

TROPICAL BATTERY COMPANY LIMITED

FINANCIAL STATEMENTS

SEPTEMBER 30, 2022



KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
TROPICAL BATTERY COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tropical Battery Company Limited ("the company"), set out on pages 7 to 47, which comprise the statement of financial position as at September 30, 2022, the statements of profit or loss and other comprehensive income, changes in shareholders' net equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at September 30, 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants 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.



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
TROPICAL BATTERY COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was 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 this matter.

Carrying amount of trade receivables

Key audit matter	How the matter was addressed in our audit
<p>The company has a significant concentration of credit risk with large credit customers with material balances both individually and in aggregate.</p> <p>The company is required to recognise expected credit losses ('ECL') on trade receivables measured at amortised cost. The determination of ECL is highly subjective and requires management to make significant judgements and estimates and the application of forward-looking information.</p> <p>The combination of estimates and judgements increases the risk that management's estimate could be materially misstated [see notes 3(r), 5 and 25(a) of the financial statements].</p>	<p>Our audit procedures in response to this matter, included:</p> <ul style="list-style-type: none">• Testing manual controls over the recording of trade receivables, collections and the ageing of invoices.• Reviewing the expected credit loss (ECL) model calculations and agreeing the data inputs to supporting records.• Comparing the definition of default for the ECL measurement, as outlined in the accounting policy, to the definition that management uses for credit risk arrangements.• Evaluating the appropriateness of economic parameters including the use of forward-looking information.• Evaluating the adequacy of financial statements disclosure in respect of ECL.



Page 3

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
TROPICAL BATTERY COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

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.

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

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

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

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



Page 4

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
TROPICAL BATTERY COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

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.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 5 to 6, forms part of our auditors' report.

Report on additional matters as required by the Jamaican Companies Act

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

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

The engagement partner on the audit resulting in this independent auditors' report is Sandra Edwards.

A handwritten signature of the KPMG firm, written in blue ink, appearing as 'KPMG' in a stylized, cursive-like font.

Chartered Accountants
Kingston, Jamaica

December 15, 2022



Page 5

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
TROPICAL BATTERY COMPANY LIMITED

Appendix to the Independent Auditors' report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Page 6

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
TROPICAL BATTERY COMPANY LIMITED

Appendix to the Independent Auditors' report (continued)

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

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

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.

TROPICAL BATTERY COMPANY LIMITED

Statement of Financial Position
September 30, 2022

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
CURRENT ASSETS			
Cash and cash equivalents	4	168,121,344	173,828,917
Accounts receivable	5	398,821,383	351,235,981
Due from related companies	6(a)	247,837,424	157,400,499
Due from parent company	6(b)	23,385,227	23,385,227
Inventories	7	795,126,010	608,593,378
Taxation recoverable		<u>727,809</u>	<u>525,060</u>
		<u>1,634,019,197</u>	<u>1,314,969,062</u>
CURRENT LIABILITIES			
Accounts payable	8	380,700,793	327,676,037
Due to related party	6(c)	-	5,000,000
Short-term loan	9	-	100,000,000
Current portion of lease liabilities	12(b)	17,442,276	15,856,683
Current portion of long-term loan		<u>40,000,000</u>	<u>-</u>
		<u>438,143,069</u>	<u>448,532,720</u>
NET CURRENT ASSETS		<u>1,195,876,128</u>	<u>866,436,342</u>
NON-CURRENT ASSETS			
Intangible assets	10	38,133,005	38,133,005
Property, plant and equipment	11	161,038,380	176,695,423
Right of use assets	12(a)	132,897,745	152,649,254
Employee benefits asset	13	68,619,000	54,407,000
Interest in joint venture	6(d)	<u>5,000,000</u>	<u>5,000,000</u>
		<u>405,688,130</u>	<u>426,884,682</u>
		<u>\$1,601,564,258</u>	<u>1,293,321,024</u>
Represented by:			
SHAREHOLDERS' EQUITY			
Share capital	15	156,675,300	156,675,300
Capital contribution	16	459,207,861	459,207,861
Accumulated profit		<u>391,927,213</u>	<u>209,989,941</u>
		<u>1,007,810,374</u>	<u>825,873,102</u>
NON-CURRENT LIABILITIES			
Lease liabilities	12(b)	128,124,434	145,566,710
Long-term loans	17	452,051,258	310,028,468
Deferred tax liability	14	<u>13,578,192</u>	<u>11,852,744</u>
		<u>593,753,884</u>	<u>467,447,922</u>
		<u>\$1,601,564,258</u>	<u>1,293,321,024</u>

The financial statements, on pages 7 to 47, were approved for issue by the Board of Directors on December 15, 2022 and signed on its behalf by:



Marc Melville Director



Alexander Melville Director

The accompanying notes form an integral part of financial statements.

TROPICAL BATTERY COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended September 30, 2022

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Gross operating revenue	18	2,625,322,327	1,997,076,917
Cost of operating revenue	19(a)	(1,849,274,283)	(1,377,640,850)
Gross profit		<u>776,048,044</u>	<u>619,436,067</u>
Administration, marketing and selling expenses	19(b)	(511,900,970)	(443,993,739)
Impairment loss on trade receivables	25(a)	<u>-</u>	<u>(6,282,026)</u>
		(511,900,970)	(450,275,765)
Operating profit		264,147,074	169,160,302
Other operating income	19(c)	<u>12,832,950</u>	<u>23,578,641</u>
Profit before depreciation, net finance costs and taxation	19(d)	276,980,024	192,738,943
Depreciation	11,12	(53,706,335)	(52,123,793)
Profit before net finance costs and taxation		<u>223,273,689</u>	<u>140,615,150</u>
Finance costs		(71,362,810)	(62,977,503)
Finance income		<u>45,564,798</u>	<u>9,887,259</u>
Net finance costs	20	(25,798,012)	(53,090,244)
Profit before taxation		197,475,677	87,524,906
Taxation	21	(462,155)	<u>808,044</u>
Profit for the year		<u>197,013,522</u>	<u>88,332,950</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Re-measurement gain on employee benefit assets	13(f)	14,565,000	20,659,000
Related taxation on re-measurement	14(b)	(3,641,250)	(5,164,750)
Other comprehensive income, net of tax		<u>10,923,750</u>	<u>15,494,250</u>
Total comprehensive income for the year		<u>\$ 207,937,272</u>	<u>103,827,200</u>
Earnings per stock unit	22	<u>15.2¢</u>	<u>6.8¢</u>

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

TROPICAL BATTERY COMPANY LIMITED

Statement of Changes in Shareholders' Equity
Year ended September 30, 2022

	Share capital (note 15)	Capital contribution (note 16)	Accumulated profit	Total
Balances as at September 30, 2020	156,675,300	459,207,861	119,162,741	735,045,902
Other comprehensive income:				
Re-measurement income on employee benefit asset, net of taxation	-	-	15,494,250	15,494,250
Profit for the year	-	-	88,332,950	88,332,950
Total comprehensive income	-	-	103,827,200	103,827,200
Transactions with owners of the company:				
Dividends (note 23)	-	-	(13,000,000)	(13,000,000)
Total comprehensive income	-	-	90,827,200	90,827,200
Balances as at September 30, 2021	156,675,300	459,207,861	209,989,941	825,873,102
Other comprehensive income:				
Re-measurement income on employee benefit asset, net of taxation	-	-	10,923,750	10,923,750
Profit for the year	-	-	197,013,522	197,013,522
Total comprehensive income	-	-	207,937,272	207,937,272
Transaction with owners of the company:				
Dividends (note 23)	-	-	(26,000,000)	(26,000,000)
Total comprehensive income	-	-	181,937,272	181,937,272
Balances as at September 30, 2022	<u>\$156,675,300</u>	<u>459,207,861</u>	<u>391,927,213</u>	<u>1,007,810,374</u>

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

TROPICAL BATTERY COMPANY LIMITED

Statement of Cash Flows
Year ended September 30, 2022

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		197,013,522	88,332,950
Adjustment to reconcile net profit for the year to net cash used by operating activities:			
Employee benefits		353,000	1,769,000
Depreciation	11,12	53,706,335	52,123,793
Taxation expense	21	462,155	(808,044)
Interest on loans	20	42,395,533	35,158,227
Interest on lease liabilities	20	11,547,593	12,701,106
Amortisation of debt issuance costs		2,022,790	2,022,790
Interest income	20	(3,991,142)	(3,634,501)
Unrealised foreign exchange gains		(11,525,177)	(6,943,306)
Gain on disposal of investments	19(c)	-	(13,208,345)
Gain on disposal of property plant and equipment	19(c)	(4,500,000)	(1,519,087)
		287,484,609	165,994,583
Changes in working capital:			
Accounts receivable		(46,306,083)	(51,323,427)
Due from related companies		(90,436,925)	(3,351,285)
Due to related parties		(5,000,000)	5,000,000
Inventories		(188,312,967)	(308,983,997)
Accounts payable		61,636,040	219,519,171
Cash generated by operations		19,064,674	26,855,045
Interest received		3,991,142	3,634,501
Interest paid		(39,692,372)	(35,158,227)
Taxation paid		(2,580,706)	(6,456,405)
Net cash used in operating activities		(19,217,262)	(11,125,086)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment encashed		-	(50,000,000)
Proceeds from sale of investments		-	63,208,345
Proceeds from the sale of property, plant and equipment		4,500,000	3,800,000
Investment in joint venture	6(d)	-	(5,000,000)
Purchase of property, plant and equipment	11	(18,297,783)	(49,440,572)
Net cash used in investing activities		(13,797,783)	(37,432,227)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from long-term loan	17	200,000,000	-
Repayment of long-term loan	17	(20,000,000)	-
Repayment of short-term loan	9	(100,000,000)	-
Payment of dividends	23	(25,264,557)	(13,000,000)
Payment of lease liabilities	12(d)	(27,427,971)	(27,116,337)
Net cash provided by/(used in) financing activities		27,307,472	(40,116,337)
Net decrease in cash and cash equivalents		(5,707,573)	(88,673,650)
Cash and cash equivalents at the beginning of the year		173,828,917	262,502,567
Cash and cash equivalents at the end of the year		\$168,121,344	173,828,917

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

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

1. Corporate structure and principal activities

The company is incorporated and domiciled in Jamaica and its registered office is situated at 30 Automotive Parkway, Kingston 20, Jamaica.

Pursuant to a deed of amalgamation between various companies in the group the company is a wholly-owned subsidiary of Dai Diverze (Jamaica) Limited, (parent company), a company incorporated in Jamaica, which in turn is a wholly owned subsidiary of Diverze Assets Inc., (ultimate parent company) a company incorporated in St. Lucia.

The company stock units listed on the Junior Market of the Jamaica Stock Exchange (JSE) on September 29, 2021. As a result of the issuance of share in the initial public offering, the company is a 75% subsidiary of Dai Diverze (Jamaica) Limited.

The principal activities of the company are the sale and distribution of auto batteries and motor vehicle accessories.

2. Statement of compliance, basis of preparation

(a) Statement of compliance:

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

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

Certain new and amended standards become effective during the year. The adoption of these standards did not have any impact on the company's financial statements.

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

At the date of authorisation of the financial statements, certain new and amended standards and interpretations have been issued which are not yet effective and which the company has not yet adopted:

- Amendments to IAS 37 *Provision, Contingent Liabilities and Contingent Assets* are effective for annual reporting periods beginning on or after January 1, 2022 and clarifies those costs that comprise the costs of fulfilling a contract.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

2. Statement of compliance, basis of preparation (continued)

(a) Statement of compliance (continued):

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

- *Amendments to IAS 37 Provision, Contingent Liabilities and Contingent Assets (continued)*

The amendments clarify that the ‘costs’ of fulfilling a contract comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the ‘incremental cost’ approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

- *Amendments to IAS 16 Property, Plant and Equipment*, effective for annual periods beginning on or after January 1, 2022, will mainly affect extractive and petrochemical industries and include the following guidance.

In the process of making an item of property, plant and equipment (PPE) available for its intended use, a company may produce and sell items – e.g. minerals extracted in the process of constructing an underground mine or oil and gas from testing wells before starting production. It provides guidance on the accounting for such sale proceeds and the related production costs.

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 *Inventories* should be applied in identifying and measuring these production costs.

Companies will therefore need to distinguish between, costs associated with producing and selling items before the item of PPE is available for use, and costs associated with making the item of PPE available for its intended use. Making this allocation of costs may require significant estimation and judgement. Companies in the extractive industry may need to monitor costs at a more granular level.

The amendments also clarify that testing whether an item of PPE is functioning properly means assessing its technical and physical performance rather than assessing its financial performance – e.g. assessing whether the PPE has achieved a certain level of operating margin.

For the sale of items that are not part of a company’s ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognised in profit or loss, and specify the line items in which such proceeds and costs are included in the statement of comprehensive income.

This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

2. Statement of compliance, basis of preparation (continued)

(a) Statement of compliance (continued):

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

- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, entities classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, the standard requires that a right to defer settlement must have substance and exist at the reporting date. An entity classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting date. It has now been clarified that a right to defer exists only if the entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how an entity classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the entity's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that an entity can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

- Amendments to IAS 12 *Income Taxes* are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments clarify how entities should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, entities will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

2. Statement of compliance, basis of preparation (continued)

(a) Statement of compliance (continued):

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

- Amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after January 1, 2023 and may be applied earlier. The amendments help entities provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring entities to disclose their *material* accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to an entity's financial statements.

The amendments are consistent with the refined definition of material:

“Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements”.

- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are effective for periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

2. Statement of compliance, basis of preparation (continued)

(a) Statement of compliance (continued):

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

- Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases*, IAS 41 *Agriculture*, and are effective for annual periods beginning on or after January 1, 2022.
 - (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 that these new and amended standards and interpretations will have on its financial statements when they become effective.

(b) Basis of preparation:

The financial statements are presented in Jamaica dollars (\$), which is the currency in which the company conducts the majority of its operations.

The financial statements are prepared under the historical cost convention. The significant accounting policies stated in paragraph (c) and note 3 below conform in all material respects with IFRS.

(c) Use of estimates and judgements:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

2. Statement of compliance, basis of preparation (continued)

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

The critical judgements made in applying accounting policies and the key areas of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements, and or that have a significant risk of material adjustment in the next financial period, are as follows:

(i) Judgements:

For the purpose of these financial statements, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. The key relevant judgements are as follows:

(1) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

(ii) Key assumptions concerning the future and other sources of estimation uncertainty:

Allowance for impairment losses:

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information.

Management also estimates the likely amount of cash flows recoverable on the financial assets in determining loss. The use of assumptions make uncertainty inherent in such estimates [see notes 5 and 25(a)].

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

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

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

(iii) Net realisable value of inventories:

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

Estimates of net realisable value also take into consideration the purpose for which the inventory is held (see note 7).

(iv) Pension and other post-retirement benefits:

The amounts recognised in the statement of financial position and profit or loss for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The expected return on plan assets considers the long-term returns, asset allocation and future estimates of long-term investment returns; the discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenure security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in the foregoing assumptions will affect the amounts recorded in the financial statements for these obligations (see note 13).

3. Significant accounting policies

(a) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances including short-term deposits with maturities ranging between one and three months from the reporting date.

(b) Accounts receivable:

Trade and other receivables are measured at amortised cost less impairment losses [see note 3(r)].

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(c) Related parties:

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

- (a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to the reporting entity if any of the following conditions apply:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan established for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled, or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is part, provides key management personnel services to the company or to the parent of the company.

A related party transaction involves transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(c) Related parties (continued):

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

The company has a related party relationship with its directors, parent company, jointly controlled entities, and post-employment benefit plan, as well as with its trustees and key management personnel. "Key management personnel" represents certain senior officers of the company.

(d) Inventories:

Inventories are measured at the lower of cost, materially determined on the weighted average basis, and net realisable value.

(e) Accounts payable:

Trade and other payables are measured at amortised cost.

(f) Provisions:

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

(g) Property, plant and equipment:

(i) Owned assets:

Items of property, plant and equipment are measured at cost or valuation, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets.

The cost of self-constructed assets includes the cost of materials, direct labour and related costs to put the asset into service.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the company and its costs can be measured reliably. The costs of day-to-day servicing of property and equipment are recognised in profit or loss as incurred. Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that future economic benefit associated with the expenditure will flow to the company.

(iii) Depreciation:

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

Leasehold improvements	- Over the period of the lease
Furniture, machinery and equipment	- 10%
Computers	- 25%
Motor vehicles	- 20%
Right-of-use assets	- Over the period of the lease

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

(i) Leases:

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the company is reasonably certain to exercise, lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the company is reasonably certain to terminate early.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(i) Leases (continued):

i. As a lessee (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, if the company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(i) Intangible assets:

Brands:

Brands represent expenditure incurred for the exclusive right to assume specific trade names and logos associated with the business. These intangible assets are determined to have an indefinite useful life and are tested annually for impairment.

(j) Taxation:

Taxation on profit or loss for the year comprises current and deferred tax. Taxation is recognised in profit or loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax liability is recognised for all taxable temporary differences except to the extent that the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(j) Taxation (continued):

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Revenue recognition:

Performance obligations and revenue recognition policies:

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.
Revenue from the sale of batteries, oils, lubricants, tyres and other accessories	Revenue is recognised when goods are provided to the customers based on the terms specified in the contract. Invoices are generated and the revenue is recognised at that point in time. Invoices are usually payable within 5 days.	Revenue is recognised when the goods are provided and have been accepted by the customers.

Revenue from contracts with customers is measured based on the consideration specified in a contract with a customer. The company recognises revenue when it transfers control over goods to a customer.

(l) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Jamaica dollars at the rates of exchange ruling on that date. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(m) Employee benefits:

(i) Pension assets:

Pensions and other post-employment assets and obligations included in these financial statements have been actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion.

The actuarial valuation was conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefit assets and obligations as computed by the actuary.

(ii) Defined benefit pension scheme:

The company is a participating employer in a defined benefit pension scheme, the assets of which are held separately from those of the company.

The company's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of scheme assets is deducted. To the extent that the obligation is less than the fair value of scheme assets, the asset recognised is restricted to the discounted value of future benefits available to the company.

The discount rate applied is the yield at reporting date on long-term government instruments that have maturity dates approximating the term of the company's obligation. The calculation is performed using the projected unit credit method.

Where the calculation results in a pension surplus to the company, the recognised asset is limited to the present value of any future refunds from the plan or reductions in the future contributions to the plan.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(n) Employee benefits (continued):

(iii) Other employee benefits:

Employee entitlement to leave is recognised when it accrues to employees. A provision is made for the estimated liability for annual leave, as a result of services rendered by employees up to the reporting date.

(o) Dividends and distributions:

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

(p) Net finance costs:

Net finance costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, material bank charges and foreign exchange gains and losses recognised in profit or loss.

Interest income is recognised in profit or loss as it accrues, taking into account the effective yield on the asset.

(q) Borrowings:

(i) Debt issuance costs:

These represent legal, accounting and financing fees associated with securing certain long-term loans, which are amortised on an effective rate basis over the lives of the loans.

(ii) Interest-bearing borrowings:

Interest-bearing borrowings are recognised initially at fair value plus transaction costs directly attributable to the issue of the financial liabilities. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost using the effective interest method.

(r) Impairment:

Financial assets

The company recognises loss allowances for ECLs on financial assets, measured at amortised cost.

The company measures loss allowances for trade and other receivables and contract assets at an amount equal to lifetime ECLs.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(r) Impairment (continued):

Financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the company considers reasonable and supportable information relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and also includes forward looking information.

The company recognises loss allowances for ECLs and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to action such as realising security if any is held; or
- the financial asset is more than 360 days past due.

The company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade".

Life-time ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive).

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised costs are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(r) Impairment (continued):

Financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

This is generally the case when the company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the company's procedures for recovery of amounts due.

A provision for impairment is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective interest rate.

Non-financial assets

The carrying amount of the company's non-financial assets (other than deferred tax assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(r) Impairment (continued):

Financial assets (continued)

Non-financial assets (continued)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

(s) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, accounts receivable and related party receivables. Similarly, financial liabilities include accounts payable and loans.

(i) Recognition and initial measurement

Accounts receivable are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

The financial assets that meet both of the following conditions and are not designated as at fair value through profit or loss: a) are held within a business model whose objective is to hold assets to collect contractual cash flows, and b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified as "Held to collect" and measured at amortised cost.

Amortised cost represents the net present value ("NPV") of the consideration receivable or payable as of the transaction date. This classification of financial assets comprises the following captions:

- Cash and cash equivalents
- Accounts receivable
- Related party receivables

Due to their short-term nature, the company initially recognises these assets at the original invoiced or transaction amount less expected credit losses.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(s) Financial instruments (continued):

(ii) Classification and subsequent measurement (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described in their accounting policy notes.

Impairment of financial assets

Impairment losses of financial assets, including receivables, are recognised using the expected credit loss model for the entire lifetime of such financial assets on initial recognition, and at each subsequent reporting period, even in the absence of a credit event or if a loss has not yet been incurred, considering their measurement of past events and current conditions, as well as reasonable and supportable forecasts affecting collectability.

Derecognition

A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired, or the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The company's financial liabilities, which include accounts payables and long-term loans which are recognised initially at fair value.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their recording as described in their accounting policy notes.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

3. Significant accounting policies (continued)

(s) Financial instruments (continued):

(ii) Classification and subsequent measurement (continued)

Derecognition

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(t) Fair value disclosures:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. The company's financial instruments lack an available trading market. Further, the company has no financial instruments that are carried at fair value. The carrying value of the company's financial instruments approximates their fair value.

(u) Segment reporting:

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 the other segments.

The company's activities are limited to the distribution of batteries, tyres and accessories to consumers in Jamaica, operating in a single segment. As such no additional segment information is provided.

4. Cash and cash equivalents

	<u>2022</u>	<u>2021</u>
Cash and bank balances	116,721,592	123,659,995
Short-term Investments	<u>51,399,752</u>	<u>50,168,922</u>
	<u>\$168,121,344</u>	<u>173,828,917</u>

Short-term investments earn interest at 1.5% to 2% (2021: 1.5% to 2%) per annum.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

5. Accounts receivable

	<u>2022</u>	<u>2021</u>
Trade receivables	266,855,997	251,129,516
Others (see below)	<u>154,839,105</u>	<u>122,980,184</u>
	421,695,102	374,109,700
Less: Allowance for impairment loss	<u>(22,873,719)</u>	<u>(22,873,719)</u>
	<u>\$398,821,383</u>	<u>351,235,981</u>

Others detailed as follows:

	<u>2022</u>	<u>2021</u>
General consumption tax	68,802,262	62,283,261
Staff loans*	27,755,464	33,550,016
Advance to suppliers	26,908,364	-
Prepayments	10,726,630	7,529,629
Others	<u>20,646,385</u>	<u>19,617,278</u>
	<u>\$154,839,105</u>	<u>122,980,184</u>

Trade receivables includes due from a related party amounting to \$8,264,819 (2020: \$8,401,654).

*These loans attract interest at rates ranging from 2.5% to 7% and are repayable over a period ranging from one to ten years from the date of disbursement. The difference between the fair value of the loans and their carrying value is not material to the financial statements.

The company's exposure to credit and currency risks and impairment loss related to trade accounts receivables is disclosed in note 25(a).

6. Related party balances

	<u>2022</u>	<u>2021</u>
(a) Due from related companies		
Chukka Caribbean Adventure Limited	6,139,968	3,464,121
Diverze Properties Limited- fellow subsidiary	229,705,285	153,936,378
Reside Realty Limited	6,567,171	-
Enrvate Limited	<u>5,425,000</u>	<u>-</u>
	<u>\$247,837,424</u>	<u>157,400,499</u>
(b) Due from parent company		
Dai Diverze (Jamaica) Limited- parent company	<u>\$ 23,385,227</u>	<u>23,385,227</u>
(c) Due to a related party		
Enrvate Limited- joint venture	<u>\$ -</u>	<u>(5,000,000)</u>

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

6. Related party balances (continued)

The above balances are unsecured, interest-free and repayable on demand.

(d)	Interest in joint venture		
	Enrvate Limited	\$ <u>5,000,000</u>	<u>5,000,000</u>

In the prior year, the Company entered into a strategic partnership to provide energy saving solutions to the automobile industry. To carry out this mandate, Enrvate Limited ('Enrvate') was formed as part of an arrangement in which the company has joint control and a 50% ownership interest. Enrvate is structured as a separate entity and the Company has residual interest in its net assets. Accordingly, the Company has classified its interest in Enrvate as a joint venture. In accordance with the agreement under which Enrvate is established, the Company and the other investor have agreed to seek additional contributions from selected partners of between J\$24 million to \$36 million to fund the operations over the next financial year, following which additional funding will be sought where required. There was no trading during the financial year.

Transactions with related parties are disclosed in note 19(d).

7. Inventories

	<u>2022</u>	<u>2021</u>
Tyres	29,627,545	16,382,224
Batteries	320,674,339	229,135,713
Oils	72,608,860	35,021,502
Spent batteries	6,569,450	2,274,170
Accessories	99,157,044	86,165,712
Inventories-in-transit	<u>269,874,623</u>	<u>242,884,284</u>
	798,511,861	611,863,605
Provision for obsolescence	(<u>3,385,851</u>)	(<u>3,270,227</u>)
	<u>\$795,126,010</u>	<u>608,593,378</u>

Inventories written off during the year amounted to \$13,061,104 (2021: \$4,765,922) and were recognised in profit or loss.

8. Accounts payable

	<u>2022</u>	<u>2021</u>
Trade payables	306,114,200	264,711,083
Dividends payable	735,443	-
Other payables	<u>73,851,150</u>	<u>62,964,954</u>
	<u>\$380,700,793</u>	<u>327,676,037</u>

TROPICAL BATTERY COMPANY LIMITEDNotes to the Financial Statements (Continued)
September 30, 20229. Short-term loan

This represents an unsecured short-term loan facility from National Commercial Bank Jamaica Limited in the amount of \$100 million. The facility attracted interest at the rate of 7.5% per annum. The loan was fully repaid during the year.

10. Intangible assets

	<u>2022</u>	<u>2021</u>
Brands	<u>\$38,133,005</u>	<u>38,133,005</u>

These represent the acquisition of certain assets as part of the Caribrake and Autopower Brands. These assets are carried at cost as intangible assets with indefinite life, where it is reviewed for impairment on an annual basis to validate its indefinite life status.

11. Property, plant and equipment

	<u>Computers</u>	<u>Leasehold improvements</u>	<u>Plant and machinery</u>	<u>Furniture, fixtures and equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
Cost:						
September 30, 2020	60,841,574	76,784,973	8,343,610	121,002,644	84,308,211	351,281,012
Additions	8,295,722	-	-	38,057,459	3,087,391	49,440,572
Disposal	-	-	-	-	(7,000,000)	(7,000,000)
September 30, 2021	69,137,296	76,784,973	8,343,610	159,060,103	80,395,602	393,721,584
Additions	5,434,263	115,000	-	12,043,020	705,500	18,297,783
Disposal	-	-	-	-	(9,088,837)	(9,088,837)
September 30, 2022	<u>74,571,559</u>	<u>76,899,973</u>	<u>8,343,610</u>	<u>171,103,123</u>	<u>72,012,265</u>	<u>402,930,530</u>
Depreciation:						
September 30, 2019	36,158,728	4,203,365	8,343,610	78,860,632	61,806,589	189,372,924
Charge for the year	7,226,249	6,905,563	-	8,652,538	9,587,974	32,372,324
Eliminated on disposal	-	-	-	-	(4,719,087)	(4,719,087)
September 30, 2021	43,384,977	11,108,928	8,343,610	87,513,170	66,675,476	217,026,161
Charge for the year	8,248,743	6,691,064	-	11,138,020	7,876,999	33,954,826
Eliminated on disposal	-	-	-	-	(9,088,837)	(9,088,837)
September 30, 2022	<u>51,633,720</u>	<u>17,799,992</u>	<u>8,343,610</u>	<u>98,651,190</u>	<u>65,463,638</u>	<u>241,892,150</u>
Net book values:						
September 30, 2022	<u>\$22,937,839</u>	<u>59,099,981</u>	<u>-</u>	<u>72,451,933</u>	<u>6,548,627</u>	<u>161,038,380</u>
September 30, 2021	<u>\$25,752,319</u>	<u>65,676,045</u>	<u>-</u>	<u>71,546,933</u>	<u>13,720,126</u>	<u>176,695,423</u>

Certain property, plant and equipment are held as security for a private placement of a \$300 million bond [see note 17(b)].

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

12. Leases

As a lessee

The company leases property and equipment. The leases typically run for 1 to 10 years. Previously, these leases were classified as operating leases under IAS 17. The company has elected not to recognise right-of-use assets and lease liabilities for leases that are short-term and/or leases of low-value items. Certain leased properties are held with related parties.

(a) Right-of-use assets

	<u>Leasehold land and buildings</u>	
	<u>2022</u>	<u>2021</u>
Balance at October 1	152,649,254	172,400,723
Depreciation charge for the year	(19,751,509)	(19,751,469)
Balance at September 30	<u>\$132,897,745</u>	<u>152,649,254</u>

Information about leases for which the company is a lessee is presented below.

(b) Lease liabilities

Maturity analysis – contractual undiscounted cash flows:

	<u>2022</u>	<u>2021</u>
	\$	\$
Up to one year	26,771,664	27,427,971
One to five years	123,415,069	128,977,492
More than five years	<u>35,897,436</u>	<u>60,002,197</u>
	186,084,169	216,407,660
Less: future interest	(40,517,459)	(54,984,267)
Total discounted lease liabilities at year end	145,566,710	161,423,393
Less: current portion	(17,442,276)	(15,856,683)
Non-current	<u>\$128,124,434</u>	<u>145,566,710</u>

(c) Amounts recognised in profit or loss

	<u>2022</u>	<u>2021</u>
	\$	\$
Interest on lease liabilities	11,547,593	12,701,106
Depreciation on right-of-use assets	19,751,509	19,751,469
Short-term lease rentals	<u>7,233,594</u>	<u>7,068,130</u>

(d) Amounts recognised in the statement of cash flows

	<u>2022</u>	<u>2021</u>
	\$	\$
Total cash outflow for leases	<u>27,427,971</u>	<u>27,116,337</u>

TROPICAL BATTERY COMPANY LIMITEDNotes to the Financial Statements (Continued)
September 30, 202213. Employee benefits

(a) Employee benefits assets:

	<u>2022</u>	<u>2021</u>
Present value of funded obligations	(200,085,000)	(190,540,000)
Fair value of plan assets	<u>268,704,000</u>	<u>244,947,000</u>
Recognised pension asset	\$ <u>68,619,000</u>	<u>54,407,000</u>

(b) Movement in the amounts recognised in the statement of financial position:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	54,407,000	35,517,000
Net expense in profit or loss and other comprehensive income	8,249,000	13,484,000
Contribution paid	<u>5,963,000</u>	<u>5,406,000</u>
Balance at end of year	\$ <u>68,619,000</u>	<u>54,407,000</u>

(c) Movements in funded obligations:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	(190,540,000)	(179,160,000)
Benefits paid	13,337,000	7,646,000
Interest cost	(17,149,000)	(16,124,000)
Current service cost	(15,322,000)	(14,834,000)
Re-measurement actuarial losses	<u>9,589,000</u>	<u>11,932,000</u>
Balance at end of year	\$ <u>(200,085,000)</u>	<u>(190,540,000)</u>

(d) Movement in plan assets:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets at beginning of year	244,947,000	214,677,000
Contributions paid	16,188,000	14,745,000
Expected return on plan assets	21,905,000	19,417,000
Benefits paid	(19,312,000)	(12,619,000)
Re-measurement of actuarial gains	<u>4,976,000</u>	<u>8,727,000</u>
Fair value of plan assets at end of year	\$ <u>268,704,000</u>	<u>244,947,000</u>

Plan assets consist of the following:

Fixed-income securities and other investments	257,260,000	214,176,000
Net current assets	<u>11,444,000</u>	<u>30,771,000</u>
	\$ <u>268,704,000</u>	<u>244,947,000</u>

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 202113. Employee benefits (continued)

(e) Expense recognised in profit or loss, net:

	<u>2022</u>	<u>2021</u>
Interest on obligations and current service cost	\$ <u>6,316,000</u>	<u>7,175,000</u>

Total expense is recognised in administration, marketing and selling expenses in profit or loss.

(f) Items in other comprehensive income:

	<u>2022</u>	<u>2021</u>
Re-measurement gains on obligations	9,589,000	11,932,000
Re-measurement gains on plan assets	<u>4,976,000</u>	<u>8,727,000</u>
	<u>\$14,565,000</u>	<u>20,659,000</u>

(g) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	<u>2022</u>	<u>2021</u>
Discount rate	11.5%	9.0%
Long-term rate of inflation	5.0%	6.0%
Future salary increases	<u>9.5%</u>	<u>7.0%</u>

Assumptions regarding future mortality are based on PA (90) Tables for Pensioners (British Mortality Tables). The expected long-term rate is based on assumed long-term rate of inflation.

(h) Sensitivity analysis of key economic assumptions:

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarizes how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation.

	<u>2022</u>		<u>2021</u>	
	1% <u>Increase</u> \$'000	1% <u>Decrease</u> \$'000	1% <u>Increase</u> \$'000	1% <u>Decrease</u> \$'000
Discount rate	21,297	(26,444)	19,740	(24,303)
Future salary increases	<u>(12,157)</u>	<u>11,051</u>	<u>(10,823)</u>	<u>9,415</u>

(i) At September 30, 2022, the weighted average duration of the defined benefit obligation was 15.1 years (2021: 15.6 years).

TROPICAL BATTERY COMPANY LIMITEDNotes to the Financial Statements (Continued)
September 30, 202214. Deferred taxation

(a) Deferred tax (liability)/asset is attributable to the following:

	<u>2022</u>	<u>2021</u>
Property, plant and equipment	409,316	(444,529)
Right-of-use assets	(33,224,436)	(38,162,314)
Employee benefits	(17,154,750)	(13,601,750)
Lease liabilities	<u>36,391,678</u>	<u>40,355,849</u>
	<u>\$(13,578,192)</u>	<u>(11,852,744)</u>

(b) Movement in temporary differences during the year are as follows:

	<u>October 1, 2021</u>	<u>Recognised in equity</u>	<u>Recognised in income</u> [note 21(a)]	<u>September 30, 2022</u>
Property, plant and equipment	(444,529)	-	853,845	409,316
Right-of-use assets	(38,162,314)	-	4,937,878	(33,224,436)
Employee benefits	(13,601,750)	(3,641,250)	88,250	(17,154,750)
Lease liabilities	<u>40,355,849</u>	<u>-</u>	<u>(3,964,171)</u>	<u>36,391,678</u>
	<u>\$(11,852,744)</u>	<u>(3,641,250)</u>	<u>1,915,802</u>	<u>(13,578,192)</u>

	<u>October 1, 2020</u>	<u>Recognised in equity</u>	<u>Recognised in income</u> [note 21(a)]	<u>September 30, 2021</u>
Property, plant and equipment	523,737	-	(968,266)	(444,529)
Right-of-use assets	(43,100,181)	-	4,937,867	(38,162,314)
Employee benefits	(8,879,250)	(5,164,750)	442,250	(13,601,750)
Lease liabilities	<u>43,959,656</u>	<u>-</u>	<u>(3,603,807)</u>	<u>40,355,849</u>
	<u>\$(7,496,038)</u>	<u>(5,164,750)</u>	<u>808,044</u>	<u>(11,852,744)</u>

15. Share capital

	<u>2022</u>	<u>2021</u>
Authorised issued and fully paid:		
1,300,000,000 ordinary shares of no par value,	<u>\$156,675,300</u>	<u>156,675,300</u>
net of transaction cost \$6,259,700		

On September 29, 2020, the company increased its issued shares by 162,500,000 and made available to the public 325,000,000 shares. The shares were listed on the Junior Stock Market of the Jamaica Stock Exchange on September 29, 2020.

16. Capital contribution

This represents capital injection by the ultimate parent company.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)

September 30, 202217. Long-term loans

	<u>2022</u>	<u>2021</u>
(a) Related party loan	15,254,009	15,254,009
(b) Bonds	296,797,249	294,774,459
(c) Bank loan	<u>180,000,000</u>	<u>-</u>
	492,051,258	310,028,468
Less: Current portion	<u>40,000,000</u>	<u>-</u>
Non-current	<u>\$452,051,258</u>	<u>310,028,468</u>

- (a) This represents an unsecured loan from the ultimate parent company. This loan is interest-free and has no specified repayment date, however it will not be called within 1 year of the reporting date.
- (b) In April 2019, the company authorised the private placement of secured J\$ notes for an aggregate principal amount of up to \$300 million. These bonds attract interest at the rate of 7.5% per annum and mature in April 2024. The bonds are secured against debentures issued in favour of the Trustee, by way of a first fixed charge over certain assets of the company. The amount due is stated net of debt issuance costs of \$3,202,751 (2021: \$5,225,541).
- (c) This represents a loan facility obtained in June 2022 from First Caribbean International Bank Limited in the amount of \$200 million. The loan is secured by a promissory note, attracts interest of 6.75% per annum and matures in October 2027.

18. Gross operating revenue

Gross operating revenue represents the invoiced value of sales after deduction of returns and is measured net of consumption taxes. Revenue is recognised when goods are provided to the customers based on the terms specified in the contract. Invoices are generated and the revenue is recognised at that point in time.

19. Expenses by nature and related party transactions

(a) Cost of operating revenue

	<u>2022</u>	<u>2021</u>
Tyres	12,212,910	17,994,292
Batteries	1,493,752,559	1,099,185,779
Spent batteries	75,601,579	61,664,627
Oils	170,122,240	125,887,158
Accessories	84,521,345	68,096,059
Inventory obsolescence	<u>13,063,650</u>	<u>4,812,935</u>
	<u>\$1,849,274,283</u>	<u>1,377,640,850</u>

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)

September 30, 202219. Expenses by nature and related party transactions (continued)

	<u>2022</u>	<u>2021</u>
(b) Administration, marketing and selling expenses:		
Salaries, wages and related costs	307,980,696	259,176,381
Staff and canteen expenses	<u>9,521,397</u>	<u>10,574,505</u>
	\$ <u>317,502,093</u>	<u>269,750,886</u>
Other administration, marketing and selling expenses:		
Accommodation	953,822	971,762
Advertising	14,336,136	9,888,659
Audit fees	9,000,000	7,800,000
Computer services	9,448,766	4,794,509
Director's remuneration	16,110,344	14,234,583
Electricity	12,842,285	10,990,151
Gas and oil	18,996,142	16,158,643
Insurance	9,018,104	13,454,305
Miscellaneous expenses	8,763,115	6,673,249
Motor vehicle expenses	5,536,332	2,831,650
Postage and telephone	10,339,929	13,266,131
Printing and stationery	7,410,091	8,460,133
Professional fees	10,723,219	11,851,311
Rent, rates and taxes	7,233,594	7,068,130
Repairs and maintenance	18,839,551	19,564,829
Safety supplies	281,234	422,414
Sales promotion	3,881,854	3,717,980
Security	11,605,689	10,500,789
Subscription and donations	4,696,612	3,323,145
Travel and entertainment	<u>14,382,058</u>	<u>8,270,480</u>
	<u>194,398,877</u>	<u>174,242,853</u>
	\$ <u>511,900,970</u>	<u>443,993,739</u>
(c) Other operating income		
	<u>2022</u>	<u>2021</u>
Gain on disposal of property, plant and equipment	4,500,000	1,519,087
Gain on disposal of investments	-	13,208,345
Unrealised gain on investments	1,053,214	-
Bad debts recovered	86,151	-
Miscellaneous	<u>7,193,585</u>	<u>8,851,209</u>
	\$ <u>12,832,950</u>	<u>23,578,641</u>

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)

September 30, 202219. Expenses by nature and related party transactions (continued)

(d) Profit before depreciation, net finance costs and taxation is stated after charging/(crediting):

	<u>2022</u>	<u>2021</u>
	\$	\$
Directors' emoluments -as management	16,110,344	14,234,583
Director's fees	600,000	800,000
Compensation for key management:		
Short-term benefits	21,772,201	26,084,172
Transactions with related parties:		
Rental expense	24,000,000	24,000,000
Interest on lease liabilities	10,818,212	11,789,815
Professional fees earned	(4,952,083)	(5,075,000)

20. Net finance costs

	<u>2022</u>	<u>2021</u>
Finance costs:		
Loan interest	42,395,533	35,158,227
Lease interest	11,547,593	12,701,106
Bank charges	17,419,684	15,059,705
Loss on foreign exchange	-	58,465
	<u>71,362,810</u>	<u>62,977,503</u>
Finance income:		
Interest income	(3,991,142)	(3,634,501)
Gain on foreign exchange	(41,573,656)	(6,252,758)
	<u>(45,564,798)</u>	<u>(9,887,259)</u>
	<u>\$25,798,012</u>	<u>53,090,244</u>

21. Taxation

(a) Income tax is computed at 25% of the profit for the year, as adjusted for taxation purposes, and is made up as follows:

	<u>2022</u>	<u>2021</u>
Current tax:		
Income tax at 25%	53,901,806	16,371,439
Less: Remission of income tax	(53,901,806)	(17,987,527)
Adjustment in respect of prior years	<u>2,377,957</u>	-
	<u>2,377,957</u>	<u>(1,616,088)</u>
Deferred taxation [note 14(b)]:		
Origination and reversal of other temporary differences	(1,915,802)	808,044
	<u>\$ 462,155</u>	<u>(808,044)</u>

TROPICAL BATTERY COMPANY LIMITEDNotes to the Financial Statements (Continued)
September 30, 202221. Taxation (continued)

(b) Reconciliation of actual tax charge and effective tax rate:

	<u>2022</u>	<u>2021</u>
Profit before taxation	\$ <u>197,475,677</u>	<u>87,524,906</u>
Computed "expected" tax expense @ 25%	49,368,919	21,881,227
Difference between profit for financial statements and tax reporting purposes on:		
Depreciation charge and capital allowances	5,312,379	3,178,646
Disallowable expenses	(588,005)	6,557,570
Tax losses recognised	(2,107,289)	(14,437,960)
Tax recognised in profit or loss	51,986,004	17,179,483
Less: Remission of income tax	(53,901,806)	(17,987,527)
Adjustment in respect of prior years	<u>2,377,957</u>	<u>-</u>
	\$ <u><u>462,155</u></u>	(<u><u>808,044</u></u>)

(c) Remission of income tax

By notice dated August 13, 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 Market of the Jamaica Stock Exchange (JMSE) if certain conditions were achieved after the date of initial admission.

Effective September 29, 2020, the company's shares were listed on the JMSE. 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: (October 1, 2020 – September 30, 2025) – 100%

Years 6 to 10: (October 1, 2025 – September 30, 2030) – 50%.

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

22. Earnings per stock unit

	<u>2022</u>	<u>2021</u>
Profit for the year attributable to the shareholders of the company	\$ <u>197,013,522</u>	<u>88,332,950</u>
Number of ordinary stock units held during the year	<u>1,300,000,000</u>	<u>1,300,000,000</u>
Earnings per stock unit	<u>15.2¢</u>	<u>6.8¢</u>

23. Dividends

On December 24, 2021 a dividend of \$26,000,000 was declared to be paid to the shareholders on record as at January 2, 2022, with payments to be made on or about January 31, 2022. Dividends declared were equivalent to 2.00¢ per ordinary share.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued) September 30, 2022

24. Contingent liabilities

The company has given guarantees in the ordinary course of business, under banking arrangements in the amount \$20,600,000 (2021: \$20,600,000). Additionally, a letter of credit was issued amounting to USD 140,000 (2021: USD 140,000) on behalf of the company in favour of a third party.

25. Financial instruments

Overview:

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

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

(a) 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 principally from the company's receivables from customers and cash and cash equivalents.

Management has a credit policy in place to minimise exposure to credit risk. Credit evaluations are performed on all customers requiring credit. The company generally does not require collateral in respect of financial assets, materially, trade receivables.

Maximum exposure to credit risk is represented by the carrying amount of financial assets on the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents are placed with financial institutions with minimum risk of default. The company considers that cash resources have low credit risk. No material impairment allowances were recognised in the prior year and there was no change during the period.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

25. Financial instruments (continued)

(a) Credit risk (continued):

Related party balances

The company assesses its ability to pay if payment is demanded at the reporting date. Management reviews recovery scenarios considering given economic conditions and the borrowers' liquidity over the expected life of the recoverable. The expected credit losses are calculated on this basis.

Accounts receivable

The company allocates each exposure to a credit risk grade based on the data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and the available press information about its customers) and applying experienced credit judgement.

The company uses a provision matrix to measure ECLs on trade receivables. The provision matrix is based on its historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

Loss rates are calculated based on the probability of a receivable progressing through successive stages of delinquency to write-off, current conditions and the economic conditions over the expected lives of the receivables.

The following table provides information about the exposure to credit risk and ECL for trade receivables as at September 30 (see also note 5).

	<u>2022</u>			
	<u>Weighted</u> <u>average</u> <u>loss rate</u>	<u>Gross</u> <u>carrying</u> <u>amount</u> \$	<u>Loss</u> <u>allowance</u> \$	<u>Credit</u> <u>impaired</u>
0-30 days	0.23%	171,535,274	400,373	No
31-60 days	0.44%	50,850,738	223,065	No
61-90 days	1.33%	16,829,396	223,993	No
91-120 days	4.71%	1,975,768	93,059	No
121-150 days	9.05%	1,212,923	109,770	No
151-180 days	12.80%	409,817	52,457	No
181-210 days	16.36%	792,746	129,693	Yes
211-240 days	23.48%	867,314	166,297	Yes
241-270 days	31.48%	671,140	211,275	Yes
271-300 days	44.35%	242,568	107,579	Yes
301-330 days	56.35%	183,193	103,211	Yes
331-360 days	76.60%	609,900	5,377,727	Yes
More than 360 days	100.00%	<u>20,675,220</u>	<u>20,675,220</u>	Yes
		<u>266,855,997</u>	<u>22,873,719</u>	

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

25. Financial instruments (continued)

(a) Credit risk (continued):

Accounts receivable (continued)

The following table provides information about the exposure to credit risk and ECL for trade receivables as at September 30 (see also note 5) (continued).

	<u>2021</u>			
	<u>Weighted average loss rate</u>	<u>Gross carrying amount \$</u>	<u>Loss allowance \$</u>	<u>Credit impaired</u>
0-30 days	0.50%	131,453,789	654,565	No
31-60 days	0.97%	47,641,461	461,745	No
61-90 days	2.41%	29,148,968	701,265	No
91-120 days	6.64%	9,488,345	629,704	No
121-150 days	12.76%	1,662,256	212,150	No
151-180 days	18.05%	7,844,105	1,415,750	No
181-210 days	23.07%	1,393,002	321,399	Yes
211-240 days	33.11%	1,866,991	618,068	Yes
241-270 days	44.38%	2,673,492	1,186,519	Yes
271-300 days	62.53%	3,267,091	2,042,838	Yes
301-330 days	79.44%	293,279	232,979	Yes
331-360 days	100.00%	2,349,739	2,349,739	Yes
More than 360 days	100.00%	<u>12,046,998</u>	<u>12,046,998</u>	Yes
		<u>251,129,516</u>	<u>22,873,719</u>	

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	22,873,719	16,591,693
Impairment recognised	<u>-</u>	<u>6,282,026</u>
	<u>\$22,873,719</u>	<u>22,873,719</u>

(b) Liquidity risk:

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities, by maintaining lines of credit with its bankers and by monitoring expenditure commitments.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

25. Financial instruments (continued)

(b) Liquidity risk (continued):

The company's liquidity management process includes:

- (i) Maintaining flexibility in funding by keeping lines of funding available with relevant suppliers and bankers, sourcing the appropriate currency through open market purchase to match foreign currency liabilities and by pursuing prompt payment policies.
- (ii) Maintaining committed lines of credit.

Financial liabilities cash flows

The table below presents the undiscounted cash flows payable (both interest and principal cash flows) on the company's financial liabilities based on contractual repayment obligations at the reporting date.

	2022				Carrying amount \$
	Within 1 year \$	1 to 10 years \$	Non-specific maturity \$	Total \$	
Accounts payable	380,700,793	-	-	380,700,793	380,700,793
Long-term loans	73,637,500	474,593,750	15,254,009	563,485,259	495,254,009
Leases	<u>26,771,664</u>	<u>159,312,505</u>	<u>-</u>	<u>186,084,169</u>	<u>145,566,710</u>
	<u>\$481,109,957</u>	<u>633,906,255</u>	<u>15,524,009</u>	<u>1,130,270,221</u>	<u>1,021,521,512</u>

	2021				Carrying amount \$
	Within 1 year \$	1 to 5 years \$	Non-specific maturity \$	Total \$	
Accounts payable	327,676,037	-	-	327,676,037	327,676,037
Short-term loan	103,143,836	-	-	103,143,836	100,000,000
Long-term loans	22,500,000	339,375,000	15,254,009	377,129,009	310,028,468
Leases	<u>27,427,971</u>	<u>188,979,688</u>	<u>-</u>	<u>216,407,659</u>	<u>161,423,393</u>
	<u>\$480,747,844</u>	<u>528,354,688</u>	<u>15,254,009</u>	<u>1,024,356,541</u>	<u>899,127,898</u>

(c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the company's assets, the amount of its liabilities and/or the company's income. Market risk arises from fluctuations in the value of liabilities and the value of investments held. The company is exposed to market risk on certain of its financial assets. There is no significant exposure to equity price risk. Derivative financial instruments are not used to reduce exposure to market risk.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

25. Financial instruments (continued)

(c) Market risk (continued):

(i) 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.

The company materially contracts financial liabilities at interest rates for the duration of the loan. The bank loans are subject to interest rates which may be varied with appropriate notice by the lender.

Interests bearing financial assets are primarily represented by short-term bank deposits, which are contracted at fixed interest rates for the duration of the term.

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

	<u>Carrying amount</u>	
	<u>2022</u>	<u>2021</u>
	\$	\$
Fixed rate:		
Liabilities	<u>480,000,000</u>	<u>400,000,000</u>
Variable rate:		
Assets	<u>51,399,752</u>	<u>49,458,923</u>

Fair value sensitivity analysis for fixed rate instruments

The company does not hold any fixed rate financial assets that are subject to material changes in fair value. Therefore, a change in interest rates at the reporting date would not affect profit or equity.

Cash flow sensitivity analysis for variable rate instruments

A change in interest rates at the reporting date would have (decreased)/increased profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2021.

	<u>2022</u>		<u>2021</u>	
	<u>Effect on profit</u>		<u>Effect on profit</u>	
	<u>200bp</u>	<u>50bp</u>	<u>300bp</u>	<u>50bp</u>
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Cash flow sensitivity (net)	<u>\$8,572,005</u>	<u>(214,300)</u>	<u>1,483,768</u>	<u>(247,295)</u>

TROPICAL BATTERY COMPANY LIMITEDNotes to the Financial Statements (Continued)
September 30, 202225. Financial instruments (continued)

(c) Market risk (continued):

(ii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Jamaican dollar. Such exposures comprise the monetary assets and liabilities of the company that are not denominated in that currency. The main foreign currency risks of the company are denominated in United States dollars (US\$), which is the principal intervening currency for the company.

The company manages foreign exchange exposure by maintaining adequate liquid resources in appropriate currencies and by managing the timing of payments on foreign currency liabilities.

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

At September 30, 2022: \$151.45
At September 30, 2021: \$146.00

The table below shows the company's main foreign currency exposure at the reporting date:

	Net foreign currency monetary assets/(liabilities)			
	<u>2022</u>		<u>2021</u>	
	<u>US\$</u>	<u>J\$</u>	<u>US\$</u>	<u>J\$</u>
Cash and cash equivalents	118,507	17,947,885	220,148	32,141,608
Accounts payables	(1,878,633)	(284,518,968)	(1,639,025)	(239,297,650)
Net exposure	(1,760,126)	(266,571,083)	(1,418,877)	(207,156,042)

Foreign currency sensitivity analysis:

A 1% (2021: 2%) weakening of the United States dollar (US\$) against the Jamaica dollar (J\$) at the year-end would have increased profit by \$2,665,710 (2021: J\$4,143,121). This analysis assumes that all other variables in particular interest rates, remained constant.

A 4% (2021: 8%) strengthening of the United States dollar (US\$) against the Jamaica dollar (J\$) at the year-end would have decreased profit by \$10,662,843 (2021: J\$16,572,483). This analysis assumes that all other variables in particular interest rates, remained constant.

TROPICAL BATTERY COMPANY LIMITED

Notes to the Financial Statements (Continued)
September 30, 2022

25. Financial instruments (continued)

(d) Fair value:

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 fair values of cash and cash equivalents, accounts receivable, related party receivables and accounts payable are assumed to approximate to their carrying value due to their short-term nature. The carrying value of the long-term loans is assumed to approximate fair value as the loans bear interest at market rates.

(e) Capital management:

The Board of Directors monitors the return on capital, which is defined as total shareholders' equity. The board's policy is to maintain adequate capital to sustain future development of the business. There are no externally imposed capital requirements for the company and there were no changes to capital management during the year.

26. Impact of Ukraine/Russia Conflict

A post-pandemic evaluation was done to ensure lessons learnt from the impact of Covid-19 were fully integrated within our corporate procedures. Notwithstanding our best efforts, the world was restricted from two of its prize possessions, oil and gas due to the conflict between Russia and Ukraine which only had a minimal impact on our supply chain.

Tropical Battery wasn't exposed to any real impact due to the war in Ukraine/Russia. As a result of our resilience and years of experience in the automotive industry we were able to adapt and secure an alternative supply of Caribrake Brake fluid from Mexico, Tropical Battery Oils from Puerto Rico, and Windshield Wash from the United States of America.