement to annual leave and other benefits are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and other benefits as a result of services rendered by employees up to the end of the reporting period.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (Continued)

iii. Profit sharing and bonus plan

The Company recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's stockholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(n) Borrowings and borrowing costs

Borrowings are recognized initially as the proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective yield method. Any difference between net proceeds and the redemption value is recognized in arriving at profit or loss over the period of the borrowings

(o) 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. Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term liabilities. Finance charges are charged to the profit and loss over the lease period. Any fixed asset acquired under a finance lease is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the legal owner are classified as operating leases. Payments under operating leases are charged to the income statement on the straight line basis over the period of the leases.

(p) Trade and other payables

Trade and other payables and accruals are stated at historical cost.

(q) 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 a reliable estimate of the amount can be made.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Honey Bun (1982) Limited
Notes to the Financial Statements
30 September 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of General Consumption Tax, returns and discounts and represents the proceeds from sale of baked products and other complementary products.

The Company recognizes revenue in the profit and loss statement when the significant risks and rewards of ownership have been transferred to the buyer, amount of income can be reliably measured, it is probable that future economic benefits will flow to the Company and there is no continuing management involvement with the goods. Sales are recognized upon delivery of products, customer acceptance of the products and collectability of the related receivables is reasonably assured. Rental income is recognized as it accrues. Interest income is recognized as it accrues unless collectability is doubtful.

(s) Related party

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

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

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

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

- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others.)
- 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 associated with a post-employment benefit plan for the benefit of the 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 above, 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. A management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

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

Honey Bun (1982) Limited
Notes to the Financial Statements
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2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(t) Financial instruments

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

Financial assets

The Company classifies its financial assets in the following categories: loans and receivables, available-for-sale at 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 and re-evaluates this designation at every reporting date. At reporting date, trade receivables were classified as loans and receivables; cash and bank balances, short term and quoted investment securities were classified as financial assets at fair value through profit and loss; and unquoted investment securities were classified as available-for-sale.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Available –for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial liabilities

The Company's financial liabilities are measured at fair value, net of transaction costs, and are subsequently measured at amortized cost. At the statement of financial position date, the following items were classified as financial liabilities: bank overdraft, long term loans and trade payables.

(u) 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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(v) Investment securities

Investment securities classified as financial assets at fair value through profit or loss and available-for-sale are carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of investments classified as financial assets at fair value through profit or loss are included in the determination of profit or loss in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for an investment is not active, the Company establishes fair value by using valuation techniques. Where fair values cannot be reliably measured, the Company carries the investment at cost.

(w) Dividends

Dividends are recognized when they become legally payable. Interim dividends payable to shareholders are approved by the directors while final dividends have to be approved by the equity shareholders at the Annual General Meeting.

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

3. FINANCIAL RISK MANAGEMENT AND POLICIES

This note presents information about the Company's exposure, policies and processes for managing risks. Further Qualitative disclosures are included throughout these financial statements.

The Company's activities expose it to a variety of financial risks in respect of its financial instruments: market risk (price and currency), credit risk and liquidity risk, interest rate, reputational and operational risk. The Company's objectives and policies and processes for measuring and managing risk are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies are monitored and adjusted if necessary to reflect changes in market conditions and the Company's activities.

The Board of Directors, together with management has overall responsibility for the establishment and oversight of the Company's risk management framework as they seek to minimize potential adverse effects on the Company's financial performance as follows:

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company'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 optimizing the return.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(a) Market risk (Continued)

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's financial instruments are substantially independent of changes in market prices as they are short term in nature and the Company's holdings of traded securities are not significant at the reporting date.

Currency risk

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

The Company is exposed to currency risk due to fluctuations in exchange rates on transactions and balances such as purchases, receivables and investments denominated in currencies other than the Jamaican dollar. The main currency that gives rise to this exposure is the US\$.

Exposure to currency risk

The Company's statement of financial position at 30 September 2015 includes aggregate net foreign assets/(liabilities) in respect of transactions arising in the ordinary course of business, which were subject to foreign exchange rate changes as follows:

Concentrations of currency risks

	<u>2015</u> <u>CAN</u> <u>\$</u>	<u>2015</u> <u>US</u> <u>\$</u>	<u>2015</u> <u>UK</u> <u>£</u>	<u>2014</u> <u>CAN</u> <u>\$</u>	<u>2014</u> <u>US</u> <u>\$</u>	<u>2014</u> <u>UK</u> <u>£</u>
Financial assets						
Cash and cash equivalents	110	298,214	4,083	110	48,103	4,083
Investments		200,150		-	200,150	-
	110	498,364	4,083	110	248,253	4,083
Financial liabilities						
Payables and accruals	-	(53,104)	-	-	(881)	-
Total net assets	110	445,260	4,083	110	247,372	4,083

A significant portion of the Company's purchases are made using United States (US) dollars. The Company hedges against movement in the United States dollar principally by holding cash resources in that currency and prompt payment of foreign currency bills as they become due.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(a) Market risk (Continued)

The exchange rates applicable to the Jamaican dollar at the date of the statement of financial position relating to foreign currencies are as follows:

<u>Currency</u>	<u>30 Sept.</u> <u>2015</u> <u>\$</u>	<u>30 Sept.</u> <u>2014</u> <u>\$</u>
Canadian dollar (Can\$)	88.62	101.00
United States dollar (US\$)	119.06	112.71
United Kingdom pound (£)	180.17	181.68

Sensitivity Analysis

Changes in the exchange rates of the Jamaican dollar (JA\$) to the United States dollar (US\$), Canadian dollar (Can\$) and the United Kingdom pound (£) would have the effects as described below:

	<u>Effect on Net Profit for the year</u> <u>Increase/(Decrease)</u>	
	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
1% (2014- 1%) strengthening of Jamaican dollar	(537,586)	(286,342)
10% (2014-10%) weakening of Jamaican dollar	5,375,864	2,863,421

The analysis assumes that all other variables, in particular interest rates, remains constant.

Interest rate risk

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

Interest-bearing financial assets mainly comprise monetary instruments, bank deposits and short term investments, which have been contracted at fixed interest rates for the duration of their terms.

The Company's cash and cash equivalent are subject to interest rate risk. However, the Company attempts to manage this risk by monitoring its interest-bearing instruments closely and procuring the most advantageous rates under contracts with interest rates that are fixed for the life of the contract, where possible.

The Company manages its risk relating to borrowed funds by obtaining fixed rate loans at relatively low rates when interest rates are expected to rise and floating rate loans when interest rates are expected to fall. Interest rates on certain loans are fixed and are not affected by fluctuations in market interest rates. When utilized, bank overdrafts are subject to rates which may be varied by appropriate notice by the lender but the Company avoids this type of loan facility due to its relatively high rate of interest.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(a) Market risk (Continued)

Interest rate risk (Continued)

The Company analyses its interest rate exposure arising from borrowings on an ongoing basis taking into consideration the options of refinancing, renewal of existing positions and alternative financing.

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

	<u>2015</u> \$	<u>2014</u> \$
Fixed rate:		
Assets		-
Liabilities	(51,339,297)	(56,870,660)
	<u>(51,339,297)</u>	<u>(56,879,660)</u>
Variable rate:		
Assets	89,181,197	43,905,446
Liabilities	-	(16,138,286)
	<u>89,181,197</u>	<u>27,767,160</u>

Fair value sensitivity analysis for fixed rate instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued charges are considered to approximate their carrying values due to their short –term nature.

The Company does not hold any financial instruments that are carried at fair value and therefore a change in interest rates at the reporting date would have no impact on profit or equity.

Cash flow sensitivity analysis for variable rate instruments

The Company's financial instruments are fixed and short term in nature and interest rate fluctuations are not expected to have any material effect on the net results of stockholders' equity.

There has been no change during the year in the Company's approach to measuring and managing financial instrument risks.

(b) 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 exposures arise principally from the Company's receivables from customers, cash at bank and short term deposits held with financial institutions. The Company structures the levels of credit risks it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(b) Credit risk (Continued)

i. Trade and other receivables

The Company has an established credit process which involves regular analysis of the ability of distributors and major customers to meet repayment obligations.

Credit risk for receivables is mitigated by stringent credit reviews and approval of limits to customers and regular credit evaluation of customers. Appropriate credit checks, references and analyses are undertaken in order to assess customers' credit risk prior to offering new credit or increasing existing credit limits. Customers' who are experiencing cash flow difficulties and are exceeding their credit limits are identified and the appropriate actions taken. Key performance indicators are reviewed regularly, including cash collected, average debt collection period, percentage of customers with overdue balances and debts deemed uncollectible. Annual review of credit limits for all customers including payment history and risk profile is done before renewal of credit facilities.

Trade receivables over 90 days are reviewed and provided for based on an estimate of amounts that would be irrecoverable. This is determined by direct contact with customer, past default experience, current economic conditions and expected receipts and recoveries.

The Company does not require collateral in respect of trade and other receivables except cash deposits for several of its distributors

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date included cash and cash equivalent, investments and receivables, as noted below:

Trade and other receivables	<u>Carrying amount</u>	
	<u>2015</u>	<u>2014</u>
	\$	\$
Trade receivable	70,238,904	55,197,464
Prepayments and other receivables	6,494,314	16,821,339
Provision for bad debts	(7,852,716)	(2,835,240)
	68,880,502	69,183,563
Cash and cash equivalents	64,017,625	21,331,039
	<u>132,898,127</u>	<u>90,514,602</u>

The maximum exposure to credit risk for trade receivables by type of customer at the reporting date was:

	<u>Carrying amount</u>	
	<u>2015</u>	<u>2014</u>
	\$	\$
Supermarkets	13,933,740	13,930,116
Distributors	28,706,009	20,392,096
Schools	5,459,372	5,260,103
Other receivables	22,139,783	15,615,149
	<u>70,238,904</u>	<u>55,197,464</u>

At the reporting date, the Company had no receivable from any Government entity.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(b) Credit risk (Continued)

The Company's most significant customer, an island-wide distributor, accounts for \$11,262,181 or 16% (2014 \$10,554,101 or 19%) of the carrying amount of trade receivables at the reporting date.

Aging analysis of trade receivables

	<u>2015</u>		<u>2014</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
	\$	\$	\$	\$
Current: below 30 days	43,173,983		38,353,699	-
Past due 31-60 days	5,730,815		5,818,929	-
Past due 61-90 days	6,987,907		2,272,818	-
More than 90 days	14,346,199	7,852,716	8,752,018	2,835,240
	70,238,904	7,852,716	55,197,464	2,835,240

Aging analysis of trade receivables

Trade receivables that are less than 30 days past due are not considered impaired. A significant portion of the balance over 90 days relate to customers that have a good credit and payment history.

The specific allowance account in respect of trade receivables is used to record impairment losses. The impaired receivables mainly relate to assigned distributors and major customers who are experiencing difficult economic situations; whenever management considers any amount to be irrecoverable, it is written off directly to bad debt or against the provision, if an amount was previously provided.

Investments

Investments are held principally in local stock and securities listed on the Jamaican Stock Exchange in companies that are considered safe by the directors. Other investments are held in cash deposits with reputable financial institutions and the directors do not anticipate and potential loss in value from its investment portfolio.

Cash and cash equivalents

The Company limits its exposure to credit risk by investing mainly in short term liquid securities with counterparties that have high credit quality and licensed financial institutions that are considered stable. Accordingly, management does not expect any counterparty to fail to meet its obligations and no provision for impairment is deemed necessary. During the year, the Company increased its due diligence in managing credit risk, especially in regards to customers who consistently exceeded their credit limits as a consequence of the deteriorating economic climate.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments associated with financial instruments when they fall due.

The Company manages its liquidity risk by monitoring current and future cash flows on a daily basis and by maintaining an appropriate level of resources in liquid or near liquid form to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company also manages cash flow risk through budgetary measures, ensuring as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.

The Company maintains sufficient cash and short-term deposits along with having available committed facilities to ensure it meets its liquidity requirements.

The Company's financial liabilities comprise long-term loans and payables and accruals. The table below summarizes the maturity profile of the Company's financial liabilities at 30 September 2015 based on contractual undiscounted payments. The Company also has access to lines of secured credit which are available if the Company does not have sufficient cash to settle its obligations.

The table below shows the contractual maturities of financial liabilities measured at amortized cost, including interest payments based on the earliest date on which the Company can be required to settle their financial obligations, excluding the impact of any netting agreements.

	<u>2015</u>			
	<u>Carrying</u>	<u>Contractual</u>	<u>Less</u>	<u>More</u>
	<u>amount</u>	<u>cash flow</u>	<u>than 1</u>	<u>than 1</u>
	\$	\$	<u>year</u>	<u>year</u>
			\$	\$
Non- derivative financial liabilities				
Trade and other payables	68,398,911	68,398,911	-	-
Long term loans	51,339,297	81,894,878	15,760,715	66,134,163
	<u>119,003,129</u>	<u>150,293,789</u>	<u>15,760,715</u>	<u>66,134,163</u>

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(c) Liquidity risk (Continued)

	<u>2014</u>			
	<u>Carrying</u>	<u>Contractual</u>	<u>Less</u>	<u>More</u>
	<u>amount</u>	<u>cash flow</u>	<u>than 1</u>	<u>than 1</u>
	\$	\$	<u>year</u>	<u>year</u>
			\$	\$
Non- derivative financial liabilities				
Trade and other payables	74,650,703	74,650,703	-	-
Long term loans	56,870,660	83,095,534	15,040,497	68,055,037
Bank overdraft	16,138,286	16,138,286	-	-
	<u>147,659,649</u>	<u>173,884,533</u>	<u>15,040,497</u>	<u>68,055,037</u>

(d) Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes associated with the Company's internal processes such as personnel, technology, infrastructure and external factors, other than financial, such as those arising from natural disasters, legal and regulatory requirements and generally accepted ethical and corporate social behaviour. Management's objective is to manage operational risk so as to reduce the possibility of financial loss and long term damage to the Company's reputation while trying to balance control procedures that restrict initiative and creativity.

(e) Reputational risk.

The Company is engaged in a business that principally distributes baked food items, and its reputation is critical within the market place. The Company's management endeavors at all times to be ethical and adopts international best practices in its manufacturing process.

The Company also ensures that the necessary sanitary standards are maintained to guarantee that regular audits by the Bureau of Standards are successfully undertaken. In addition, customer audits are undertaken to facilitate continuous improvement and customer delivery.

Customer complaints are properly investigated and appropriately assessed and transparency is maintained; where necessary customers are promptly compensated if they have suffered loss. Management considers the Company's reputation secured as they ensure that events that may damage the Company's reputation are immediately investigated and the appropriate action taken to deal with the event in a manner that satisfies the complainant.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(f) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The amounts included in the financial statements for cash and cash equivalents, receivables, payables and borrowing facilities reflect their approximate fair value because of the short term maturity of these instruments.

Long term liabilities reflect the Company's contractual obligations and are carried at amortized cost, which is deemed to approximate the fair value of these liabilities because these liabilities are subject to such terms and conditions as are available in the market for similar instruments.

The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observed, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instrument;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument either directly (i.e., as prices) or indirectly (i.e., derived from prices). There were no financial instruments held by the Company in this category.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instruments that are not based on observable market data (unobservable inputs). There were no financial instruments held by the Company in this category.

3. RISK MANAGEMENT AND POLICIES (CONTINUED)

(g) Capital management

The policy of the Company's Board of Directors is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business and ensure it continues as a going concern.

The Company considers its capital to be its total shareholders' equity inclusive of accumulated surplus and reserves. The Company's financial objective is to generate a targeted operating surplus, in order to strengthen and provide for the future continuity of the Company as a going concern in order to provide returns for its stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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 balance sheet plus debt. The gearing ratios at the year end based on these calculations were as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Debt: long term loans and bank overdraft	51,339,297	73,008,946
Equity	367,662,079	308,996,589
Total capital	<u>419,001,376</u>	<u>382,005,535</u>
Gearing ratio	<u>12.25%</u>	<u>19.11%</u>

There were no significant changes in the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

4. EXCHANGE GAINS AND OTHER INCOME

	<u>2015</u>	<u>2014</u>
	\$	\$
Gain on exchange	1,442,064	3,571,253
Gain on disposal of assets	(389,533)	853,398
Dividends received	19,673	18,643
Gain/ on sale of shares	547,476	-
	<u>1,619,680</u>	<u>4,443,294</u>

HONEY BUN (1982) LIMITED
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5. OPERATING PROFIT BEFORE TAXATION

The following items have been charged in arriving at operating profit before taxation:

	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Auditors' remuneration	1,500,000	1,290,000
Depreciation	35,631,210	29,996,693
Directors' emoluments:		
Directors fees	3,031,875	2,565,000
Management remuneration	9,819,600	7,939,200
Bad debts written off	-	4,531,736
Foreign exchange gains	(1,442,064)	(3,571,253)
Staff costs (excluding management remuneration above)	222,954,979	199,003,195

6. STAFF COSTS

	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Salaries and wages (including accrued vacation and Directors' salaries)	216,738,239	193,394,311
Payroll taxes: employer's portion	14,007,613	12,584,376
Other staff costs	2,028,727	963,708
	<u>232,774,579</u>	<u>206,942,395</u>

The average number of persons employed by the Company during the year was as follows:

	<u>2015</u>	<u>2014</u>
Full time	71	83
Contract workers	218	230

7. TAXATION

(a) Taxation is based on profit for the year adjusted for taxation purposes and comprises income tax at 25% (2014 – 25%).

	<u>2015</u> <u>\$</u>	<u>2014</u> <u>\$</u>
Taxation for the year comprises:		
Current tax expense	-	-
Taxation charge in profit and loss statement	-	-

Minimum Business Tax expense for 2014 was reclassified to rates, taxes and utilities in administrative expenses.

HONEY BUN (1982) LIMITED
Notes to the Financial Statements
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7. TAXATION (CONTINUED)

- (b) Reconciliation of theoretical tax charge that would arise on profit before tax using the applicable tax rate to actual tax charge for the year.

	<u>2015</u>	<u>2014</u>
	\$	\$
Profit before taxation	68,165,334	23,300,032*
Tax calculation @ 25% (2014 – 25%)	17,041,334	5,825,008
Adjustment for difference in treatment of:		
Depreciation and capital allowances	3,190,817	1,544,011
Net effect of other charges for tax purposes:	96,595	255,786
	20,328,746	7,624,805
Adjustment for the effect of tax remission:		
Current tax	(20,328,746)	(7,624,805)
Tax charged for year	-	-

- (c) Remission of income tax:

By notice dated 13th August 2009, the Minister of Finance and the Public Service, issued and gazetted the Income Tax (Jamaica Stock Exchange Junior Market) (Remission) Notice, 2009. The Notice effectively granted a remission of income tax to eligible companies that were admitted to the Junior Stock Exchange (JSE) if certain conditions were achieved after the date of initial admission.

Effective 3 June 2011, the Company's shares were listed on the JSE. Consequently, the Company is entitled to a remission of income taxes for ten years in the proportion set out below, provided the shares remain listed for at least 15 years.

Years 1 to 5 (1 June 2011-31 May 2016) – 100%

Years 6-10: (1 June 2016- 31 May 2021) – 50%.

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

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7. TAXATION (CONTINUED)

Government of Jamaica (GOJ) new taxes

Effective January 1, 2014, the Government of Jamaica enacted new tax measures to change the tax incentive regimes applicable to various industries. Given the current tax position of the Company, as disclosed in note 7(c) above, these new tax measures have resulted in changes in the income tax and capital allowances computations but will not materially affect the Company's tax position until the end of the tax remission period. Some of these changes are as follows:

- Tax compliant entities are able to claim up to 30% of employer's and employees' statutory contributions (Employment Tax Credit (ETC)) against income tax for the year. Unused ETC , cannot be carried forward or refunded
- The maximum capital allowances on private motor vehicles, which were previously limited to J\$3,200, increased to a maximum of US\$35,000 and
- No initial allowances are given on the purchase of buildings; however, all other capital expenditure on buildings and other assets continue to attract initial allowances.
- A Minimum Business Tax of \$60,000 was enacted, payable in two installments, June 15 and September 15 of each year by registered companies. This tax can be set-off against income tax liability for the financial year but cannot be carried forward if unused in the respective year.

8. EARNINGS PER SHARE

The EPS is computed by dividing the profit for the year by 94,253,390 (2013 – 94,253,390), the number of shares in issue for the year.

HONEY BUN (1982) LIMITED
Notes to the Financial Statements
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9. PROPERTY, PLANT AND EQUIPMENT

	<u>2015</u>							
	<u>Buildings</u>	<u>Land</u>	<u>Furniture & Fixtures</u>	<u>Bakery Fixtures</u>	<u>Computer</u>	<u>Motor Vehicles</u>	<u>Plant & Machinery</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$
At cost:								
1 October 2014	139,501,927	20,872,340	6,532,800	28,416,631	10,302,851	52,776,482	136,586,269	394,989,300
Disposals	(1,541,609)	-	-	-	-	(3,841,912)	-	(5,383,521)
Reclassification	(18,469,731)	18,469,731	-	-	-	-	-	-
Additions	848,968	-	1,682,941	3,814,676	1,982,120	6,500,000	4,856,944	19,685,649
30 September 2015	120,339,555	39,342,071	8,215,741	32,231,307	12,284,971	55,434,570	141,443,213	409,291,428
Depreciation:								
1 October 2014	4,981,065	-	2,584,215	10,083,644	7,264,848	21,380,493	52,083,383	98,377,648
Disposals	(42,076)	-	-	-	-	(3,450,606)	-	(3,492,682)
Charge for the year	3,042,616	-	1,003,628	6,384,596	1,044,281	11,668,860	12,487,229	35,631,210
30 September 2015	7,981,605	-	3,587,843	16,468,240	8,309,129	29,598,747	64,570,612	130,516,176
NET BOOK VALUE								
30 September 2015	112,357,950	39,342,071	4,627,898	15,763,067	3,975,842	25,835,823	76,872,601	278,775,252

HONEY BUN (1982) LIMITED
Notes to the Financial Statements
30 September 2015

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	<u>2014</u>							
	<u>Buildings</u>	<u>Land</u>	<u>Furniture & Fixtures</u>	<u>Bakery Fixtures</u>	<u>Computer</u>	<u>Motor Vehicles</u>	<u>Plant & Machinery</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
At cost:								
1 October 2013	44,422,890	-	6,110,176	23,084,305	7,757,776	47,109,601	136,506,235	264,990,983
Disposals	-	-	(109,922)	-	-	(13,519,815)	(1,974,000)	(15,603,737)
Additions	95,079,037	20,872,340	532,546	5,332,326	2,545,075	19,186,696	2,054,034	145,602,054
30 September 2014	139,501,927	20,872,340	6,532,800	28,416,631	10,302,851	52,776,482	136,586,269	394,989,300
Depreciation:								
1 October 2013	3,887,239	-	1,698,654	5,671,657	6,566,822	16,758,279	40,005,215	74,587,866
Disposals	-	-	(223,971)	-	-	(5,542,240)	(440,700)	(6,206,911)
Charge for the year	1,093,826	-	1,109,532	4,411,987	698,026	10,164,454	12,518,868	29,996,693
30 September 2014	4,981,065	-	2,584,215	10,083,644	7,264,848	21,380,493	52,083,383	98,377,648
NET BOOK VALUE								
30 September 2014	134,520,862	20,872,340	3,948,585	18,332,987	3,038,003	31,395,989	84,502,886	296,611,652

During the year ended 30 September 2010, the freehold land and building was revalued by the Directors at market value. The Plant and Machinery were revalued as at April 12, 2010 by Delano Reid & Associates Limited, Appraisers, Engineers & 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 (Note19). The Directors are of the opinion that the fixed assets represent their carrying amounts as at 30 September 2015.

10. INVESTMENTS

Investments comprise:

	<u>2015</u> \$	<u>2014</u> \$
Held to maturity:		
Stocks And Securities Ltd. (US\$)	5,830	3,752
Stocks And Securities Ltd.	1,576,713	326,407
Victoria Mutual Building Society (US\$)	23,829,859	22,532,000
Quoted shares: available-for-sale		
General Accident Insurance Co. Ltd. shares	133,812	140,949
Lasco Manufacturing Ltd. shares	1,180,000	513,300
Caribbean Cream Ltd. shares	1,251,000	1,105,000
Pan Jamaican Investment Trust Ltd.	314,592	
Other:		
Related company loan	-	722,013
	<u>28,291,806</u>	<u>25,343,421</u>

The Victoria Mutual Building Society investment is held as collateral against a loan from the said financial institution that was used to acquire a real estate property to expand the operations of the Company. See Note 20 for further details.

Apart from the quoted shares which are classified as level 1, the other investments are level 11 investments.

11. INTANGIBLE ASSETS

Intangible assets in the statement of financial position were determined as follows:

	<u>2015</u> \$	<u>2014</u> \$
Goodwill - Purchase price exceeded net assets acquired	-	140,000
Software at cost:		
Opening balance: 1 October	16,097,315	15,720,240
Software purchased during year	-	377,075
Closing balance : 30 September	<u>16,097,315</u>	<u>16,097,315</u>
Amortization:		
Opening balance: 1 October	10,575,120	7,179,740
Amortization of software at 33 1/3%	<u>3,619,584</u>	<u>3,395,380</u>
Closing balance: 30 September	<u>14,194,704</u>	<u>10,575,120</u>
30 September: Software at cost net of amortization	<u>1,902,611</u>	<u>5,522,195</u>
	<u>1,902,611</u>	<u>5,662,195</u>

- (i) Goodwill arose as a result of the purchase of the business many years ago when the purchase price was more than the net assets taken over. Goodwill is reviewed each reporting period to determine whether events or circumstances continue to support an indefinite useful life assessment.

During the year, the Directors took a decision that there was no further useful life or future value and the amount of goodwill was written off.

11. INTANGIBLE ASSETS (CONTINUED)

- (ii) No computer software was purchased during the year. Software is amortized over three (3) years, unless there is significant impairment during the year.

12. INVENTORIES

	<u>2015</u>	<u>2014</u>
	\$	\$
Raw and packaging material	33,067,348	29,414,367
Work-in-progress	8,236,560	5,448,594
Sundry equipment spares	3,416,026	2,565,951
Finished goods	700,064	982,963
	<u>45,419,998</u>	<u>38,411,875</u>

Major spare parts that may be classified as plant, property and equipment are not stored by the Company.

13. RECEIVABLES

	<u>2015</u>	<u>2014</u>
	\$	\$
Trade receivables	70,238,904	55,197,464
Less provision for bad debts	(7,852,716)	(2,835,240)
	<u>62,386,188</u>	<u>52,362,224</u>
Prepayments	1,121,607	11,848,632
Other receivables	5,372,707	4,972,707
	<u>68,880,502</u>	<u>69,183,563</u>

At the end of the year, approximately \$28 Million or 41%(2014-\$25 Million or 46%) of the trade receivable balance was due from the Company's five (5) largest customers. The Company also holds collateral in the form of cash deposits for several of its distributors, whose balances are included in the amount for trade receivables.

14. CASH AND CASH EQUIVALENTS

	<u>2015</u>	<u>2014</u>
	\$	\$
Petty cash	243,000	284,000
Foreign currency accounts:		
Foreign currency bank accounts: various banks	36,235,097	6,164,273
Local currency accounts:		
Current and saving bank accounts : various banks	27,539,528	14,882,766
	<u>64,017,625</u>	<u>21,331,039</u>

These bank balances are held at reputable financial institutions that are relatively stable. Interest earned averages between 0% - 3%, depending on the type of account held with the financial institutions. The exchange rate at the reporting date of the US dollar was J\$ 119.06 to 1US\$ (2014-J\$ 112.71 – 1 US\$)

15. PAYABLES

	<u>2015</u>	<u>2014</u>
	\$	\$
Trade payables	52,996,296	59,449,894
General Consumption Tax (GCT)	6,339,822	7,615,880
Accrued staff vacation pay	5,336,311	4,702,466
Other payables	2,808,201	2,282,463
Distributors' deposits	918,281	600,000
	<u>68,398,911</u>	<u>74,650,703</u>

Included in trade payables is an amount of \$6,322,562 (2014 -\$101,392) payable in foreign currency. The Directors are of the opinion that payables are fairly stated due to the short term maturity of these instruments, as they are due within three (3) months of the year end. The directors considered the impact of the depreciation of the Jamaican dollar after the end of the financial year immaterial because the foreign currency balance was short term in nature and promptly settled subsequent to the year end.

16. DIVIDENDS

	<u>2015</u>	<u>2014</u>
	\$	\$
Interim dividends	11,310,407	4,712,670
	<u>11,310,407</u>	<u>4,712,670</u>

An interim dividend of 12 cents per stock unit, amounting to \$11,310,407 was paid on 29 May 2015 to shareholders on record as at 15 May 2015 relating to the year ended 30 September 2015.
An Interim dividend of 5 cents per stock unit, amounting to \$4,712,670 was paid on 26 June 2014 to shareholders on record as at 16 June 2014 relating to the year ended 30 September 2014.

17. BANK OVERDRAFT

The bank overdraft is secured by real estate owned by the Company. At the reporting date, none of the Company's bank accounts were in an overdrawn position.

18. SHARE CAPITAL

	<u>2015</u>	<u>2014</u>
	\$	\$
<u>Authorised:</u> 97,500,000 ordinary shares at no par value		
<u>Stated Capital:</u> Issued and fully paid: 94,253,390 ordinary shares of no par value	<u>46,514,770</u>	<u>46,514,770</u>

19. CAPITAL RESERVES

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Balance brought forward: 1 October 2014/2013	70,948,972	71,942,983
Unrealised gain/(loss) on securities: movement on account during the year	1,810,563	(994,011)
Balance at 30 September 2015/2014	<u>72,759,535</u>	<u>70,948,972</u>

Represented by:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Surplus on revaluation of fixed assets - 2009	33,000	33,000
Revaluation of plant and equipment - 2010	50,109,435	50,109,435
Revaluation of building - 2010	21,615,949	21,615,949
Unrealised gain/(loss) on securities: net accumulated balance at September 30, 2015	1,001,151	(809,412)
	<u>72,759,535</u>	<u>70,948,972</u>

The capital reserves represent surplus arising on the revaluation of the Company's buildings and plant and machinery by the Directors along with unrealized loss and gain on securities. Refer to note 9.

20. LONG TERM LOANS

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
(i) Bank Of Nova Scotia Jamaica Limited	5,880,937	9,595,213
(ii) Bank Of Nova Scotia Jamaica Limited	-	3,813,817
(iii) Bank Of Nova Scotia Jamaica Limited	-	4,161,630
(iv) Bank Of Nova Scotia Jamaica Limited	15,000,000	-
(v) Sagicor Bank Jamaica Limited	15,115,240	20,000,000
(vi) Victoria Mutual Building Society (VMBS)	15,343,120	19,300,000
	51,339,297	56,870,660
Less current portion due within 12 months	(8,464,618)	(10,097,387)
	<u>42,874,679</u>	<u>46,773,273</u>

- (i) This loan is repayable on a monthly basis, maturing in November 2017 and attracts interest at 9.95% (2014-9.95%). It is secured by a first and second mortgage over commercial properties owned by the Company.
- (ii) This loan was repaid during the year.
- (iii) This loan was repaid during the year.
- (iv) This loan is repayable on a monthly basis, maturing in September 2020 and attracts interest at 9%. It is secured by a first and second mortgage over commercial properties owned by the Company
- (v) This loan is repayable on monthly basis, maturing in September 2029 and attracts interest at 10.5% (2014-10.5%). It is secured by a first mortgage over commercial property which was purchased in 2014 by the Company.
- (vi) This is a Victoria Mutual Building Society (VMBS) share loan which is repayable on a monthly basis, maturing in July 2019 and attracts interest of 6.5% (2014-6.5%). The primary collateral is a US\$ time account being held with VMBS. See note 10.

21. DEFERRED INCOME TAXES

Deferred tax represents the potential income tax liability due as a result of future accelerated depreciation charges that will become subject to income tax if they crystallize. No provision was made for deferred tax during the year because the Company was listed on the JSE Junior Market, effective 3 June 2011 and will be relieved from income tax until 31 May 2016. (See note 7).

22. EXPENSES BY NATURE

Total direct, administration and other operating expenses:

	<u>2015</u>	<u>2014</u>
	\$	\$
Cost of inventories recognized as expense	373,011,539	312,587,214
Distribution costs	38,042,639	42,289,224
Advertising, marketing and promotion	26,300,297	22,066,235
Directors' fees	3,031,875	2,565,000
Local travel, accommodation and motor vehicle expenses	2,635,155	2,491,766
Rates, taxes, telephone, fuel and electricity	36,092,916	*38,886,374
Foreign travel and accommodation	1,271,985	1,066,740
Office, general, printing and stationery	2,148,957	2,031,601
Insurance	8,506,853	8,460,569
Rental of property	3,314,500	4,198,872
Repairs and maintenance and cleaning and sanitation	18,550,612	16,654,358
Legal, professional, management and accounting	10,813,903	9,949,200
Audit fees	1,500,000	1,290,000
Security	6,087,102	7,618,214
Staff costs	232,774,579	206,942,395
Depreciation	35,631,210	29,996,693
Amortisation	3,619,584	3,395,380
General Consumption Tax - irrecoverable	5,055,846	2,728,566
Other expenses	4,703,433	2,875,518
	<u>813,092,985</u>	<u>718,093,919</u>

*Reclassified for comparative purposes. Figure includes Minimum Business Tax.

23. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Related party transactions

This balance represents advances from Honey Bun (1982) Limited and expenses paid on its behalf to support the working capital requirements of its related entity, Next Incorporation Limited. The related company is owned and controlled by the principal shareholders of Honey Bun (1982) Limited.

The Company agreed with the management of the related party to charge interest at 6% on the balance which should be repaid by monthly payments of \$50,000 until liquidated in September 2015.

During the year, Next Incorporation Limited purchased raw material of approximately \$2.0 Million (2014-\$1.6 Million) and repaid approximately \$2.5 Million (2014 \$2.0 Million) on its customer account with the Company.

The balance receivable at the end of the year on its supplier's account, which is included in trade receivables, is as follows:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
Receivables due from Next Incorporated Limited	166,652	222,291

During the year, in regard to Next Incorporated Limited, no management fees were charged and no payments were made to senior Directors or key management personnel nor were any amounts outstanding to them at the end of the year

At year end, the balance is as follows:

	<u>2015</u>	<u>2014</u>
	<u>\$</u>	<u>\$</u>
<u>Next Incorporation Limited</u>		
Related party balance	-	722,013
Current portion due within 12 months	-	(722,013)
Balance payable beyond 12 months	-	-

(a) Key Management personnel

During the year, there were no transactions with key personnel of Next Incorporated Limited.

24. CONTINGENT LIABILITIES

In determining the existence of a contingent liability, management assesses the existence of:

- (a) a possible obligation that arises from a past event and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or
- (b) a present obligation that arises from a past event but is not recognised because it is not possible that an outflow of economic benefit is required to settle, the amount of the obligation cannot be reliably measured.

In estimating possible outflow of economic benefits in relation to a contingent liability, management, if considered necessary, consults with experts such as legal counsel and based on advice may or may not make provision in the financial statements. Contingent liabilities are disclosed in the financial statements, unless considered immaterial or, the possibility of an outflow of economic benefits is remote.

At year end, there were no letters of credit issued by the Company or loan facilities guaranteed on behalf of any third parties or any contingent liabilities that the directors considered material for disclosure in the financial statements.

25. COMMITMENTS

The Company had no other material outstanding commitments, financial or otherwise, as at the reporting date.

26. SUBSEQUENT EVENT

The directors of the Company were not aware of any material subsequent event up to the date of the signing of these financial statements that should be disclosed in the financial statements. The Company's attorneys also did not report any significant matter at the reporting date, September 30, 2015.