

KINGSTON PROPERTIES LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2014



KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
KINGSTON PROPERTIES LIMITED

Report on the Financial Statements

We have audited the separate financial statements of Kingston Properties Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 3 to 43, which comprise the statements of financial position as at December 31, 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including our assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITORS REPORT (Cont'd)
To the Members of
KINGSTON PROPERTIES LIMITED

Report on the Financial Statements, (cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at December 31, 2014, and of the Group's and Company's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

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.

A handwritten signature in black ink, appearing to read 'KPMG', with a horizontal line drawn underneath it.

Chartered Accountants
Kingston, Jamaica

February 26, 2015

KINGSTON PROPERTIES LIMITEDGroup Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2014

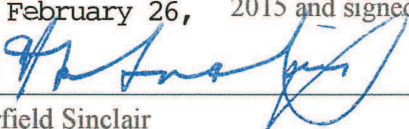
| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|----------------------|----------------------|
| Revenue - rental income | 4, 9(d) | 108,048,742 | 91,469,951 |
| Operating expenses | | <u>(56,822,625)</u> | <u>(52,012,921)</u> |
| Results of operating activities before other income/gains | | 51,226,117 | 39,457,030 |
| Other income/gains: | | | |
| Fair value gain on investment properties | 9(b)(i) | - | 130,316,200 |
| Gain on disposal of investment properties | | 497,357 | - |
| Miscellaneous income | | <u>347,945</u> | <u>910,051</u> |
| Profit before net finance costs and impairment loss | | <u>52,071,419</u> | <u>170,683,281</u> |
| Finance income | 5 | 7,556,896 | 6,907,726 |
| Finance costs | 5 | <u>(53,257,758)</u> | <u>(70,533,346)</u> |
| Net finance costs | 5 | <u>(45,700,862)</u> | <u>(63,625,620)</u> |
| Impairment loss | 9(b)(ii) | <u>(4,057,182)</u> | <u>-</u> |
| (Loss)/profit before income tax | | 2,313,375 | 107,057,661 |
| Income tax charge | 6 | <u>(3,450,340)</u> | <u>(54,561,672)</u> |
| (Loss)/profit for the year | 7 | <u>(1,136,965)</u> | 52,495,989 |
| Other comprehensive income: | | | |
| Foreign currency translation differences for foreign operations, being total other comprehensive income | | <u>45,057,651</u> | <u>68,168,732</u> |
| Total comprehensive income for the year | | <u>\$ 43,920,686</u> | <u>120,664,721</u> |
| Earnings per stock unit | 8 | <u>(\$0.02)</u> | <u>0.76</u> |

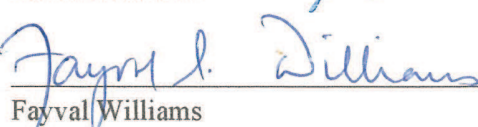
The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDGroup Statement of Financial Position
December 31, 2014

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|------------------------|----------------------|
| NON-CURRENT ASSETS | | | |
| Investment properties | 9(a) | 953,788,854 | 1,002,318,121 |
| Land held for development | 10 | 18,497,177 | 18,497,177 |
| Furniture, software and equipment | 11 | <u>2,850,197</u> | <u>2,822,896</u> |
| Total non-current assets | | <u>975,136,228</u> | <u>1,023,638,194</u> |
| CURRENT ASSETS | | | |
| Non-current asset held for sale | 9(b)(ii) | 196,676,076 | - |
| Receivables | 15 | 13,517,985 | 11,687,539 |
| Security repurchased under agreements to resell | 16 | 487,853 | 14,556,483 |
| Cash and cash equivalents | 17 | <u>232,660,434</u> | <u>212,064,416</u> |
| Total current assets | | <u>443,342,348</u> | <u>238,308,438</u> |
| Total assets | | <u>\$1,418,478,576</u> | <u>1,261,946,632</u> |
| EQUITY | | | |
| Share capital | 18 | 406,608,605 | 406,608,605 |
| Treasury shares | 19 | (3,292,635) | - |
| Cumulative translation reserve | | 195,105,368 | 150,047,717 |
| Retained earnings | | <u>253,511,735</u> | <u>273,181,852</u> |
| Total equity | | <u>851,933,073</u> | <u>829,838,174</u> |
| NON CURRENT LIABILITIES | | | |
| Loans payable | 21 | 247,747,377 | 142,048,086 |
| Deferred tax liabilities | 12 | <u>52,754,848</u> | <u>47,049,546</u> |
| Total non-current liabilities | | <u>300,502,225</u> | <u>189,097,632</u> |
| CURRENT LIABILITIES | | | |
| Loans payable | 21 | 238,604,331 | 218,237,533 |
| Accounts payable and accrued charges | 22 | 25,077,775 | 24,352,860 |
| Income tax payable | | <u>2,361,172</u> | <u>420,433</u> |
| Total current liabilities | | <u>266,043,278</u> | <u>243,010,826</u> |
| Total equity and liabilities | | <u>\$1,418,478,576</u> | <u>1,261,946,632</u> |

The financial statements on pages 3 to 43 were approved for issue by the Board of Directors on February 26, 2015 and signed on its behalf by:

 Chairman
Garfield Sinclair

 Director
Fayval Williams

KINGSTON PROPERTIES LIMITEDGroup Statement of Changes in Equity
Year ended December 31, 2014

| | Share <u>capital</u> (note 18) | Treasury <u>shares</u> (note 19) | Cumulative translation <u>reserve</u> | Retained <u>earnings</u> | <u>Total</u> |
|---|--------------------------------------|--|---|-----------------------------|----------------------|
| Balances at December 31, 2012 | <u>406,608,605</u> | <u>-</u> | <u>81,878,985</u> | <u>230,612,894</u> | <u>719,100,484</u> |
| Total comprehensive income: | | | | | |
| Profit for the year | - | - | - | 52,495,989 | 52,495,989 |
| Other comprehensive income: | | | | | |
| Exchange difference on translation of foreign subsidiaries' balances, being total other comprehensive income for the year | <u>-</u> | <u>-</u> | <u>68,168,732</u> | <u>-</u> | <u>68,168,732</u> |
| Total comprehensive income for the year | <u>-</u> | <u>-</u> | <u>68,168,732</u> | <u>52,495,989</u> | <u>120,664,721</u> |
| Distribution to owners: | | | | | |
| Dividend paid (note 23), being total distribution to owners | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,927,031)</u> | <u>(9,927,031)</u> |
| Balances at December 31, 2013 | <u>406,608,605</u> | <u>-</u> | <u>150,047,717</u> | <u>273,181,852</u> | <u>829,838,174</u> |
| Total comprehensive income: | | | | | |
| Loss for the year | | | | (1,136,965) | (1,136,965) |
| Other comprehensive income: | | | | | |
| Exchange difference on translation of foreign subsidiaries' balances, being total other comprehensive income for the year | <u>-</u> | <u>-</u> | <u>45,057,651</u> | <u>-</u> | <u>45,057,651</u> |
| Total comprehensive income for the year | <u>-</u> | <u>-</u> | <u>45,057,651</u> | <u>(1,136,965)</u> | <u>43,920,686</u> |
| Transactions with owners of the company | | | | | |
| Shares repurchased (note 19) | - | (3,292,635) | - | - | (3,292,635) |
| Distribution to owners: | | | | | |
| Dividend paid (note 23), being total distribution to owners | <u>-</u> | <u>-</u> | <u>-</u> | <u>(18,533,152)</u> | <u>(18,533,152)</u> |
| Total transactions with owners of the company | <u>-</u> | <u>(3,292,635)</u> | <u>-</u> | <u>(18,533,152)</u> | <u>(21,825,787)</u> |
| Balances at December 31, 2014 | <u>\$406,608,605</u> | <u>(3,292,635)</u> | <u>195,105,368</u> | <u>253,511,735</u> | <u>851,933,073</u> |

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

KINGSTON PROPERTIES LIMITEDGroup Statement of Cash Flows
Year ended December 31, 2014

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| (Loss)/profit for the year | | (1,136,965) | 52,495,989 |
| Adjustments to reconcile (loss)/profit for the year to net cash provided by operating activities: | | | |
| Income tax charge | | 3,450,340 | 54,561,672 |
| Depreciation | 11 | 408,059 | 401,595 |
| Interest income | | (7,556,896) | (6,907,726) |
| Impairment loss | 9(b)(ii) | 4,057,182 | - |
| Interest expense | | 25,693,415 | 19,436,945 |
| Fair value gain on investment property | | - | (130,316,200) |
| Gain on disposal of investment property | | (497,357) | - |
| Unrealized foreign exchange losses on loans and cash and cash equivalents | | <u>30,732,737</u> | <u>47,671,827</u> |
| Operating profit before changes in working capital | | 55,150,515 | 37,344,102 |
| Changes in: | | | |
| Other receivables | | (569,061) | 345,135 |
| Accounts payable and accrued charges | | 724,915 | 2,543,911 |
| Income tax paid | | (7,664) | (7,052) |
| Net cash provided by operating activities | | <u>55,298,705</u> | <u>40,226,096</u> |
| Cash flows from investing activities | | | |
| Interest received | | 6,295,511 | 8,584,205 |
| Securities purchased under agreements to resell | | 14,068,630 | (11,670,047) |
| Additions to office equipment | 11 | (435,360) | (1,411,700) |
| Land held for development | | - | (18,497,177) |
| Additions to investment property | 9(b) | (221,784,586) | (509,258) |
| Proceeds of disposal of investment property | | <u>101,487,547</u> | <u>-</u> |
| Net cash used in investing activities | | <u>(100,368,258)</u> | <u>(23,503,977)</u> |
| Cash flows from financing activities | | | |
| Interest paid | | (25,693,415) | (15,770,719) |
| Dividend paid | | (18,533,152) | (9,927,031) |
| Loan received | | 107,671,651 | - |
| Loans payable | | 5,509,800 | 34,482,653 |
| Treasury shares | | (3,292,635) | <u>-</u> |
| Net cash provided by financing activities | | <u>65,662,249</u> | <u>8,784,903</u> |
| Net increase in cash and cash equivalents | | 20,592,696 | 25,507,022 |
| Cash and cash equivalents at beginning of year | | 212,064,416 | 186,532,572 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | <u>3,322</u> | <u>24,822</u> |
| Cash and cash equivalents at end of year | 17 | <u>\$232,660,434</u> | <u>212,064,416</u> |

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

KINGSTON PROPERTIES LIMITED
Separate Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2014

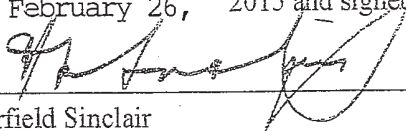
| | <u>Notes</u> | <u>2014</u> \$ | <u>2013</u> \$ |
|---|--------------|-----------------------|---------------------|
| Revenue – rental income | 4, 9(d) | 68,684,349 | 59,418,138 |
| Operating expenses | | <u>(26,230,576)</u> | <u>(29,032,129)</u> |
| Results of operating activities before other income/gains | | 42,453,773 | 30,386,009 |
| Other income/gains: | | | |
| Miscellaneous income | | <u>253,337</u> | <u>240,000</u> |
| Profit before net finance costs and impairment loss | | <u>42,707,110</u> | <u>30,626,009</u> |
| Finance income | 5 | 26,696 | 59,012 |
| Finance costs | 5 | <u>(56,310,016)</u> | <u>(72,076,671)</u> |
| Net finance costs | 5 | <u>(56,283,320)</u> | <u>(72,017,659)</u> |
| Impairment loss | | <u>(4,057,182)</u> | <u> -</u> |
| Loss before income tax | | <u>(17,633,392)</u> | <u>(41,391,650)</u> |
| Income tax (charge)/credit | 6 | <u>(1,737,988)</u> | <u> 3,896,786</u> |
| Loss, being total comprehensive loss for the year | 7 | <u>\$(19,371,380)</u> | <u>(37,494,864)</u> |

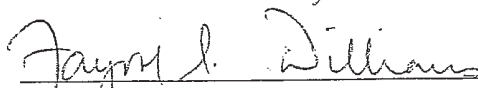
The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDSeparate Statement of Financial Position
December 31, 2014

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|----------------------|--------------------|
| NON-CURRENT ASSETS | | | |
| Investment properties | 9(a) | 383,590,060 | 580,509,258 |
| Land held for development | 10 | 18,497,177 | 18,497,177 |
| Furniture, software and equipment | 11 | 2,850,197 | 2,822,896 |
| Deferred tax asset | 12 | 11,553,179 | 11,033,296 |
| Investment in subsidiaries | 13 | <u>308,730,729</u> | <u>308,730,729</u> |
| Total non-current assets | | <u>725,221,342</u> | <u>921,593,356</u> |
| CURRENT ASSETS | | | |
| Non-current asset held for sale | 9(b)(ii) | 196,676,076 | - |
| Owed by subsidiaries | 14 | 869,384 | 5,263,411 |
| Receivables | 15 | 4,844,512 | 5,433,908 |
| Securities purchased under agreements to resell | 16 | 487,853 | 14,556,483 |
| Cash and cash equivalents | 17 | <u>2,069,359</u> | <u>147,754</u> |
| Total current assets | | <u>204,947,184</u> | <u>25,401,556</u> |
| Total assets | | <u>\$930,168,526</u> | <u>946,994,912</u> |
| EQUITY | | | |
| Share capital | 18 | 406,608,605 | 406,608,605 |
| Treasury shares | 19 | (3,292,635) | - |
| Retained earnings | | <u>85,568,943</u> | <u>123,473,475</u> |
| Total equity | | <u>488,884,913</u> | <u>530,082,080</u> |
| NON CURRENT LIABILITIES | | | |
| Note payable | 20 | 114,660,700 | 106,377,700 |
| Loans payable | 21 | <u>18,261,132</u> | <u>36,192,751</u> |
| | | <u>132,921,832</u> | <u>142,570,451</u> |
| CURRENT LIABILITIES | | | |
| Loans payable | 21 | 238,604,330 | 218,237,533 |
| Owed to subsidiary | 14 | 52,323,348 | 39,605,679 |
| Accounts payable and accrued charges | 22 | 15,236,232 | 16,499,169 |
| Income tax payable | | <u>2,197,871</u> | - |
| Total current liabilities | | <u>308,361,781</u> | <u>274,342,381</u> |
| Total equity and liabilities | | <u>\$930,168,526</u> | <u>946,994,912</u> |

The financial statements on pages 3 to 43 were approved for issue by the Board of Directors on February 26, 2015 and signed on its behalf by:

 Chairman
Garfield Sinclair

 Director
Fayval Williams

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

KINGSTON PROPERTIES LIMITEDSeparate Statement of Changes in Equity
Year ended December 31, 2014

| | <u>Share capital</u> (note 18) | <u>Treasury shares</u> (note 19) | <u>Retained earnings</u> | <u>Total</u> |
|--|---------------------------------------|---|------------------------------|--------------------|
| Balances at December 31, 2012 | 406,608,605 | - | 170,895,370 | 577,503,975 |
| Loss, being total comprehensive loss for the year | - | - | (37,494,864) | (37,494,864) |
| Distribution to owners: | | | | |
| Dividend paid (note 23), being total distributions to owners | <u>-</u> | <u>-</u> | (9,927,031) | (9,927,031) |
| Balances at December 31, 2013 | <u>406,608,605</u> | <u>-</u> | <u>123,473,475</u> | <u>530,082,080</u> |
| Loss, being total comprehensive loss for the year | <u>-</u> | <u>-</u> | (19,371,380) | (19,371,380) |
| Transactions with owners of the company | | | | |
| Shares repurchased | - | (3,292,635) | - | (3,292,635) |
| Distribution to owners: | | | | |
| Dividend paid (note 23), being total distribution to owners | <u>-</u> | <u>-</u> | (18,533,152) | (18,533,152) |
| Total transactions with owners of the company | <u>-</u> | <u>3,292,635</u> | <u>18,533,152</u> | <u>21,825,787</u> |
| Balances at December 31, 2014 | <u>406,608,605</u> | <u>(3,292,635)</u> | <u>85,568,943</u> | <u>488,884,913</u> |

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

KINGSTON PROPERTIES LIMITEDSeparate Statement of Cash Flows
Year ended December 31, 2014

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|--|--------------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Loss for the year | | (19,371,380) | (37,494,864) |
| Adjustments to reconcile loss for the year to net cash provided by/(used in) operating activities: | | | |
| Depreciation | 11 | 408,059 | 303,143 |
| Income tax credit/(charge) | | 1,737,988 | (3,896,786) |
| Interest income | | (26,696) | (59,012) |
| Impairment loss | | 4,057,182 | - |
| Interest expense | | 23,176,514 | 20,975,665 |
| Unrealized foreign exchange losses on note and loans payable | | <u>31,098,401</u> | <u>47,669,602</u> |
| Operating profit before changes in working capital | | 41,080,068 | 27,497,748 |
| Changes in: | | | |
| Other receivables | | 589,396 | 574,612 |
| Accounts payable and accrued charges | | (1,262,937) | 725,694 |
| Owed by subsidiaries | | 4,394,027 | (1,753,780) |
| Owed to subsidiary | | <u>12,717,669</u> | <u>27,663,352</u> |
| Net cash provided by operating activities | | <u>57,518,223</u> | <u>54,707,626</u> |
| Cash flows from investing activities | | | |
| Interest received | | 26,696 | 54,252 |
| Securities purchased under agreements to resell | | 14,068,630 | (11,670,047) |
| Land held for development | | - | (18,497,177) |
| Additions to office equipment | 11 | (435,360) | (1,411,700) |
| Additions to investment property | 9(b) | <u>(3,814,060)</u> | <u>(509,258)</u> |
| Net cash provided by/(used in) investing activities | | <u>9,845,906</u> | <u>(32,033,930)</u> |
| Cash flows from financing activities | | | |
| Interest paid | | (23,176,514) | (17,386,959) |
| Dividend paid | | (18,533,152) | (9,927,031) |
| Note payable | | (1,047,516) | 166,063 |
| Loans payable | | (19,396,028) | 1,854,542 |
| Treasury shares | | <u>(3,292,635)</u> | - |
| Net cash (used in)/provided by financing activities | | <u>(65,445,845)</u> | <u>(25,293,385)</u> |
| Net increase in cash and cash equivalents | | 1,918,284 | (2,619,689) |
| Cash and cash equivalents at beginning of year | | 147,753 | 2,742,620 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | <u>3,322</u> | <u>24,822</u> |
| Cash and cash equivalents at end of year | 17 | <u>\$ 2,069,359</u> | <u>147,753</u> |

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2014

1. Identification and principal activities

Kingston Properties Limited ("the Company") is incorporated in Jamaica under the Companies Act. The Company is domiciled in Jamaica, with its registered office at 7 Stanton Terrace, Kingston 6, and the principal place of business at Building B, first floor, 36-38 Red Hills Road, Kingston 10.

The company is listed on the Jamaica Stock Exchange.

The Company has two wholly-owned subsidiaries:

- (i) Carlton Savannah REIT (St. Lucia) Limited, incorporated in St. Lucia under the International Business Companies Act; and its wholly owned subsidiary:
- (ii) Kingston Properties Miami LLC, incorporated in Florida under the Florida Limited Liability Company Act.

The Company and its subsidiaries are collectively referred to as "Group". In these financial statements 'parent' refers to the Company and 'intermediate parent' refers to its wholly owned subsidiary, Carlton Savannah REIT (St. Lucia) Limited.

The principal activity of the Group is to make accessible to investors, the income earned from the ownership of real estate properties.

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, and comply with the relevant provisions of the Jamaican Companies Act ("the Act").

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

Certain new, revised and amended standards and interpretations came into effect during the financial year under review. The Group has assessed them and has adopted those which are relevant to the financial statements. However, none of them had any effect on the amounts or disclosures in these financial statements.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

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

At the date of approval of these financial statements, certain new, revised and amended standards and interpretations were in issue but had not yet come into effect. They were not adopted early and therefore have not been taken into account in preparing these financial statements. Those which are relevant to the company are set out below:

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.
- IFRS 15, *Revenue from Contracts with Customers*, is effective for annual reporting periods beginning on or after January 1, 2017. It replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. The new standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New, revised and amended standards and interpretations that are not yet effective (cont'd):

- *Improvements to IFRS, 2011-2013* cycles, contain amendments to certain standards and interpretations and are effective for annual reporting periods beginning on or after July 1, 2014. The main amendments applicable to the Group are as follows:
 - IFRS 13, *Fair Value Measurement*, has been amended to clarify that issuing of the standard and consequential amendments to IAS 39 and IFRS 9, did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.
 - IAS 16, *Property, Plant and Equipment*, and IAS38, *Intangible Assets*, have been amended to clarify that, at the date of revaluation:
 - (i) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking account of accumulated impairment losses; or
 - (ii) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset.
 - *IAS 24, Related Party Disclosures*, has been amended to extend the definition of 'related party' to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. For related party transactions that arise when key management personnel services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the key management personnel services.
 - *IAS 40, Investment Property*, has been amended to clarify that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

New, revised and amended standards and interpretations that are not yet effective (cont'd)

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

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

The Group is assessing the impact that these new and amended standards will, when they become effective, have on its financial statements.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The financial statements are presented in Jamaica dollars (\$), unless otherwise indicated, which is the functional currency of the Company. The financial statements of the subsidiaries, which have a different functional currency, are translated into the presentation currency in the manner described in note 3(g)(ii).

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS and the Act requires management to make estimates, based on assumptions. It also requires management to make judgements. These estimates and judgements that affect the application of accounting policies and the reported amounts of, and disclosures related to, 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 the assumptions underlying them, are based on historical experience and/or various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of estimating the carrying values of assets and liabilities that are not readily apparent from other sources.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

2. Statement of compliance and basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

The estimates, including the assumptions underlying them, are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Items where estimates have a significant effect on amounts recognized in the financial statements, and/or where there is a significant risk of material adjustment in the next year because of a change in estimate, and significant judgements made in applying the Group accounting policies are as follows:

(i) Main source of estimation uncertainty

Investment property is carried at fair value. Given the infrequency of trades in comparable properties in some cases, and therefore the absence of a number of observable recent market prices, fair value is less objective and requires significant estimation, which is impacted by the uncertainty of market factors, pricing assumptions and general business and economic conditions [see note 9(c)].

(ii) Critical accounting judgements in applying the Group's accounting policies

There were no critical accounting judgements in applying the Group's accounting policies that have a significant effect on the financial statements.

3. Significant accounting policies

(a) Consolidation:

The consolidated financial statements combine the financial position, results of operations and cash flows of the Company and its subsidiaries (note 1), after eliminating intra-group amounts.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

3. Significant accounting policies (cont'd)

(b) Investment in subsidiary

Investment in the wholly-owned subsidiary (note 1) is accounted for at cost less, if any, impairment losses.

(c) Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(d) Accounts payable and accrued charges

Accounts payable and accrued charges are stated at cost.

(e) Receivables

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

(f) Related parties

A related party is a person or entity that is related to the Group.

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

- (1) has control or joint control over the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or of a parent of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) 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).
- (3) Both entities are joint ventures of the same third party.
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

3. Significant accounting policies (cont'd)

(f) Related parties (cont'd)

(ii) An entity is related to the Group if any of the following conditions applies (cont'd):

- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled, or jointly controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(g) Foreign currencies:

- (i) Transactions in foreign currencies are translated to the respective functional currencies of the Group at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Exchange differences arising on settlement of monetary items or on reporting the Group's monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements, are recognized as income or expense in the period in which they arise. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at historical cost are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments.

Exchange differences arising on a monetary item that, in substance, forms a part of the Company's net investment in a foreign entity is included in equity in these financial statements until the disposal of the net investment, at which time they are recognized as income or expense.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

3. Significant accounting policies (cont'd)

(g) Foreign currencies (cont'd):

(ii) The assets and liabilities of the foreign operations, which are “foreign entities”, as defined in IFRS, are translated into Jamaica dollars for the purpose of inclusion in these financial statements as follows:

- (1) all assets and liabilities at the rate ruling at the reporting date;
- (2) all income and expense items at the exchange rate ruling at the dates of the transactions;
- (3) the resulting exchange differences are included in equity until the disposal of the investment.

(h) Impairment:

The carrying amount of the Group’s assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for any asset, the asset’s recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(i) Calculation of recoverable amount:

The recoverable amount of the Group’s receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted at 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.

(ii) Reversals of impairment:

An impairment loss in respect of a receivable is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

In respect of other assets, 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 carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

3. Significant accounting policies (cont'd)

(i) Securities purchased under agreements to resell:

Securities purchased under agreements to resell are transactions in which the Group makes funds available to institutions by entering into short-term agreements with those institutions. They are accounted for as short-term collateralized lending. The difference between purchase and resale considerations is recognized as interest income on the accrual basis over the term of the agreement.

(j) Financial assets and liabilities:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, resale agreements, receivables, and owed by subsidiaries. Financial liabilities comprise loans payable, note payable, owed to subsidiary, accounts payable and accrued charges. Financial liabilities are recognized initially at fair value less any directly attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(i) Recognition:

The Group initially recognizes financial assets on the trade date – the date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition:

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or have expired.

(k) Capital:

(i) Classification:

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

3. Significant accounting policies (cont'd)

(k) Capital (cont'd)

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(iii) Repurchase and reissue of ordinary shares (treasury shares)

When the Company repurchases its own stock, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is shown as a deduction from equity. The repurchased shares are classified as treasury shares and are presented in the treasury share reserve.

(iii) Dividends:

Dividends are recorded in the financial statements in the period in which they are declared and become irrevocably payable.

(l) Income tax

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

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

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets or liabilities. For this purpose the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the company has not rebutted this presumption.

A deferred tax asset is recognized only to the extent that management can demonstrate that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current and deferred tax assets and liabilities are offset in the statement of financial position if they apply to the same tax authority.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
 December 31, 2014

3. Significant accounting policies (cont'd)

(m) Furniture, software and equipment

- (i) Items of office equipment are stated at cost less accumulated depreciation and, if any, impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing part of an item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

The costs of day-to-day servicing of office equipment are recognized in profit or loss as incurred.

- (ii) Depreciation is recognized in profit or loss on the straight-line basis over the estimated useful life of the asset. The depreciation rates for the furniture, software and equipment are as follows:

| | |
|--------------------------|------|
| Software | 33½% |
| Computer and accessories | 20% |
| Furniture and fixtures | 10% |

(n) Investment properties

Investment properties, comprising a commercial complex, a warehouse building and residential condominiums, are held for long-term rental yields and capital gain.

Investment properties are initially recognized at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value.

Fair value is determined every three years by an independent registered valuer, and in each of the two intervening years by the directors. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognized in profit or loss.

(o) Land held for development

Land held for development is carried at the lower of cost and net realizable value. Cost includes acquisition costs and transaction costs.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

3. Significant accounting policies (cont'd)

(p) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

(q) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(r) Revenue recognition

Rental income:

Rental income is recorded in these financial statements on the accrual basis using the straight line method.

(s) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expense that relate to transactions with any of the Group's other components. All operating segments for which discrete information is available are reviewed regularly by the Group's Board of Directors to make decisions about resources to be allocated to the segment and to assess their performance.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

4. Rental income

| | <u>Group</u> | | <u>Company</u> | |
|-----------------------------------|----------------------|-------------------|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Hagley Park Road warehouse | 24,656,750 | 21,077,679 | 24,656,750 | 21,077,679 |
| Red Hills Road commercial complex | 44,027,599 | 38,340,459 | 44,027,599 | 38,340,459 |
| Miami apartment units | 6,224,596 | - | - | - |
| Miami condominiums | <u>33,139,797</u> | <u>32,051,813</u> | <u>-</u> | <u>-</u> |
| | <u>\$108,048,742</u> | <u>91,469,951</u> | <u>68,684,349</u> | <u>59,418,138</u> |

5. Net finance costs

| | <u>Group</u> | | <u>Company</u> | |
|---|-----------------------|---------------------|---------------------|---------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Finance income: | | | | |
| Interest income | <u>7,556,896</u> | <u>6,907,726</u> | <u>26,696</u> | <u>59,012</u> |
| Finance costs: | | | | |
| Interest expense | <u>(25,693,415)</u> | <u>(19,436,945)</u> | <u>(23,176,515)</u> | <u>(20,975,665)</u> |
| Commitment fees | <u>-</u> | <u>(2,210,225)</u> | <u>(2,215,453)</u> | <u>(2,214,829)</u> |
| Foreign exchange gains and losses arising from investing and financing activities: | | | | |
| Net unrealized losses on translation of foreign currency investments and borrowings | <u>(27,748,017)</u> | <u>(47,694,422)</u> | <u>(31,101,722)</u> | <u>(47,694,423)</u> |
| Net realized losses on conversion of foreign currency investments and borrowings | <u>183,674</u> | <u>(1,191,754)</u> | <u>183,674</u> | <u>(1,191,754)</u> |
| | <u>(27,564,343)</u> | <u>(48,886,176)</u> | <u>(30,918,048)</u> | <u>(48,886,177)</u> |
| Total finance costs | <u>(53,257,758)</u> | <u>(70,533,346)</u> | <u>(56,310,016)</u> | <u>(72,076,671)</u> |
| Net finance costs | <u>\$(45,700,862)</u> | <u>(63,625,620)</u> | <u>(56,283,320)</u> | <u>(72,017,659)</u> |

6. Taxation charge/(credit)

(a) Taxation comprises:

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------|------------------|----------------|------------------|-------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| (i) Current income tax expense: | | | | |
| Income tax at 1% | 59,517 | 57,540 | - | - |
| Income tax at 15% | - | 318,076 | - | - |
| Income tax @ 25% | <u>2,257,871</u> | <u>-</u> | <u>2,257,871</u> | <u>-</u> |
| Carried forward | <u>2,317,388</u> | <u>375,616</u> | <u>2,257,871</u> | <u>-</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

6. Taxation charge/(credit) (cont'd)

| | <u>Group</u> | | <u>Company</u> | |
|--|------------------|-------------------|-------------------|--------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| (i) Current income tax expense: | | | | |
| Brought forward | <u>2,317,388</u> | <u>375,616</u> | <u>2,257,871</u> | <u>-</u> |
| (ii) Deferred income tax expense/(credit): | | | | |
| Origination and reversal of temporary differences | <u>1,132,952</u> | <u>54,186,056</u> | <u>(519,883)</u> | <u>(3,896,786)</u> |
| Total income tax (charge)/credit | <u>3,450,340</u> | <u>54,561,672</u> | <u>1,737,988</u> | <u>(3,896,786)</u> |

(b) Reconciliation of effective tax rate:

The tax rate for the Company is 25% (2013: 28.75%) of profit before income tax, adjusted for tax purposes, while the tax rate for the St. Lucia subsidiary is 1% of profits, and that for the Florida subsidiary is 15%. The actual tax charge for the year is as follows:

| | <u>Group</u> | | <u>Company</u> | |
|---|--------------------|--------------------|---------------------|---------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Profit/(loss) before income tax | <u>\$2,313,375</u> | <u>107,057,661</u> | <u>(17,633,392)</u> | <u>(41,391,650)</u> |
| Computed "expected" tax expense/(credit) at Jamaican tax rate of 25% | 578,343 | 26,764,415 | (4,408,348) | (10,347,913) |
| Effect of different tax rates in foreign jurisdictions | (1,797,643) | 14,406,427 | - | - |
| Tax effect of treating certain items differently for financial statement purposes than for tax purposes : | | | | |
| Untaxed credits | (116,568) | - | - | - |
| Accrued interest expense | 1,997,546 | 270,576 | 1,997,546 | 270,576 |
| Disallowed exchange losses, net of gains | 5,927,048 | 11,415,798 | 5,927,048 | 11,415,798 |
| Depreciation | (3,439,363) | 4,674,795 | (2,107,351) | (2,264,908) |
| Other disallowed expenses | 6,404,571 | 4,443,761 | 6,432,687 | 4,443,761 |
| Tax losses | (6,103,594) | (7,414,100) | (6,103,594) | (7,414,100) |
| Actual tax charge/(credit) | <u>\$3,450,340</u> | <u>54,561,672</u> | <u>1,737,988</u> | <u>(3,896,786)</u> |
| Effective rate of tax charge/(credit) | <u>149.15%</u> | <u>50.96%</u> | <u>9.86%</u> | <u>(9.41)%</u> |

- (c) At December 31, 2014, subject to the agreement of the Commissioner General, Tax Administration Jamaica, income tax losses, available for set-off against future taxable profits, amounted to approximately \$20,600,000 (2013: \$29,700,000)

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

7. (Loss)/profit for the year

The following are among the items charged in arriving at the (loss)/profit for the year:

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------------|------------------|----------------|----------------|----------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| | \$ | \$ | \$ | \$ |
| Auditors' remuneration | 2,827,700 | 2,504,000 | 1,605,000 | 1,500,000 |
| Key management personnel compensation | | | | |
| Directors' remuneration: | | | | |
| - salaries and incentives | 5,313,910 | 4,802,017 | 5,313,910 | 4,802,017 |
| - fees | <u>1,453,089</u> | <u>807,961</u> | <u>726,543</u> | <u>390,168</u> |

Key management personnel comprise the Board of Directors, a member of which is the executive director.

8. Earnings per stock unit

The earnings per stock unit is computed by dividing the (loss)/ profit for the year of (\$1,136,965) (2013: \$52,495,989) by the weighted average number of stock units in issue during the year, numbering 68,798,669 (2013: 68,800,102).

9. Investment properties

(a) Investment properties held by the Group are as follows:

| | <u>Group</u> | | <u>Company</u> | |
|--|----------------------|----------------------|--------------------|--------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Hagley Park Road warehouse (i) | - | 200,509,258 | - | 200,509,258 |
| Miami condominiums (ii) | 352,229,219 | 421,808,863 | - | - |
| Miami apartment complex (iii) | 217,969,575 | - | - | - |
| Red Hills Road commercial complex (iv) | - | - | - | - |
| | <u>383,590,060</u> | <u>380,000,000</u> | <u>383,590,060</u> | <u>380,000,000</u> |
| | <u>\$953,788,854</u> | <u>1,002,318,121</u> | <u>383,590,060</u> | <u>580,509,258</u> |

- (i) This represents 26,000 square feet of commercial property located on Hagley Park Road, Kingston, Jamaica which was disposed of in January 2015 see note 9(b)(ii).
- (ii) This represents 12,380 (2013:16,092) square feet of residential condominium space comprising 15 (2013: 19) units in the Loft II building located at 133 NE 2nd Avenue in downtown Miami, Florida.
- (iii) This represents a 19 unit apartment complex, purchased on August 26, 2014, located at 555 NW 4th Street, Miami, Florida
- (iv) This represents a commercial property of 52,012 square feet on Red Hills Road, Kingston, Jamaica.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

9. Investment properties (cont'd)

(b) (i) The carrying amounts of investment properties have been determined as follows:

| | Group | | Company | |
|--|-----------------------|----------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Balance as at January 1, 2014 | 1,002,318,121 | 834,085,129 | 580,509,258 | 580,000,000 |
| Additions during the year | 221,784,586 | 509,258 | 3,814,060 | 509,258 |
| Disposals during the year | (100,990,189) | - | - | - |
| Increase in fair value [see (c)(ii)] | - | 130,316,200 | - | - |
| Impairment loss [see (b)(ii)] | (4,057,182) | - | (4,057,182) | - |
| Reclassified to asset held for sale [see (b)(ii)] | (196,676,076) | - | (196,676,076) | - |
| Foreign currency translation adjustments | 31,409,594 | 37,407,534 | - | - |
| Balance at December 31, 2014 | <u>\$ 953,788,854</u> | <u>1,002,318,121</u> | <u>383,590,060</u> | <u>580,509,258</u> |

The fair value measurement for investment properties is classified as Level 3.

Valuation techniques and significant unobservable inputs:

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

| Valuation techniques | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|--|---|---|
| <p><i>Investment approach:</i> The valuation model examines the price an investor would be prepared to pay for the right to receive a certain income stream.</p> <p>The model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, and current rental rates. The estimated net cash flows are discounted using current yields. Among other factors, the yield estimation considers the quality of a building and its location, tenants' credit quality and lease terms.</p> | <ul style="list-style-type: none"> • Expected market rental growth • Yields • Rental rates | <p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Expected market rental growth were higher (lower); • The occupancy rate were higher (lower) • Rent-free periods were shorter (longer); or • Yields were lower (higher) |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

9. Investment properties (cont'd)

- (b) (i) The carrying amounts of investment properties have been determined as follows (cont'd):

| Valuation techniques | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|---|--|
| <p><i>Sales comparison approach:</i> The approach relies heavily upon the principle of substitution. Recent sales of similar properties are gathered and a meaningful unit of comparison is developed.</p> <p>Then a comparative analysis of the subject is done, involving consideration for differences in location, time, terms of sales and physical characteristics.</p> | <ul style="list-style-type: none"> • Sales of similar properties | <p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Sales prices of similar properties were higher/(lower) |
| <p><i>Income approach:</i> This approach converts anticipated annual net income into an indication of value. This process is called capitalization, and involves multiplying the annual net income by a factor or dividing it by a rate that weighs such considerations such as risk, time, and return on investment</p> | <ul style="list-style-type: none"> • Annual net income | <p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Annual net income was higher/(lower) |

- (b) (ii) In July 2014, management committed to a plan to sell the Hagley Park Road warehouse. Accordingly, the property was reclassified to asset held for sale. The sale of the property was completed in January 2015.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

9. Investment properties (cont'd)

- (b) (ii) On reclassification to asset held for sale, the property was remeasured to the lower of its carrying amount and fair value less costs to sell. As a result an impairment loss of \$4,057,182 was recognized in profit or loss, as follows:

| | <u>Net adjustment for impairment</u> | <u>Fair value less cost to sell</u> |
|---|--|---|
| | \$ | \$ |
| Carrying amount at beginning of year | | 200,733,258 |
| Revaluation increase based on agreed selling price of US\$2,000,000 | 27,505,342 | <u>27,505,342</u> |
| | | 228,238,600 |
| Adjustment upon reclassification to reflect asset at fair value less cost to sell | (31,562,524) | (31,562,524) |
| | <u>(4,057,182)</u> | <u>196,676,076</u> |

- (c) (i) The fair value of investment properties as at the reporting date is based on estimates of open market value, which may be defined as the best price at which an interest in a property might reasonably be expected to be sold by private treaty at the date of valuation, assuming:

- a willing seller;
- a willing buyer;
- a reasonable period in which to negotiate a sale, taking into account the nature of the property and state of the market;
- values are expected to remain stable throughout the period of market exposure and disposal by way of sale;
- the property will be freely exposed to the market;
- that no account has been taken of any possible additional bid/s reflecting any premium in price which might be forth-coming from a potential purchaser with a special interest in acquiring the premises; and
- that the subject premises, in its current zoned use class, can be sold, exchanged, transferred, let, mortgaged or used for any other economic activity, within its land use class, in the open market.

- (ii) The Red Hills Road and Hagley Park Road properties were revalued as at December 31, 2012, by independent valuers, NAI Jamaica Langford and Brown, of Kingston, Jamaica, who have an appropriate recognized professional qualification and recent experience in the location and category of the properties being valued. The increase in the fair value of the investment property of approximately \$183 million was credited to income [note 3(n)] in the prior year.

- (d) Gross rental income from investment properties:

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------|----------------------|-------------------|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Gross rental income (note 4) | <u>\$108,048,742</u> | <u>91,469,951</u> | <u>68,684,349</u> | <u>59,418,138</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

9. Investment properties (cont'd)

(e) Property operating expenses are as follows:

| | <u>Group</u> | | <u>Company</u> | |
|-----------------------------|---------------------|-------------------|------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Homeowners' association fee | 11,082,818 | 10,944,831 | - | - |
| Insurance premium | 7,816,084 | 6,560,952 | 6,221,520 | 5,814,851 |
| Property taxes | 9,196,317 | 7,120,531 | 1,147,532 | 737,495 |
| Professional fees | 2,394,028 | 4,393,517 | 2,319,164 | 909,000 |
| Maintenance | <u>3,783,038</u> | <u>4,558,594</u> | <u>27,013</u> | <u>3,551,297</u> |
| | <u>\$34,272,285</u> | <u>33,578,425</u> | <u>9,715,229</u> | <u>11,012,643</u> |

10. Land held for development

This represents land in Waterworks, Westmoreland, Jamaica, held for development.

11. Furniture, software and equipment

| | <u>Group</u> | | |
|---|---|--------------------------|------------------|
| | <u>Office furniture & equipment</u> | <u>Computer software</u> | <u>Total</u> |
| Cost: | | | |
| December 31, 2012 | 1,973,257 | 294,879 | 2,268,136 |
| Foreign currency translation adjustment | - | 43,414 | 43,414 |
| Additions | <u>1,411,700</u> | <u>-</u> | <u>1,411,700</u> |
| December 31, 2013 | 3,384,957 | 338,293 | 3,723,250 |
| Additions | <u>435,360</u> | <u>-</u> | <u>435,360</u> |
| December 31, 2014 | <u>3,820,317</u> | <u>338,293</u> | <u>4,158,610</u> |
| Depreciation: | | | |
| December 31, 2012 | 258,918 | 204,780 | 463,698 |
| Foreign currency translation adjustment | - | 35,061 | 35,061 |
| Charge for year | <u>303,143</u> | <u>98,452</u> | <u>401,595</u> |
| December 31, 2013 | 562,061 | 338,293 | 900,354 |
| Charge for year | <u>408,059</u> | <u>-</u> | <u>408,059</u> |
| December 31, 2014 | <u>970,120</u> | <u>338,293</u> | <u>1,308,413</u> |
| Net book value: | | | |
| December 31, 2014 | <u>\$2,850,197</u> | <u>-</u> | <u>2,850,197</u> |
| December 31, 2013 | <u>\$2,822,896</u> | <u>-</u> | <u>2,822,896</u> |
| December 31, 2012 | <u>\$1,714,339</u> | <u>90,099</u> | <u>1,804,438</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 201411. Furniture, software and equipment (cont'd)

| | <u>Company</u> |
|-------------------|---|
| | <u>Office Furniture & equipment</u> |
| Cost: | |
| December 31, 2012 | 1,973,257 |
| Additions | <u>1,411,700</u> |
| December 31, 2013 | 3,384,957 |
| Additions | <u>435,360</u> |
| December 31, 2014 | <u>3,820,317</u> |
| Depreciation: | |
| December 31, 2012 | 258,918 |
| Charge for year | <u>303,143</u> |
| December 31, 2013 | 562,061 |
| Charge for year | <u>408,059</u> |
| December 31, 2014 | <u>970,120</u> |
| Net book value: | |
| December 31, 2014 | <u>\$2,850,197</u> |
| December 31, 2013 | <u>\$2,822,896</u> |
| December 31, 2012 | <u>\$1,714,339</u> |

12. Deferred tax (liability)/asset

Deferred taxation is calculated on all temporary differences using a principal tax rate of 25% (2013: 25%) for the company and a range of tax rates for the Group. The balances and movements are as follows:

| | <u>Group</u> | | | | | |
|--|---|---|---|---|-------------------------------------|---|
| | <u>Balance at December 31, 2012</u> | <u>Recognised in profit or loss</u> | <u>Balance at December 31, 2013</u> | <u>Recognised in profit or loss</u> | <u>Recognised in equity</u> | <u>Balance at December 31, 2014</u> |
| Investment property | - | (58,175,180) | (58,175,180) | (1,728,802) | (4,572,350) | (64,476,332) |
| Payable | - | 92,338 | 92,338 | 75,967 | - | 168,305 |
| Property, furniture, software and equipment | (4,229,714) | (3,554,124) | (7,783,838) | (636,123) | - | (8,419,961) |
| Tax losses | 8,864,578 | (1,053,525) | 7,811,053 | (2,654,824) | - | 5,156,229 |
| Unrealized foreign exchange losses | <u>2,501,646</u> | <u>8,504,435</u> | <u>11,006,081</u> | <u>3,810,830</u> | <u>-</u> | <u>14,816,911</u> |
| | <u>\$7,136,510</u> | <u>(54,186,056)</u> | <u>(47,049,546)</u> | <u>(1,132,952)</u> | <u>(4,572,350)</u> | <u>(52,754,848)</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

12. Deferred tax (liability)/asset (cont'd)

| | <u>Company</u> | | | | |
|---|---|---|---|---|---|
| | <u>Balance at December 31, 2012</u> | <u>Recognised in profit or loss</u> | <u>Balance at December 31, 2013</u> | <u>Recognised in profit or loss</u> | <u>Balance at December 31, 2014</u> |
| Property, furniture, software and equipment | (4,229,714) | (3,554,124) | (7,783,838) | (636,123) | (8,419,961) |
| Receivables | - | - | - | - | - |
| Tax losses | 8,864,578 | (1,053,525) | 7,811,053 | (2,654,824) | 5,156,229 |
| Unrealized foreign exchange losses | <u>2,501,646</u> | <u>8,504,435</u> | <u>11,006,081</u> | <u>3,810,830</u> | <u>14,816,911</u> |
| | <u>\$7,136,510</u> | <u>3,896,786</u> | <u>11,033,296</u> | <u>519,883</u> | <u>11,553,179</u> |

13. Investment in subsidiaries

The parent's investment in subsidiaries comprises the amount paid for shares in, and the amount of funds borrowed from, Carlton Savannah REIT (St. Lucia) Limited and funds loaned to Kingston Properties Miami LLC.

| | <u>Company</u> | |
|---|----------------------|----------------------|
| | <u>2014</u> | <u>2013</u> |
| Carlton Savannah REIT (St. Lucia) Limited: | | |
| Amount paid for shares | 282,156,561 | 282,156,561 |
| Funds borrowed [see (i) below] | <u>(208,576,584)</u> | <u>(208,576,584)</u> |
| | 73,579,977 | 73,579,977 |
| Kingston Properties Miami LLC [see (ii) below]: | | |
| Loan | <u>235,150,752</u> | <u>235,150,752</u> |
| | <u>\$308,730,729</u> | <u>308,730,729</u> |

(i) The sum of \$208,576,584 is the portion of an amount that the Company borrowed from Carlton Savannah REIT (St. Lucia) Limited which it on-lent to Kingston Properties Miami LLC for the purpose of acquiring condominiums in Miami in the year 2010.

(ii) Kingston Properties Miami LLC:

Kingston Properties Miami LLC has no share capital; the parent's sole ownership and control of it are by virtue of the intermediate parent (note 1) being its sole member. The loan to this subsidiary constitutes the parent's investment in this subsidiary.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

14. Owed by/(to) subsidiaries

| | <u>Company</u> | |
|--|-------------------------|-----------------------|
| | <u>2014</u> | <u>2013</u> |
| Owed by subsidiaries: | | |
| Carlton Savannah REIT (St. Lucia) Limited | | |
| US\$7,582 (2013: US\$49,478) [see (i) below] | \$ <u>869,383</u> | <u>5,263,411</u> |
| Owed to subsidiary: | | |
| Kingston Properties Miami LLC | | |
| US\$458,497 (2013: US\$374,640) [see (ii) below] | \$(<u>52,323,348</u>) | (<u>39,605,679</u>) |
| (i) This represents advances and charges paid by the Company on behalf of its subsidiary, Carlton Savannah REIT (St. Lucia) Limited. The amount is interest free, unsecured and has no fixed repayment date. | | |
| (ii) Owed to subsidiary comprises (1) interest at 8.5% accrued on loan (note 20) plus (2) related loan transaction costs, totaling US\$99,361, paid by the subsidiary, Kingston Properties Miami LLC, and recoverable from the Company. The balance is interest free, unsecured and, with respect to the accrued interest, has no fixed repayment date, while the portion owing for the transaction costs is payable over five years, the final payment being due on September 28, 2017. | | |

15. Receivables

| | <u>Group</u> | | <u>Company</u> | |
|------------------------------|---------------------|-------------------|------------------|------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Rent receivable | 1,376,923 | 835,541 | 835,541 | 835,541 |
| Less: provision for bad debt | (835,541) | (835,541) | (835,541) | (835,541) |
| | 541,382 | - | - | - |
| Withholding tax recoverable | 6,148,769 | 3,803,501 | 3,810,465 | 3,803,501 |
| Security deposits | 2,331,245 | 2,553,702 | 74,650 | 74,650 |
| Prepayments | 2,507,668 | 1,311,642 | 959,397 | 1,019,197 |
| Interest receivable | 1,261,386 | 3,486,895 | - | 4,760 |
| Other prepayments | 727,535 | | | |
| Other receivables | - | 531,799 | - | 531,800 |
| | <u>\$13,517,985</u> | <u>11,687,539</u> | <u>4,844,512</u> | <u>5,433,908</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

16. Securities purchased under agreements to resell

The Group entered into reverse repurchase agreements with major financial institutions, collateralized by Government of Jamaica securities.

The fair value of the securities used to collateralize the reverse repurchase agreements was \$487,853 (2013: \$14,556,483) at the reporting date.

17. Cash and cash equivalents

| | Group | | Company | |
|--|----------------------|--------------------|------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest bearing accounts [see note 21 (i)] | 223,488,863 | 206,502,711 | 80,326 | 30,218 |
| Current accounts | <u>9,171,571</u> | <u>5,561,705</u> | <u>1,989,033</u> | <u>117,536</u> |
| | <u>\$232,660,434</u> | <u>212,064,416</u> | <u>2,069,359</u> | <u>147,754</u> |

18. Share capital

| | 2014 | 2013 |
|--|----------------------|--------------------|
| Authorized capital: 500,000,000 ordinary shares of no par value | | |
| Issued and fully paid: 2014: 68,371,602 (2013:68,800,102) ordinary shares | <u>\$406,608,605</u> | <u>406,608,605</u> |

19. Treasury shares

The decision was made by the Board of Directors during the financial year for the Company to reacquire some of its own shares. The repurchase of these shares was conducted on the open market through the Company's stockbrokers. As of December 21, 2014, the Company had repurchased 428,500 shares at a cost of \$3,292,635 (2013: Nil).

20. Note payable

| | Company | |
|-------------------------------|----------------------|--------------------|
| | 2014 | 2013 |
| Kingston Properties Miami LLC | <u>\$114,660,700</u> | <u>106,377,700</u> |

In September 2012, the company borrowed approximately US\$1 million from a subsidiary, Kingston Properties Miami LLC. The note is for a period of twenty five (25) years and attracts interest at a rate of 8.5% per annum, payable on a quarterly basis. The note is unsecured and repayment is neither required nor expected to occur in the foreseeable future.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
 December 31, 2014

21. Loans payable

| | <u>Group</u> | |
|---|----------------------|---------------------|
| | <u>2014</u> | <u>2013</u> |
| Bank loan [see (i)] | | |
| Face amount | 217,855,330 | 202,117,629 |
| Unamortized transaction costs | <u>-</u> | <u>(415,658)</u> |
| Carrying value | 217,855,330 | 201,701,971 |
| Vendor's mortgage [see (ii)] | <u>39,010,132</u> | <u>52,728,313</u> |
| Total bank loan and vendor's mortgage | <u>256,865,462</u> | <u>254,430,284</u> |
| Other mortgage loan – No 1 [see (iii)]: | | |
| Face amount | 122,457,627 | 113,611,384 |
| Unamortized transaction costs | <u>(6,047,388)</u> | <u>(7,756,049)</u> |
| | <u>116,410,239</u> | <u>105,855,335</u> |
| Other mortgage loan – No 2 [see (iv)] | <u>113,076,007</u> | <u>-</u> |
| Total loans payable | <u>\$486,351,708</u> | <u>360,285,619</u> |
| Classified as follows: | | |
| Non-current | | |
| Vendor's mortgage [see (ii)] | 18,261,132 | 36,192,751 |
| Other mortgage loan – No 1 [see (iii)] | 116,410,239 | 105,855,335 |
| Other mortgage loan – No 2 [see (iv)] | <u>113,076,006</u> | <u>-</u> |
| | <u>247,747,377</u> | <u>142,048,086</u> |
| Current | | |
| Bank loan [see (i)] | 217,855,331 | 201,701,971 |
| Vendor's mortgage [see (ii)] | <u>20,749,000</u> | <u>16,535,562</u> |
| | <u>238,604,331</u> | <u>218,237,533</u> |
| Total loans payable | <u>\$486,351,708</u> | <u>360,285,619</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

21. Loans payable (cont'd)

| | <u>Company</u> | |
|--|----------------------|--------------------|
| | <u>2014</u> | <u>2013</u> |
| Bank loan [see (i)] | | |
| Face amount | 217,855,330 | 202,117,629 |
| Unamortized transaction costs | <u>-</u> | <u>(415,658)</u> |
| Carrying value | 217,855,330 | 201,701,971 |
| Vendor's mortgage [see (ii)] | <u>39,010,132</u> | <u>52,728,313</u> |
| Total bank loans and vendor's mortgage | <u>\$256,865,462</u> | <u>254,430,284</u> |
| Classified as follows: | | |
| Non-current | | |
| Vendor's mortgage [see (ii)] | <u>18,261,132</u> | <u>36,192,751</u> |
| Current | | |
| Bank loans [see (i)] | 217,855,330 | 201,701,971 |
| Vendor's mortgage [see (ii)] | <u>20,749,000</u> | <u>16,535,562</u> |
| | <u>238,604,330</u> | <u>218,237,533</u> |
| Total loans payable | <u>\$256,865,462</u> | <u>254,430,284</u> |

(i) Bank loan

This represents a draw-down under a credit facility of US\$1,899,988 (J\$217,855,329) [2013: US\$1,899,988, (J\$202,117,692)] evidenced by a promissory note. The loan currently attracts interest at a rate of 5% per annum. The loan was renewed on August 15, 2013, and is repayable twelve months from date of disbursement.

It is secured by hypothecation of a deposit of US\$1,952,000 (2013: US\$1,952,000) held by a subsidiary with the bank [see note 17], and a corporate guarantee by that subsidiary limited to the extent of the facility.

(ii) Vendor's mortgage

These amounts represent balances owing under a mortgage of US\$780,000 from the vendor of the Red Hills Road property [see note 9(a)]. It bears interest at a rate of 6% per annum and is repayable in sixty (60) monthly installments, which commenced on January 1, 2012.

(iii) Other mortgage loan – No 1 – Best Meridian Insurance Company

This is a loan of US\$1,068,000 (2013: \$1,068,000) payable by Kingston Properties Miami LLC to Best Meridian Insurance Company, a Florida corporation. The note attracts interest at a rate of 6.5% per annum, with monthly interest payments of \$5,785, which commenced on October 1, 2012. These monthly payments continue on the first day of each month thereafter until September 1, 2017, at which time the entire remaining unpaid principal balance and accrued interest will become due and payable. The loan is secured by a mortgage over the condominiums, known as Loft II, located in Miami-Dade County, Florida, owned by the Group [see note 9(a)].

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

21. Loans payable (cont'd)

(iii) Other mortgage loan No 1 – Best Meridian Insurance Company (cont'd)

Transaction costs of approximately US\$99,000 were incurred in obtaining the loan. These costs were deducted from the loan amount and are being amortized over the life of the loan.

(iv) Other mortgage loan No 2 – InterAmerican Bank

This represents a loan of US\$990,000 payable by Kingston Properties Miami LLC to the Interamerican Bank, a financial institution in Florida. Interest is charged at 5.25% with effect from October 5, 2014 during the first five years; thereafter, the interest rate shall be adjusted at a fixed rate per annum calculated by adding 1.00% to the then New York Prime rate as published in the Wall Street Journal.

The loan is repayable on September 5, 2024. It is secured by a first mortgage lien and a first lien security interest on the property at 555 SW 4th Street, and on all improvements, furniture, fixtures and personal property (tangible and intangible) thereon or with respect thereto, including a first priority interest in the assignment of rents, leases and profits.

22. Accounts payable and accrued charges

| | <u>Group</u> | | <u>Company</u> | |
|------------------------------------|---------------------|-------------------|-------------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Accounts payable | 1,162,100 | 455,292 | 920,073 | 455,292 |
| Interest payable | 1,108,544 | 4,204,101 | - | 3,588,706 |
| Accounting and audit fees | 3,256,449 | 2,909,306 | 1,819,989 | 1,640,965 |
| Dividend payable | 217,156 | 260,379 | 217,156 | 260,379 |
| Other payables and accrued charges | 6,279,816 | 4,635,020 | 5,983,750 | 4,483,500 |
| Security deposits held | <u>13,053,710</u> | <u>11,888,762</u> | <u>6,295,264</u> | <u>6,070,327</u> |
| | <u>\$25,077,775</u> | <u>24,352,860</u> | <u>15,236,232</u> | <u>16,499,169</u> |

23. Dividends

| | <u>Group and Company</u> | |
|---|--------------------------|------------------|
| | <u>2014</u> | <u>2013</u> |
| Paid in respect of 2014: US\$0.0025 (2013: In respect of 2013: US\$0.0015) per share | <u>\$18,533,152</u> | <u>9,927,031</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

24. Segment reporting

The Group has three operating segments. Internal management reports are reviewed monthly by the Board. Information regarding the reportable segments is included below.

Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board. Segment reports are used to measure performance as management believes that such information is the most relevant in evaluating the results of the segment compared to other entities that operate within these industries.

| | 2014 | | | | Group \$ |
|--|----------------------|---|------------------------|--------------------------|----------------------|
| | <u>Jamaica</u> \$ | <u>United States of America</u> \$ | <u>St. Lucia</u> \$ | <u>Elimination</u> \$ | |
| External revenue | 68,684,349 | 39,364,393 | - | - | 108,048,742 |
| Operating expenses | (26,230,576) | (28,975,686) | (1,616,363) | - | (56,822,625) |
| Results of operating activities before other income/gains | 42,453,773 | 10,388,707 | (1,616,364) | - | 51,226,117 |
| Other income gains: | | | | | |
| Gain on disposal of investment property | - | 497,357 | - | - | 497,357 |
| Miscellaneous income | 253,337 | 2,310,063 | - | (2,215,453) | 347,945 |
| Interest income | 26,696 | 9,454,534 | 7,529,149 | (9,453,483) | 7,556,896 |
| Interest expense | (23,176,514) | (11,970,384) | - | 9,453,483 | (25,693,415) |
| Commitment fees | (2,215,453) | - | - | 2,215,453 | - |
| Impairment loss | (4,057,182) | - | - | - | (4,057,182) |
| Net losses on translation of foreign currency balances | (30,918,049) | - | - | 3,353,706 | (27,564,343) |
| (Loss)/profit before tax | (17,633,392) | 10,680,277 | 5,912,785 | 3,353,706 | 2,313,375 |
| Income tax expense | (1,737,988) | (1,652,839) | (59,513) | - | (3,450,340) |
| (Loss)/ profit after tax | (19,371,380) | 9,027,438 | 5,853,272 | (3,353,706) | (1,136,965) |
| Segment assets | <u>930,168,526</u> | <u>751,777,467</u> | <u>436,082,119</u> | <u>(669,549,536)</u> | <u>1,418,478,576</u> |
| Segment liabilities | <u>441,283,613</u> | <u>541,035,341</u> | <u>1,619,523</u> | <u>(417,392,974)</u> | <u>566,545,503</u> |
| Other segment items: | | | | | |
| Capital expenditure | <u>4,249,420</u> | <u>217,969,575</u> | <u>-</u> | <u>-</u> | <u>222,218,995</u> |
| Depreciation | <u>408,059</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>408,059</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

24. Segment reporting (cont'd)

| | 2013 | | | | |
|---|----------------------|---------------------------------------|------------------------|--------------------------|----------------------|
| | <u>Jamaica</u> \$ | <u>United States of America</u> \$ | <u>St. Lucia</u> \$ | <u>Elimination</u> \$ | <u>Group</u> \$ |
| External revenue | 59,418,138 | 32,051,813 | - | - | 91,469,951 |
| Operating expenses | (29,032,129) | (21,926,537) | (1,054,255) | - | (52,012,921) |
| Results of operating activities before other income/gains | 30,386,009 | 10,125,276 | (1,054,255) | - | 39,457,030 |
| Other income gains: | | | | | |
| Fair value gain on investment properties | - | 130,316,200 | - | - | 130,316,200 |
| Miscellaneous income | 240,000 | 2,677,157 | - | (2,007,106) | 910,051 |
| Interest income | 59,012 | 8,604,045 | 6,809,123 | (8,564,454) | 6,907,726 |
| Interest expense | (20,975,665) | (7,025,734) | - | 8,564,454 | (19,436,945) |
| Commitment fees | (2,214,829) | (2,002,502) | - | 2,007,106 | (2,210,225) |
| Net losses on translation of foreign currency balances | (48,886,176) | - | - | - | (48,886,176) |
| Profit before tax | (41,391,649) | 142,694,442 | 5,754,868 | - | 107,057,661 |
| Income tax credit/ (expense) | 3,896,786 | (58,400,918) | (57,540) | - | (54,561,672) |
| (Loss)/ profit after tax | (37,494,863) | 84,293,524 | 5,697,328 | - | 52,495,989 |
| Segment assets | <u>946,994,912</u> | <u>575,735,652</u> | <u>468,469,878</u> | <u>(729,253,810)</u> | <u>1,261,946,632</u> |
| Segment liabilities | <u>416,912,837</u> | <u>406,269,414</u> | <u>6,453,722</u> | <u>(444,895,132)</u> | <u>432,108,458</u> |
| Other segment items: | | | | | |
| Capital expenditure | <u>1,411,700</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,411,700</u> |
| Depreciation | <u>303,143</u> | <u>98,452</u> | <u>-</u> | <u>-</u> | <u>401,595</u> |

During 2014, revenue from one customer of the Group represented approximately \$24,656,750 or 23% (2013: \$21,077,678 or 23%) of the Group's total revenue.

25. Financial instruments and financial risk management

The Group has exposure to credit, liquidity, and market risks, which arise in the ordinary course of the Group's business. This note presents information about the Group's exposure to each of the above-listed risks and the Group's objectives, policies and processes for measuring and managing risk.

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

The risk management policies are established and implemented by the directors to identify and analyze the risks faced by the Group, 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, products and services offered.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

25. Financial instruments and financial risk management (cont'd)

The Board of Directors is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

No derivative instruments are presently used by the Group to mitigate, manage or eliminate exposure to financial instrument risks.

(a) Credit risk:

Credit risk is the risk of a financial loss arising from a counter-party to a financial contract failing to discharge its obligations. The Group manages this risk by establishing policies for granting credit and entering into financial contracts. The Group's credit risk is concentrated, primarily, in cash and cash equivalents, receivables and reverse repurchase agreements.

Exposure to credit risk:

The maximum credit exposure, the total amount of loss that the Group would suffer if every counterparty to the Group's financial assets were to default at once, is represented by the carrying amount of the financial assets shown on the statement of financial position as at the reporting date, as there is no off-balance-sheet exposure to credit risk.

- (i) Cash and cash equivalents are held with financial institutions and collateral is not required for such accounts as management regards the institutions as strong.
- (ii) Receivables comprise the amounts, other than those for withholding tax and prepayments, set out in note 15. Management considers that the credit risk related to the relevant items is not significant.
- (iii) Reverse repurchase agreements expose the Group to credit losses as there is a risk that the counterparty will fail to fulfill its contractual obligations. The Group manages this risk by contracting only with counterparties that management considers to be financially sound.

The Group has no significant concentration of credit risk, except for balances held with an investment broker.

There was no change in the nature of the Group's approach to its credit risk management during the year.

(b) Liquidity risk:

Liquidity risk is the risk that the Group 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 requires the Group to maintain sufficient cash and marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

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Notes to the Financial Statements (cont'd)
December 31, 2014

25. Financial instruments and financial risk management (cont'd)

(b) Liquidity risk (cont'd):

The Group is not subject to any externally-imposed liquidity requirements and there has been no change in the Group's approach to managing its liquidity risk during the year.

The following table presents the contractual maturities of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

Group

| | 2014 | | | | |
|--------------------------------------|----------------------|------------------------|-------------------|--------------------|--------------------|
| | Carrying value | Contractual cash flows | Within 3 month | 3 to 12 months | Over 12 months |
| Loans payable | 486,351,706 | 601,980,109 | 15,805,460 | 249,571,452 | 336,603,197 |
| Accounts payable and accrued charges | <u>25,077,775</u> | <u>25,077,775</u> | <u>14,176,895</u> | <u>10,900,880</u> | <u>-</u> |
| | <u>\$511,429,481</u> | <u>627,057,884</u> | <u>29,982,355</u> | <u>260,472,332</u> | <u>336,603,197</u> |

| | 2013 | | | | |
|--------------------------------------|----------------------|------------------------|-------------------|--------------------|--------------------|
| | Carrying value | Contractual cash flows | Within 3 month | 3 to 12 months | Over 12 months |
| Loans payable | 360,285,619 | 372,301,769 | 58,765,055 | 176,295,164 | 137,241,551 |
| Accounts payable and accrued charges | <u>24,352,860</u> | <u>24,352,860</u> | <u>12,203,760</u> | <u>260,380</u> | <u>11,888,720</u> |
| | <u>\$384,638,479</u> | <u>396,654,629</u> | <u>70,968,815</u> | <u>176,555,544</u> | <u>149,130,271</u> |

Company

| | 2014 | | | | |
|--------------------------------------|----------------------|------------------------|-------------------|--------------------|--------------------|
| | Carrying value | Contractual cash flows | Within 3 month | 3 to 12 months | Over 12 months |
| Loans payable | 256,865,462 | 266,520,892 | 6,979,970 | 238,795,240 | 20,745,681 |
| Accounts payable and accrued charges | 15,236,232 | 15,236,232 | 7,024,285 | 8,211,947 | - |
| Note payable | <u>114,660,700</u> | <u>124,114,183</u> | <u>-</u> | <u>-</u> | <u>124,114,183</u> |
| | <u>\$386,762,394</u> | <u>405,871,307</u> | <u>14,004,255</u> | <u>247,007,187</u> | <u>144,859,864</u> |

| | 2013 | | | | |
|--------------------------------------|----------------------|------------------------|-------------------|--------------------|--------------------|
| | Carrying value | Contractual cash flows | Within 3 month | 3 to 12 months | Over 12 months |
| Loans payable | 254,430,284 | 266,175,695 | 56,918,870 | 170,756,609 | 38,500,217 |
| Accounts payable and accrued charges | 16,499,169 | 16,499,169 | 10,168,463 | 260,380 | 6,070,326 |
| Note payable | <u>106,377,700</u> | <u>114,986,612</u> | <u>-</u> | <u>-</u> | <u>114,986,612</u> |
| | <u>\$377,307,153</u> | <u>397,661,476</u> | <u>67,087,333</u> | <u>171,016,989</u> | <u>159,557,155</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

25. Financial instruments and financial risk management (cont'd)

(c) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

Such risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as foreign exchange and interest rates. The elements of market risk that affect the Group are as follows:

(i) Foreign currency risk

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The Group is exposed to foreign currency risk on transactions that it undertakes in foreign currencies. The main foreign currency giving rise to this risk is the United States dollar. The Group ensures that the risk is kept to an acceptable level by matching foreign currency assets with foreign currency liabilities, to the extent practicable.

The exposure to foreign currency risk at the reporting date was as follows:

| | <u>Group</u> | | <u>Company</u> | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2014</u> US\$ | <u>2013</u> US\$ | <u>2014</u> US\$ | <u>2013</u> US\$ |
| Foreign currency assets: | | | | |
| Cash | 2,050,366 | 2,006,593 | 29,914 | 2,018 |
| Receivables | 76,103 | 59,155 | 100 | 13 |
| Reverse repurchase agreements | <u>4,441</u> | <u>137,694</u> | <u>4,277</u> | <u>137,693</u> |
| | <u>2,130,910</u> | <u>2,203,442</u> | <u>34,291</u> | <u>139,724</u> |
| Foreign currency liabilities: | | | | |
| Payables and accrued charges | (165,255) | (109,055) | (77,209) | (35,226) |
| Loans payable | (4,241,397) | (3,386,852) | (2,240,210) | (2,391,763) |
| Notes payable | <u>-</u> | <u>-</u> | <u>(1,000,000)</u> | <u>(1,000,000)</u> |
| | <u>(4,406,652)</u> | <u>(3,495,907)</u> | <u>(3,317,419)</u> | <u>(3,426,989)</u> |
| Net foreign currency liabilities | <u>(2,275,742)</u> | <u>(1,292,465)</u> | <u>(3,283,128)</u> | <u>(3,287,265)</u> |

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

25. Financial instruments and financial risk management (cont'd)

(c) Market risk (cont'd):

(i) Foreign currency risk (cont'd)

Sensitivity to foreign exchange rate movements

A 10% (2013: 15%) weakening of the Jamaica dollar against the United States dollar at December 31, 2014 would have increased the loss (2013: decreased the profit) of the Group and the Company by \$25,310,805 (2013: \$20,579,274) and \$34,797,513 (2013: \$52,341,477), respectively. The analysis assumes that all other variables, in particular, interest rates, remain constant.

A 1% (2013: 1%) strengthening of the Jamaica dollar against the United States dollar at December 31, 2014 would have decreased the loss (2013: increased the profit) of the Group and the Company by \$2,531,801 (2013: \$1,371,952) and \$3,479,751 (2013: \$83,489,432), respectively, on the basis that all other variables remain constant.

The following rates of exchange of one J\$ for one US\$ applied in respect of the year under review:

| | Average rate | | Reporting date spot rate | | | |
|-----------------------------|---------------|---------------|-----------------------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | | 2013 | |
| | | | Buying | Selling | Buying | Selling |
| United States Dollar (US\$) | <u>111.22</u> | <u>100.77</u> | <u>114.12</u> | <u>114.66</u> | <u>105.72</u> | <u>106.38</u> |

(ii) 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 Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group manages this risk by monitoring interest rates daily. Even though there is no formally predetermined gap limits, to the extent judged appropriate, the maturity profile of the financial assets is matched with that of the financial liabilities. Where gaps occur, management expects that its monitoring will, on a timely basis, identify the need to take quick action to close a gap, if it becomes necessary. As at the year end, the Group was not subject to significant interest rate risk.

Sensitivity to interest rate movements:

The Group does not have variable rate instruments nor does it account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (cont'd)
December 31, 2014

26. Fair value

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

The fair value of cash and cash equivalents, reverse repurchase agreements, receivables, owed by subsidiary, loans payable, accounts payable and owed to subsidiary are considered to approximate their carrying values due to their relatively short-term nature.

27. Capital management

The Company's capital consists of ordinary shares and retained earnings. The Board's policy is to maintain capital at a level which balances the need for the Group to be financially strong, and be able to sustain future development of the business, with the need for dividend payments. The Board of Directors monitors the return on capital, which it defines as profit after tax divided by total shareholders' equity. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position. The Company is not subject to any externally-imposed capital requirements.