



Kingston Wharves Limited

**Financial Statements
31 December 2020**

Kingston Wharves Limited

Index

31 December 2020

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Independent auditor's report

To the Members of Kingston Wharves Limited

Report on the audit of the consolidated and stand-alone financial statements

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of Kingston Wharves Limited (the Company) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Company as at 31 December 2020, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

What we have audited

Kingston Wharves Limited's consolidated and stand-alone financial statements comprise:

- the Group statement of financial position as at 31 December 2020;
 - the Group statement of comprehensive income for the year then ended;
 - the Group statement of changes in equity for the year then ended;
 - the Group statement of cash flows for the year then ended;
 - the Company statement of financial position as at 31 December 2020;
 - the Company statement of comprehensive income for the year then ended;
 - the Company statement of changes in equity for the year then ended;
 - the Company statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include significant accounting policies and other explanatory information.
-

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements* section of our report.

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



Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is comprised of 8 reporting components of which we selected 4 components for full scope audit testing. These 4 components represent the principal business units within the Group and are all located in Jamaica with the accounting records of all entities maintained at the same location. A single audit team was responsible for the audits of all these components.

Our 2020 audit was planned and executed having regard to the fact that the operations of the Group remain largely unchanged from the prior year.

Key audit matters

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



Key audit matter

How our audit addressed the key audit matter

Valuation of freehold land, plant and buildings (Group and Company)

Refer to notes 2(d), 4 and 15 to the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgments and estimates.

Freehold land, and plant and buildings, totalling \$10.7 billion and \$14.0 billion for the Group and \$7.1 billion and \$10.9 billion for the Company standing alone, are carried at fair value within property, plant and equipment on the Group and Company statements of financial position respectively. These balances are significant to the financial statements of the Group and Company as a whole, representing in aggregate 64.6% of the Group's and 58.9% of the Company's total assets at year end.

The Group's valuation policy for freehold land, plant and buildings allows for periodic but at least triennial valuations by external independent valuation experts who were engaged in the current year to perform a revaluation exercise.

We focused on this area:

- as determining the fair value in respect of land, plant and buildings is by its nature subjective with significant judgement applied including the determination of 'highest and best' use, assumptions relating to useful lives, contractors' charges, labour rates, material costs, property size, price per square foot, location, age and condition; and
- due to the quantum/size of revaluation gains that directly impact the Group and Company statements of comprehensive income.

We assessed the competence and capabilities of management's external valuers and concluded that they hold the requisite professional qualifications and experience to carry out reliable valuations of the Group's and Company's freehold land, plant and buildings.

We obtained confirmations of independence from the external valuers.

We inspected the final valuation reports and agreed the fair value to the Group's and Company's accounting records.

We recalculated the revaluation gains by reference to the valuation reports and the accounting records.

For a sample of external valuations:

- We compared the current valuations for plant and buildings with the previously completed valuations to determine whether useful lives and ages of properties were consistent.
- With the assistance of our own independent expert, we reviewed the valuations and performed an independent evaluation of the assumptions that underpin the valuations, including by reference to relevant market data, as well as determined whether the valuations were within an acceptable range.

As a result of the procedures above, we determined that the values recorded by management for the fair values and the revaluation surplus were, in our view, not unreasonable.



Key audit matter

How our audit addressed the key audit matter

Valuation of defined benefit pension assets and other retirement benefit obligations (Group and Company)

Refer to notes 2(s), 4 and 23 to the consolidated and stand-alone financial statements for disclosures of related accounting policies judgments and estimates.

As at 31 December 2020, the values for the pension surplus and other post-employment benefit obligations in the statement of financial position for both the Group and Company totalled \$1,549.9 million (assets) or 4.1% and 5.1% of total assets and \$384.5 million (liabilities) or 7.1% and 8.1% of total liabilities, for the Group and Company respectively.

The cost of retirement benefits and the present value of these benefits depend on a number of factors and assumptions. Due to the complexity of the balances, management appointed an external actuary to perform the valuations. The assumptions and factors used in determining the assets for the pension benefits and the liabilities for the other post-employment benefits included:

- the expected long-term rate of return on the relevant plan assets;
- the fair value of the plan assets;
- the discount rate;
- future salary increases;
- expected pension increases;
- life expectancy; and
- the expected rate of increase in medical costs in the case of post-employment medical benefits.

This was an area of focus due to the numerous assumptions used, the possible impact of COVID-19 on the fair value of plan assets and because any changes in these assumptions will impact the valuation of the assets and liabilities recorded for the pension and other post-employment benefits.

We performed procedures on the valuations of the defined benefit pension assets and other retirement obligations as follows:

- We evaluated the valuation technique used to perform the valuation of retirement benefits and found it to be consistent with the requirements of IAS 19, Employee Benefits.
- We assessed the competence and objectivity of the management appointed actuary, confirming that they are qualified and that there was no affiliation to the Group.
- We checked a sample of the employee data submitted to the actuary against information maintained on the employees' personnel files maintained by the Group.
- We assessed the assumptions used by the actuary which included comparing them to relevant externally derived data such as economic statistics from the Bank of Jamaica and the discount rate from the Institute of Chartered Accountants of Jamaica.
- We also confirmed certain assets of the plans with the custodians of these assets and tested their fair values by reference to readily available external data including quoted stock prices and yield curves.

Based on the procedures performed, we determined management's valuation of defined benefit pension assets and other retirement benefit obligations was, in our view, not unreasonable.



Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

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

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements

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



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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

The engagement partner on the audit resulting in this independent auditor's report is Leighton McKnight.

PricewaterhouseCoopers
Chartered Accountants
1 March 2021
Kingston, Jamaica

Kingston Wharves Limited

Group Statement of Comprehensive Income

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| Revenue | | 7,138,338 | 7,898,207 |
| Direct costs | | (3,798,582) | (3,853,904) |
| Gross Profit | | 3,339,756 | 4,044,303 |
| Other operating income | 8 | 580,499 | 262,020 |
| Administration expenses | | (1,067,495) | (1,203,379) |
| Operating Profit | | 2,852,760 | 3,102,944 |
| Finance costs | 9 | (154,876) | (177,917) |
| Share of net profits in joint venture | 20 | - | 329 |
| Gain on acquisition of subsidiary | 21 | - | 16,120 |
| Gain on disposal of interest in joint venture | 21 | - | 22,162 |
| Profit before Tax | | 2,697,884 | 2,963,638 |
| Tax expense | 10 | (421,987) | (326,144) |
| Net Profit for Year | | 2,275,897 | 2,637,494 |
| Other Comprehensive Income | | | |
| <i>Item that may be reclassified to profit or loss</i> | | | |
| Changes in fair value of investments at fair value through other comprehensive income | | 408,646 | - |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Re-measurements of post-employment benefits | | (616,284) | (11,791) |
| Deferred tax effect on re-measurements of post-employment benefits | | 77,036 | 1,288 |
| Surplus on revaluation of property, plant and equipment | | 5,027,674 | - |
| Deferred tax effect on revaluation surplus | | (292,512) | - |
| Adjustment to accumulated depreciation on revaluation of property, plant and equipment | | - | (17,784) |
| Effect of change in tax rate on deferred taxation on revaluation surplus | | (81,099) | 20,531 |
| | | 4,523,461 | (7,756) |
| Total Comprehensive Income for Year | | 6,799,358 | 2,629,738 |
| Net Profit Attributable to: | | | |
| Equity holders of the company | 11 | 2,237,719 | 2,600,817 |
| Non-controlling interest | 12 | 38,178 | 36,677 |
| | | 2,275,897 | 2,637,494 |
| Total Comprehensive Income Attributable to: | | | |
| Equity holders of the company | | 6,761,180 | 2,593,061 |
| Non-controlling interest | 12 | 38,178 | 36,677 |
| | | 6,799,358 | 2,629,738 |
| Earnings per stock unit of profit attributable to the equity holders of the company during the year | 13 | \$1.57 | \$1.82 |

Kingston Wharves Limited

Group Statement of Financial Position

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|--------------------------|--------------------------|
| ASSETS | | | |
| Non-current Assets | | | |
| Property, plant and equipment | 15 | 27,243,619 | 22,288,845 |
| Right-of-use assets | 16 | 175,855 | 241,801 |
| Investment property | 17 | 560,701 | 568,619 |
| Intangible assets | 18 | 100,014 | 74,348 |
| Financial assets at fair value through other comprehensive income | 22 | 537,112 | 128,466 |
| Deferred income tax assets | 32 | 6,250 | 2,605 |
| Retirement benefit asset | 23 | 1,549,850 | 2,071,885 |
| | | <u>30,173,401</u> | <u>25,376,569</u> |
| Current Assets | | | |
| Inventories | 24 | 413,852 | 433,045 |
| Trade and other receivables | 26 | 701,300 | 833,602 |
| Taxation recoverable | | 10,464 | 13,989 |
| Short term investments | 27 | 6,558,479 | 5,229,574 |
| Cash and bank | 27 | 376,010 | 693,915 |
| | | <u>8,060,105</u> | <u>7,204,125</u> |
| Total Assets | | <u><u>38,233,506</u></u> | <u><u>32,580,694</u></u> |

Kingston Wharves Limited

Group Statement of Financial Position (Continued)

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|-------------------|-------------------|
| EQUITY | | | |
| Stockholders' Equity | | | |
| (attributable to equity holders of the company) | | | |
| Share capital | 28 | 2,043,744 | 2,043,744 |
| Other reserves | 29 | 18,905,357 | 13,830,069 |
| Asset replacement/rehabilitation and depreciation reserves | 30 | 216,761 | 216,598 |
| Retained earnings | | 11,416,470 | 10,503,049 |
| | | <u>32,582,332</u> | <u>26,593,460</u> |
| Non-controlling Interest | 12 | <u>216,091</u> | <u>177,913</u> |
| | | <u>32,798,423</u> | <u>26,771,373</u> |
| LIABILITIES | | | |
| Non-current Liabilities | | | |
| Borrowings | 31 | 1,234,558 | 1,769,463 |
| Lease liabilities | 16 | 97,442 | 162,607 |
| Deferred income tax liabilities | 32 | 1,756,649 | 1,414,921 |
| Retirement benefit obligations | 23 | 384,517 | 370,149 |
| | | <u>3,473,166</u> | <u>3,717,140</u> |
| Current Liabilities | | | |
| Trade and other payables | 33 | 1,348,723 | 1,410,214 |
| Taxation | | 84,125 | 100,357 |
| Borrowings | 31 | 446,183 | 504,168 |
| Lease liabilities | 16 | 82,886 | 77,442 |
| | | <u>1,961,917</u> | <u>2,092,181</u> |
| Total Equity and Liabilities | | <u>38,233,506</u> | <u>32,580,694</u> |

Approved for issue by the Board of Directors on 1 March 2021 and signed on its behalf by:

Jeffrey Hall

Chairman

Mark Williams

Director

Kingston Wharves Limited

Group Statement of Changes in Equity

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Attributable to Equity Holders of the Company | | | | | Non-controlling Interest | Total Equity | |
|--|---|---------------|----------------|---|-------------------|--------------------------|--------------|------------|
| | Note | Share Capital | Other Reserves | Asset Replacement/ Rehabilitation and Depreciation Reserves | Retained Earnings | Total | | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | | | \$'000 |
| Balance at 31 December 2018 | | 2,036,933 | 13,814,743 | 216,447 | 8,697,773 | 24,765,896 | 141,236 | 24,907,132 |
| Net profit for the year | | - | - | - | 2,600,817 | 2,600,817 | 36,677 | 2,637,494 |
| Other comprehensive income | | - | 2,747 | - | (10,503) | (7,756) | - | (7,756) |
| Total comprehensive income for year | | - | 2,747 | - | 2,590,314 | 2,593,061 | 36,677 | 2,629,738 |
| Transfer of net interest to asset replacement/rehabilitation and depreciation reserves | 30 | - | - | 151 | (151) | - | - | - |
| Transfer to asset replacement/rehabilitation and depreciation reserves | 30 | - | - | 12,579 | (12,579) | - | - | - |
| Transfer from asset replacement/rehabilitation and depreciation reserves | | - | 12,579 | (12,579) | - | - | - | - |
| Transactions with owners: | | | | | | | | |
| Sale of treasury shares | | 6,811 | - | - | - | 6,811 | - | 6,811 |
| Dividends | 14 | - | - | - | (772,308) | (772,308) | - | (772,308) |
| Balance at 31 December 2019 | | 2,043,744 | 13,830,069 | 216,598 | 10,503,049 | 26,593,460 | 177,913 | 26,771,373 |
| Net profit for the year | | - | - | - | 2,237,719 | 2,237,719 | 38,178 | 2,275,897 |
| Other comprehensive income | | - | 5,062,709 | - | (539,248) | 4,523,461 | - | 4,523,461 |
| Total comprehensive income for year | | - | 5,062,709 | - | 1,698,471 | 6,761,180 | 38,178 | 6,799,358 |
| Transfer of net interest to asset replacement/rehabilitation and depreciation reserves | 30 | - | - | 163 | (163) | - | - | - |
| Transfer to asset replacement/rehabilitation and depreciation reserves | 30 | - | - | 12,579 | (12,579) | - | - | - |
| Transfer from asset replacement/rehabilitation and depreciation reserves | 30 | - | 12,579 | (12,579) | - | - | - | - |
| Transactions with owners: | | | | | | | | |
| Dividends | 14 | - | - | - | (772,308) | (772,308) | - | (772,308) |
| Balance at 31 December 2020 | | 2,043,744 | 18,905,357 | 216,761 | 11,416,470 | 32,582,332 | 216,091 | 32,798,423 |

Kingston Wharves Limited

Group Statement of Cash Flows

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net profit | | 2,275,897 | 2,637,494 |
| Adjustments for: | | | |
| Amortisation | 18 | 24,649 | 29,852 |
| Depreciation – investment property | 17 | 7,918 | 1,381 |
| Depreciation – property, plant and equipment | 15 | 706,861 | 727,642 |
| Depreciation – leased asset | 16 | 65,946 | 71,311 |
| Foreign exchange gains on operating activities | | (270,736) | (47,963) |
| Loss/(gain) on disposal of property, plant and equipment | | 3,575 | (34,345) |
| Write off of property, plant and equipment and intangible assets | | 4,056 | - |
| Retirement benefit asset | | (101,762) | (83,183) |
| Retirement benefit obligations | | 27,334 | 28,133 |
| Interest income | 8 | (184,945) | (168,535) |
| Finance costs | 9 | 154,876 | 177,917 |
| Gain on acquisition of subsidiary | 21 | - | (16,120) |
| Gain on disposal of interest in joint venture | 21 | - | (22,162) |
| Share of results of joint venture | | - | (329) |
| Taxation | 10 | 421,987 | 326,144 |
| | | <u>3,135,656</u> | <u>3,627,237</u> |
| Changes in operating assets and liabilities: | | | |
| Inventories | | 19,193 | (41,039) |
| Trade and other receivables | | 137,039 | (105,340) |
| Trade and other payables | | (104,809) | (477,048) |
| Cash provided by operations | | <u>3,187,079</u> | <u>3,003,810</u> |
| Taxes paid | | <u>(395,298)</u> | <u>(347,098)</u> |
| Net cash provided by operating activities | | <u>2,791,781</u> | <u>2,656,712</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 15 | (688,819) | (574,206) |
| Purchase of intangible assets | | (8,088) | (30,085) |
| Proceeds from sale of property, plant and equipment | | 5,000 | 192,261 |
| Net cash expenditure on acquisition of subsidiary | | - | (6,274) |
| Short term deposits with maturities in excess of three months | 27 | (77,466) | (63,303) |
| Interest received | | <u>174,595</u> | <u>160,832</u> |
| Net cash used in investing activities | | <u>(594,778)</u> | <u>(320,775)</u> |
| Sub-total carried forward to page 6 | | <u>2,197,003</u> | <u>2,335,937</u> |

Kingston Wharves Limited

Group Statement of Cash Flows (Continued)

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|-------------------------|-------------------------|
| Sub-total brought forward from page 5 | | <u>2,197,003</u> | <u>2,335,937</u> |
| Cash flows from financing activities | | | |
| Dividends paid to equity holders of the company | | (729,390) | (686,070) |
| Sale of treasury shares | 28 | - | 6,811 |
| Interest paid | | (125,096) | (171,962) |
| Lease payments made | | (90,787) | (84,441) |
| Loans repaid | | <u>(592,890)</u> | <u>(503,797)</u> |
| Net cash used in financing activities | | <u>(1,538,163)</u> | <u>(1,439,459)</u> |
| Net increase in cash and cash equivalents | | 658,840 | 896,478 |
| Net cash and cash equivalents at beginning of year | | 5,860,186 | 4,904,470 |
| Exchange adjustment on foreign currency cash and cash equivalents | | <u>274,694</u> | <u>59,238</u> |
| NET CASH AND CASH EQUIVALENTS AT END OF YEAR | 27 | <u><u>6,793,720</u></u> | <u><u>5,860,186</u></u> |

Kingston Wharves Limited

Company Statement of Comprehensive Income

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|--------------------|--------------------|
| Revenue | | 6,247,918 | 7,002,831 |
| Direct expenses | | <u>(3,144,536)</u> | <u>(3,116,536)</u> |
| Gross Profit | | 3,103,382 | 3,886,295 |
| Other operating income | 8 | 561,693 | 249,652 |
| Administration expenses | | <u>(1,000,025)</u> | <u>(1,161,711)</u> |
| Operating Profit | | 2,665,050 | 2,974,236 |
| Finance costs | 9 | <u>(139,288)</u> | <u>(180,113)</u> |
| Profit before Tax | | 2,525,762 | 2,794,123 |
| Tax expense | 10 | <u>(375,377)</u> | <u>(286,214)</u> |
| Net Profit for Year | | <u>2,150,385</u> | <u>2,507,909</u> |
| Other Comprehensive Income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Changes in fair value of investments at fair value through other comprehensive income | | 272,984 | - |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Re-measurements of post-employment benefits | | (616,284) | (11,791) |
| Deferred tax effect on re-measurements of post-employment benefits | | 77,036 | 1,288 |
| Surplus on revaluation of property, plant and equipment | | 3,184,667 | - |
| Deferred tax effect on revaluation surplus | | (136,060) | - |
| Adjustment to accumulated depreciation on revaluation of property, plant and equipment | | - | (17,784) |
| Effect of change in tax rate on deferred taxation on revaluation surplus | | <u>(81,099)</u> | <u>20,531</u> |
| Total other comprehensive income, net of taxes | | <u>2,701,244</u> | <u>(7,756)</u> |
| Total Comprehensive Income for Year | | <u>4,851,629</u> | <u>2,500,153</u> |

Kingston Wharves Limited

Company Statement of Financial Position

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| Non-current Assets | | | |
| Property, plant and equipment | 15 | 20,531,154 | 17,428,112 |
| Right-of-use assets | 16 | 279,297 | 261,412 |
| Intangible assets | 18 | 97,054 | 73,126 |
| Investments in subsidiaries | 19 | 75,731 | 75,731 |
| Financial assets at fair value through other comprehensive income | 22 | 358,802 | 85,818 |
| Group companies | 25 | 697,753 | 706,721 |
| Retirement benefit asset | 23 | 1,549,850 | 2,071,885 |
| | | <u>23,589,641</u> | <u>20,702,805</u> |
| Current Assets | | | |
| Inventories | 24 | 411,340 | 431,025 |
| Trade and other receivables | 26 | 602,218 | 722,813 |
| Group companies | 25 | 168,590 | 59,704 |
| Short term investments | 27 | 5,580,545 | 4,501,418 |
| Cash and bank | 27 | 180,177 | 443,919 |
| | | <u>6,942,870</u> | <u>6,158,879</u> |
| Total Assets | | <u>30,532,511</u> | <u>26,861,684</u> |

Kingston Wharves Limited

Company Statement of Financial Position (Continued)

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|--------------------------|--------------------------|
| EQUITY | | | |
| Stockholders' Equity | | | |
| Share capital | 28 | 2,043,744 | 2,043,744 |
| Other reserves | 29 | 11,950,227 | 8,697,156 |
| Asset replacement/rehabilitation and depreciation reserves | 30 | 212,968 | 212,968 |
| Retained earnings | | <u>11,580,757</u> | <u>10,754,507</u> |
| | | <u>25,787,696</u> | <u>21,708,375</u> |
| LIABILITIES | | | |
| Non-current Liabilities | | | |
| Borrowings | 31 | 1,233,106 | 1,768,011 |
| Lease liabilities | 16 | 162,883 | 162,607 |
| Deferred income tax liabilities | 32 | 1,035,168 | 829,685 |
| Retirement benefit obligations | 23 | <u>384,517</u> | <u>370,149</u> |
| | | <u>2,815,674</u> | <u>3,130,452</u> |
| Current Liabilities | | | |
| Trade and other payables | 33 | 1,285,599 | 1,339,546 |
| Group companies | 25 | 11,183 | 7,753 |
| Taxation payable | | 62,919 | 74,337 |
| Borrowings | 31 | 446,183 | 504,168 |
| Lease liabilities | 16 | <u>123,257</u> | <u>97,053</u> |
| | | <u>1,929,141</u> | <u>2,022,857</u> |
| Total Equity and Liabilities | | <u><u>30,532,511</u></u> | <u><u>26,861,684</u></u> |

Approved for issue by the Board of Directors on 1 March 2021 and signed on its behalf by:

Jeffrey Hall



Chairman

Mark Williams



Director

Kingston Wharves Limited

Company Statement of Changes in Equity

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | Share Capital | Other Reserves | Asset Replacement/ Rehabilitation and Depreciation Reserves | Retained Earnings | Total |
|---|------|------------------|-------------------|--|----------------------|------------|
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 31 December 2018 | | 2,036,933 | 8,681,830 | 212,968 | 9,041,988 | 19,973,719 |
| Net profit for the year | | - | - | - | 2,507,909 | 2,507,909 |
| Other comprehensive income | | - | 2,747 | - | (10,503) | (7,756) |
| Total comprehensive income for year | | - | 2,747 | - | 2,497,406 | 2,500,153 |
| Transfer to asset replacement/rehabilitation and depreciation reserves | 30 | - | - | 12,579 | (12,579) | - |
| Transfer from asset replacement/ rehabilitation and depreciation reserves | 30 | - | 12,579 | (12,579) | - | - |
| Transactions with owners: | | | | | | |
| Sale of treasury shares | | 6,811 | - | - | - | 6,811 |
| Dividends | 14 | - | - | - | (772,308) | (772,308) |
| Balance at 31 December 2019 | | 2,043,744 | 8,697,156 | 212,968 | 10,754,507 | 21,708,375 |
| Net profit for the year | | - | - | - | 2,150,385 | 2,150,385 |
| Other comprehensive income | | - | 3,240,492 | - | (539,248) | 2,701,244 |
| Total comprehensive income for year | | - | 3,240,492 | - | 1,611,137 | 4,851,629 |
| Transfer to asset replacement/rehabilitation and depreciation reserves | 30 | - | - | 12,579 | (12,579) | - |
| Transfer from asset replacement/ rehabilitation and depreciation reserves | 30 | - | 12,579 | (12,579) | - | - |
| Transactions with owners: | | | | | | |
| Dividends | 14 | - | - | - | (772,308) | (772,308) |
| Balance at 31 December 2020 | | 2,043,744 | 11,950,227 | 212,968 | 11,580,757 | 25,787,696 |

Kingston Wharves Limited

Company Statement of Cash Flows

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|-------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Net profit | | 2,150,385 | 2,507,909 |
| Adjustments for: | | | |
| Amortisation | 18 | 24,219 | 29,446 |
| Depreciation – property, plant and equipment | 15 | 588,068 | 604,366 |
| Depreciation – leased asset | 16 | 111,993 | 110,533 |
| Foreign exchange gains on operating activities | | (214,156) | (36,920) |
| Loss/(gain) on disposal of property, plant and equipment | | 3,575 | (32,285) |
| Write off of property, plant and equipment and intangibles | | 2,406 | - |
| Retirement benefit asset | | (101,762) | (83,183) |
| Retirement benefit obligations | | 27,334 | 28,133 |
| Interest income | 8 | (199,124) | (165,153) |
| Finance costs | 9 | 139,288 | 180,113 |
| Taxation | 10 | 375,377 | 286,214 |
| | | <u>2,907,603</u> | <u>3,429,173</u> |
| Changes in operating assets and liabilities: | | | |
| Inventories | | 19,685 | (41,505) |
| Group companies | | (96,488) | (142,235) |
| Trade and other receivables | | 120,595 | (143,200) |
| Trade and other payables | | (96,865) | (517,660) |
| Cash provided by operations | | <u>2,854,530</u> | <u>2,584,573</u> |
| Taxes paid | | <u>(321,435)</u> | <u>(280,307)</u> |
| Net cash provided by operating activities | | <u>2,533,095</u> | <u>2,304,266</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 15 | (559,651) | (509,468) |
| Purchase of intangible assets | 18 | (5,920) | (30,085) |
| Proceeds from sale of property, plant and equipment | | 5,000 | 180,203 |
| Short term deposits with maturities in excess of three months | 27 | (140,769) | - |
| Interest received | | <u>186,149</u> | <u>158,893</u> |
| Net cash used in investing activities | | <u>(515,191)</u> | <u>(200,457)</u> |
| Cash flows from financing activities | | | |
| Dividends paid to equity holders of the company | | (729,390) | (686,070) |
| Sale of treasury shares | 28 | - | 6,811 |
| Interest paid | | (138,480) | (171,962) |
| Lease payments | | (140,883) | (125,859) |
| Loans repaid | | <u>(592,890)</u> | <u>(503,797)</u> |
| Net cash used in financing activities | | <u>(1,601,643)</u> | <u>(1,480,877)</u> |
| Net increase in cash and cash equivalents | | 416,261 | 622,932 |
| Net cash and cash equivalents at beginning of year | | 4,945,337 | 4,292,759 |
| Exchange adjustment on foreign currency cash and cash equivalents | | <u>258,355</u> | <u>29,646</u> |
| NET CASH AND CASH EQUIVALENTS AT END OF YEAR | 27 | <u><u>5,619,953</u></u> | <u><u>4,945,337</u></u> |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

The company and its subsidiaries (the Group) are incorporated and domiciled in Jamaica. The principal activities of the company and its subsidiaries consist of the operation of public wharves, stevedoring, logistics services and security services. The wharfage rates and penal charges billed to customers by the company are subject to regulation by the Port Authority of Jamaica.

The company's registered office is located at the Total Logistics Facility, 195 Second Street, Newport West, Kingston. The company is a public company listed on the Jamaica Stock Exchange.

2. Significant Accounting Policies

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

(a) Basis of preparation

The consolidated financial statements of the Group and the financial statements of the company standing alone (together referred to as the financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain items of property, plant and equipment and financial assets at fair value through other comprehensive income.

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

Standards, amendments and interpretations to published standards effective in the current year

Certain new accounting standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following which are relevant to its operations. Unless stated otherwise, the adoption of these new standards, amendments to existing standards or interpretations to published standards did not have a material impact on the operations of the Group.

- **Amendments to IFRS 3 'Business Combinations'**, (effective for annual periods beginning on or after 1 January 2020). The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

- **Amendments to IAS 1 ‘Presentation of Financial Statements’ and IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’**, (effective for annual periods beginning on or after 1 January 2020). The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

Standards, amendments and interpretations to existing standards that the Group has not yet adopted

At the date of authorisation of these financial statements, certain new accounting standards, amendments and interpretations to existing standards have been issued which are mandatory for the Group’s accounting periods beginning on or after 1 January 2021 or later periods, but were not effective for the current period, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations. Unless stated otherwise, the impact of the changes is still being assessed by management.

- **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions** (effective for annual periods beginning on or after 1 June 2020). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.
- **Amendments to IAS 1, ‘Presentation of Financial Statements’ on classification of liabilities** (effective for annual periods beginning on or after 1 January 2022). These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.
- **Amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, and IFRS 16** (effective for annual periods beginning on or after 1 January 2022). Amendments to IFRS 3, ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, ‘Provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, and the illustrative examples accompanying IFRS 16, ‘Leases’.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that the Group has not yet adopted (continued)

There are no other standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a significant impact on the operations of the Group.

(b) Consolidation Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

In the company stand-alone financial statements, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Consolidation (continued) Subsidiaries (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

The subsidiaries, which are all incorporated and domiciled in Jamaica (except KWGHSL), are as follows:

| | Principal Activities | Holding by Company | Holding by Group | Financial Year End |
|---|-----------------------------------|--------------------------|---------------------|-----------------------|
| Harbour Cold Stores Limited | Rental of cold storage facilities | 100% | 100% | 31 December |
| Security Administrators Limited | Security services | 33 ⅓% | 66 ⅔% | 31 December |
| Western Storage Limited | Property rental | 100% | 100% | 31 December |
| Western Terminals Limited | Property rental | 100% | 100% | 31 December |
| KWL Group Holdings (St Lucia) Limited (KWGHSL) | Non-Trading | 100% | 100% | 31 December |
| Kingston Terminal Operators Limited | Dormant | 100% | 100% | 31 December |
| Newport Stevedoring Services Limited | Provision of contract labour | - | 100% | 31 December |
| Kingston Wharves Group Limited | Non-Trading | - | 100% | 31 December |
| KW Logistics Limited | Non-Trading | - | 100% | 31 December |
| KW Stevedores Limited | Non-Trading | - | 100% | 31 December |
| KW Warehousing Services Limited (formerly SSL REIT Limited) | Property rental | - | 100% | 31 December |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Consolidation (continued)

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group assessed the nature of its joint arrangement in SSL REIT Limited and determined it to be a joint venture until 1 October 31, 2019 (See Note 21).

Interests in joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated statement of financial position. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income.

The results of joint ventures with financial reporting year-end that is different from the group is determined by prorating the result for the audited period as well as the period covered by management accounts to ensure that a full year of operations is accounted for, where applicable.

Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities and is recognised as performance obligations are satisfied at the point in time that the services are rendered. Revenue is shown net of General Consumption Tax, rebates and discounts and after eliminating sales within the Group.

Services

These are charges made for wharfage operations, rental of and repairs to cold storage facilities, storage and warehousing of goods after deduction of discounts and other reductions applicable to such charges. The charges are recognised in the accounting period in which the services are rendered based on services provided to the end of the accounting period in accordance with contracted rates, except penal charges which are accounted for on a cash basis. Port security charges are based on hourly rates for services rendered to the end of the accounting period. This accounting policy applied to the current and previous year.

Credit customers are invoiced when the services are rendered and consideration is payable when invoiced. Payment is due from other customers at the point where the performance obligation is satisfied.

Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI is recognised on a time-proportionate basis using the effective interest method. When interest receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(d) Property, plant and equipment

Plant and buildings consist mainly of walls, piers, dredging facilities, roadways, warehouses and offices. Land, plant and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the asset's carrying amount after revaluation equals its revalued amount. Fair value represents open market value for land while buildings are shown at depreciated replacement cost as there is no market-based evidence of fair value because of the specialised nature of the buildings and the buildings cannot be sold except as part of a continuing business. All other property, plant and equipment are stated at cost less depreciation. Cost includes any expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as capital reserves in stockholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against capital reserves directly in equity; all other decreases are charged to the income statement.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. The annual rates in use are:

| | |
|---|------------|
| Plant and buildings comprising buildings, leasehold properties, walls, piers, dredging and roadways | 1.33% - 5% |
| Machinery and equipment | 4% - 20% |
| Cold room and air conditioning equipment | 10% |
| Furniture and fixtures | 5% - 10% |
| Motor vehicles | 10% - 20% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(g)). Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with their carrying amounts and are included in profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(e) Investment property

Investment properties, principally freehold warehouse buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is shown at cost less accumulated depreciation.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. On replacement of a separately measured part of an item of investment property, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income when the expenditure is incurred.

Depreciation is calculated on the straight-line balance basis at annual rates to write off the relevant assets over their expected useful lives as follows:

| | |
|-----------|------|
| Buildings | 2.5% |
|-----------|------|

Land is not depreciated.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its recoverable amount (Note 2 (g)).

Gains and losses on disposal of investment property are determined by comparing proceeds with their carrying amounts and are included in the statement of comprehensive income.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Intangible assets

Separately acquired rights and benefits under third party contracts with a finite useful life are shown at historical cost less subsequent amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the rights and benefits over their estimated useful lives of five to ten years. Separately acquired computer software licences are shown at historical cost less subsequent amortisation. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows. Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each statement of financial position date.

(h) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Jamaican dollars, which is the Group's presentation currency and the functional currency of all the entities in the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses that relate to borrowings are presented in profit or loss with 'finance costs'.

(i) Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less loss allowance.

Other miscellaneous assets

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- i. the asset is held within a business model whose objective is to collect the contractual cash flows, and
- ii. the contractual terms give rise to cash flows that are solely payments of principal and interest.

Due to the short-term nature of the other miscellaneous assets, their carrying amount is considered to be the same as their fair value.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(j) Investments in subsidiaries

Investments by the company in subsidiaries are stated at cost.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of selling expenses.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less net of bank overdrafts and which are subject to an insignificant risk of changes in value net of bank overdrafts. Bank overdrafts are shown in borrowings in current liabilities in the statement of financial position.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Share capital

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

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

(p) Leases

The Group acting as lessee, recognises a right-of-use asset and a lease liability for all leases with a term of more than 12 months.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(p) Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The Group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short - term leases are leases with a lease term of 12 months or less.

The right-of-use assets is presented as a separate line item on the balance sheet. At the commencement date, lease liabilities are measured at an amount equal to the present value of the lease payments for the underlying right- of- use assets during the lease term.

The Group leases office buildings, storage space and vehicles to conduct aspects of it business. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights). Extension and termination options are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by both the Group and the respective lessor.

Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options for an additional 1 to 5 years.

Kingston Wharves Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(p) Leases (continued)

The lease payments are fixed and adjusted for inflation. The inflation increases are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options

Extension and termination options are included in property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable by the respective lessor and not only by the Group.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

(q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions as it relates to operations.

(r) Dividends

Dividend distribution to the company's equity holders is recognised initially as a liability in the Group's financial statements in the period in which the dividends are approved.

(s) Employee benefits

Pension obligations

The Group participates in two retirement plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the Group, taking into account the recommendations of qualified actuaries. The Group has a defined benefit and a defined contribution plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Kingston Wharves Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(s) Employee benefits (continued)

Pension obligations (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the income statement.

The Group, through a subsidiary, also participates in a defined contribution plan whereby it pays contributions to a privately administered pension plan which is administered by trustees. Once the contributions have been paid, the subsidiary has no further payment obligations. The contributions are charged to the income statement in the period to which they relate.

Other retirement obligations

The Group provides post-employment health care and life insurance benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Equity compensation benefits

The company established employee share ownership schemes for employees. Under the terms of the schemes, shares may be issued to employees by way of grants or options, which are exercised at the discretion of the employee. The difference between the fair value of the grant or option and the consideration received by the company is recognised as an expense.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit and loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fees are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Kingston Wharves Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(u) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(v) Taxation

The tax expense comprises current and deferred income taxes. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current income tax is calculated at tax rates that have been enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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

Tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same Tax Authority and when the legal right of offset exists.

(w) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Kingston Wharves Limited

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(w) Financial instruments (continued)

Classification (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payment is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3(a) for further details.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Kingston Wharves Limited

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3. Financial Risk Management (Continued)

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board provides guidance for overall risk management, covering specific areas, such as credit risk, market risk, foreign exchange risk, interest rate risk, and investment of excess liquidity.

(a) Credit risk

Management seeks to minimise potential adverse effects on the financial performance of the Group by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board.

The Board, through the Audit Committee, oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group is exposed to credit risk where a party to a financial instrument may fail to discharge an obligation and causes the Group to incur a financial loss. The Group manages its concentrations of credit risk and places its cash and cash equivalents with high quality financial institutions. The Group limits the amount of credit exposure to any one financial institution. The Group's choice of financial institution is based primarily on its high asset base and stability over the years. The Group's customer base comprises a number of shipping lines represented by their local agents and numerous other customers in a variety of business sectors. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

Maximum exposure to credit risk

The maximum exposure of the Group and Company to credit risk is as follows:

| | The Group | | The Company | |
|---|------------------|------------------|--------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Group companies – non-current | - | - | 697,753 | 706,721 |
| Financial assets through other comprehensive income | 537,112 | 128,466 | 358,802 | 85,818 |
| Trade receivables | 472,955 | 577,192 | 386,444 | 488,797 |
| Other receivables | 178,062 | 191,159 | 170,911 | 186,481 |
| Group companies | - | - | 168,590 | 59,704 |
| Short term investments | 6,558,479 | 5,229,574 | 5,580,545 | 4,501,418 |
| Cash and bank | 376,010 | 693,915 | 180,177 | 443,919 |
| | <u>8,122,618</u> | <u>6,820,306</u> | <u>7,543,222</u> | <u>6,472,858</u> |

Credit review process

Management performs regular analyses of the ability of customers and their counterparties to meet repayment obligations.

The Group applied the IFRS 9 simplified approach to measuring expected credit losses by conducting an analysis of provisioning based on two approaches. The first approach was based on conducting an internal analysis of the trend in provisioning and focused on the trade receivables portfolios. The second approach involved an external analysis of the industry and market trends. This analysis did not directly influence the estimation of the default rates but rather provided guidance with respect to future expectations of the industry, performance of the economy and likely impact on key customers.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

On that basis, the loss allowance was determined as follows for trade receivables.

| | The Group | | | | |
|---|-------------------|---------------------------|---------------------------|---|-----------------|
| | Current \$'000 | 31 - 60 \$'000 | Over 60 days \$'000 | Over 60 days and impaired \$'000 | Total \$'000 |
| 31 December 2020 | | | | | |
| Expected loss rate | 0.4% | 1.9% | 21.1% | 100% | |
| Gross carrying amount trade receivables | 337,051 | 96,241 | 54,139 | 57,136 | 544,567 |
| Loss Allowance | 1,217 | 1,859 | 11,400 | 57,136 | 71,612 |
| | | | | | |
| | Current \$'000 | 31 - 60 \$'000 | Over 60 days \$'000 | Over 60 days and impaired \$'000 | Total \$'000 |
| 31 December 2019 | | | | | |
| Expected loss rate | 0.2% | 0.6% | 10% | 98% | |
| Gross carrying amount trade receivables | 389,011 | 128,436 | 68,430 | 46,086 | 631,963 |
| Loss Allowance | 876 | 904 | 7,039 | 45,952 | 54,771 |
| | | | | | |
| | The Company | | | | |
| | Current \$'000 | 31 - 60 days \$'000 | Over 60 days \$'000 | Over 60 days and impaired \$'000 | Total \$'000 |
| 31 December 2020 | | | | | |
| Expected loss rate | 0.2% | 1.4% | 16.6% | 100% | |
| Gross carrying amount trade receivables | 268,543 | 81,241 | 46,057 | 52,881 | 448,722 |
| Loss Allowance | 587 | 1,154 | 7,656 | 52,881 | 62,278 |
| | | | | | |
| | Current \$'000 | 31 - 60 \$'000 | Over 60 days \$'000 | Over 60 days and impaired \$'000 | Total \$'000 |
| 31 December 2019 | | | | | |
| Expected loss rate | 0.1% | 0.5% | 10% | 100% | |
| Gross carrying amount trade receivables | 316,786 | 111,645 | 68,075 | 36,480 | 532,986 |
| Loss Allowance | 317 | 584 | 6,808 | 36,480 | 44,189 |

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Movement in the provision for impairment of receivables

Trade and other receivables

Movements on the provision for impairment of trade receivables are as follows:

| | The Group | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| At 1 January | 54,771 | 74,184 | 44,189 | 53,673 |
| Receivables written off during the year as uncollectible | - | (9,107) | - | - |
| Loss allowance | 36,363 | 13,795 | 31,689 | 8,653 |
| Amounts recovered | (19,522) | (24,101) | (13,600) | (18,137) |
| At 31 December | <u>71,612</u> | <u>54,771</u> | <u>62,278</u> | <u>44,189</u> |

The movement in the provision for credit losses for the year included \$9,230,000 (2019 - \$9,269,000) and \$9,321,000 (2019 - \$10,372,000) for the Group and company respectively for related companies. These amounts are included in bad debt expense in profit or loss.

The creation and release of provision for impaired receivables have been included in expenses in profit or loss in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There are no financial assets other than those listed above that were individually impaired.

Concentrations of risk

(i) Trade receivables

The following table summarises the Group and company's credit exposure for trade receivables at their carrying amounts, as categorised by the concentration of customers:

| | The Group | | The Company | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Top ten customers | 488,929 | 557,508 | 395,515 | 462,232 |
| Other | 55,638 | 74,455 | 53,207 | 70,754 |
| | <u>544,567</u> | <u>631,963</u> | <u>448,722</u> | <u>532,986</u> |
| Less: Provision for credit losses | (71,612) | (54,771) | (62,278) | (44,189) |
| | <u>472,955</u> | <u>577,192</u> | <u>386,444</u> | <u>488,797</u> |

(ii) Short term investments

The Group's short term investments comprise cash on deposit held with financial institutions.

Kingston Wharves Limited

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3. Financial Risk Management (Continued)

(b) Liquidity risk

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

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by the Board of Directors, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.
- (ii) Maintaining committed lines of credit;
- (iii) Optimising cash returns on investment;
- (iv) Managing the concentration and profile of debt maturities.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Kingston Wharves Limited

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial liabilities cash flows

The tables below summarise the maturity profile of the Group's and company's financial liabilities at 31 December based on contractual undiscounted payments at contractual maturity dates.

| | The Group | | | | | |
|------------------------------------|--------------------|------------------|-------------------|------------------|-----------------|------------------|
| | Within 1 Month | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | 2020 | | | | | |
| Borrowings | 20,904 | 123,295 | 409,091 | 1,339,353 | 2,932 | 1,895,575 |
| Lease liability | 7,465 | 14,930 | 67,186 | 148,840 | - | 238,421 |
| Trade and other payables | 1,348,723 | - | - | - | - | 1,348,723 |
| Total financial liabilities | 1,377,092 | 138,225 | 476,277 | 1,488,193 | 2,932 | 3,482,719 |
| | 2019 | | | | | |
| Borrowings | 26,353 | 138,756 | 482,931 | 1,940,209 | 81,220 | 2,669,469 |
| Lease liability | 6,985 | 14,597 | 68,455 | 238,882 | - | 328,919 |
| Trade and other payables | 1,410,214 | - | - | - | - | 1,410,214 |
| Total financial liabilities | 1,443,552 | 153,353 | 551,386 | 2,179,091 | 81,220 | 4,408,602 |
| | The Company | | | | | |
| | Within 1 Month | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | 2020 | | | | | |
| Borrowings | 20,904 | 123,295 | 409,091 | 1,339,353 | 1,480 | 1,894,123 |
| Lease liabilities | 13,295 | 26,591 | 119,659 | 190,973 | - | 350,518 |
| Trade and other payables | 1,285,599 | - | - | - | - | 1,285,599 |
| Group companies | 11,183 | - | - | - | - | 11,183 |
| Total financial liabilities | 1,330,981 | 149,886 | 528,750 | 1,530,326 | 1,480 | 3,541,423 |
| | 2019 | | | | | |
| Borrowings | 26,353 | 138,756 | 482,931 | 1,940,209 | 79,768 | 2,668,017 |
| Lease liabilities | 10,370 | 21,530 | 79,104 | 238,882 | - | 349,886 |
| Trade and other payables | 1,339,546 | - | - | - | - | 1,339,546 |
| Group companies | 7,753 | - | - | - | - | 7,753 |
| Total financial liabilities | 1,384,022 | 160,286 | 562,035 | 2,179,091 | 79,768 | 4,365,202 |

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3. Financial Risk Management (Continued)

(c) **Market risk**

The Group takes on exposure to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arises from changes in foreign currency exchange rates and interest rates.

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

(i) **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is primarily exposed to such risks arising from its significant level of foreign currency borrowings. This is partially offset by its US dollar revenue transactions and its holdings in US dollar cash and other accounts.

The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) *Currency risk (continued)* Concentrations of currency risk

The table below summarises the Group and company exposure to foreign currency exchange rate risk at 31 December.

| | The Group | | |
|-------------------------------|-----------------------|-----------------|------------------|
| | Jamaican\$ J\$'000 | US\$ J\$'000 | Total J\$'000 |
| | 2020 | | |
| Financial Assets | | | |
| Short term investments | 2,021,105 | 4,537,374 | 6,558,479 |
| Trade and other receivables | 223,484 | 427,533 | 651,017 |
| Cash and bank | 267,053 | 108,957 | 376,010 |
| Total financial assets | 2,511,642 | 5,073,864 | 7,585,506 |
| Financial Liabilities | | | |
| Borrowings | 1,680,741 | - | 1,680,741 |
| Lease liability | - | 180,328 | 180,328 |
| Trade and other payables | 1,331,196 | 17,527 | 1,348,723 |
| Total financial liabilities | 3,011,937 | 197,855 | 3,209,792 |
| Net financial position | (500,295) | 4,876,009 | 4,375,714 |
| | 2019 | | |
| Financial Assets | | | |
| Short term investments | 1,790,285 | 3,439,289 | 5,229,574 |
| Trade and other receivables | 239,663 | 528,688 | 768,351 |
| Cash and bank | 381,968 | 311,947 | 693,915 |
| Total financial assets | 2,411,916 | 4,279,924 | 6,691,840 |
| Financial Liabilities | | | |
| Borrowings | 2,273,631 | - | 2,273,631 |
| Lease liability | - | 240,049 | 240,049 |
| Trade and other payables | 1,299,236 | 110,978 | 1,410,214 |
| Total financial liabilities | 3,572,867 | 351,027 | 3,923,894 |
| Net financial position | (1,160,951) | 3,928,897 | 2,767,946 |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

| | The Company | | |
|-------------------------------|-----------------------|------------------|------------------|
| | Jamaican\$ J\$'000 | US\$ J\$'000 | Total J\$'000 |
| | 2020 | | |
| Financial Assets | | | |
| Group companies- non current | 697,753 | - | 697,753 |
| Short term investments | 1,706,407 | 3,874,138 | 5,580,545 |
| Trade and other receivables | 131,686 | 425,669 | 557,355 |
| Group companies | 168,590 | - | 168,590 |
| Cash and bank | 145,717 | 34,460 | 180,177 |
| Total financial assets | 2,850,153 | 4,334,267 | 7,184,420 |
| Financial Liabilities | | | |
| Borrowings | 1,679,289 | - | 1,679,289 |
| Lease liabilities | - | 286,140 | 286,140 |
| Trade and other payables | 1,268,072 | 17,527 | 1,285,599 |
| Group companies | 11,183 | - | 11,183 |
| Total financial liabilities | 2,958,544 | 303,667 | 3,262,211 |
| Net financial position | (108,391) | 4,030,600 | 3,922,209 |
| | 2019 | | |
| Financial Assets | | | |
| Loan receivable | 476,071 | - | 476,071 |
| Short term investments | 1,508,069 | 2,993,349 | 4,501,418 |
| Trade and other receivables | 148,487 | 526,791 | 675,278 |
| Group companies | 59,704 | - | 59,704 |
| Cash and bank | 251,215 | 192,704 | 443,919 |
| Total financial assets | 2,443,546 | 3,712,844 | 6,156,390 |
| Financial Liabilities | | | |
| Borrowings | 2,272,179 | - | 2,272,179 |
| Lease liability | - | 259,660 | 259,660 |
| Trade and other payables | 1,240,678 | 98,868 | 1,339,546 |
| Group companies | 7,587 | 166 | 7,753 |
| Total financial liabilities | 3,520,444 | 358,694 | 3,879,138 |
| Net financial position | (1,076,898) | 3,354,150 | 2,277,252 |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currency to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 2% (2019 - 4%) appreciation and a 6% (2019 - 6%) depreciation change in foreign currency rates. The sensitivity of the profit was primarily as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables, short term investments and US dollar-denominated liabilities. Profit is more sensitive to movements in Jamaican dollar/US dollar exchange rates because of the significant level of US-dollar denominated investments. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis. There is no direct impact on other comprehensive income or equity.

| | Change in Currency Rate 2020 % | Effect on Profit before Taxation 2020 \$'000 | Change in Currency Rate 2019 % | Effect on Profit before Taxation 2019 \$'000 |
|--------------------|--|--|--|--|
| The Group | | | | |
| Currency: | | | | |
| USD | +2 | 97,520 | +4 | 157,156 |
| USD | -6 | (292,560) | -6 | (235,734) |
| The Company | | | | |
| USD | +2 | 80,612 | +4 | 134,166 |
| USD | -6 | (241,836) | -6 | (201,249) |

(ii) Interest rate risk

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

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

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and liabilities.

The following tables summarise the Group's and the company's exposure to interest rate risk. It includes the Group and company financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

| | The Group | | | | | | Total \$'000 |
|---|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------------|------------------|
| | Within 1 Month \$'000 | 1 to 3 Months \$'000 | 3 to 12 Months \$'000 | 1 to 5 Years \$'000 | Over 5 Years \$'000 | Non- Interest Bearing \$'000 | |
| | 2020 | | | | | | |
| Assets | | | | | | | |
| Short term investments | 3,549,646 | 2,834,009 | 140,769 | - | - | 34,055 | 6,558,479 |
| Trade and other receivables | - | - | - | - | - | 651,017 | 651,017 |
| Cash and bank | 211,367 | - | - | - | - | 164,643 | 376,010 |
| Total financial assets | 3,761,013 | 2,834,009 | 140,769 | - | - | 849,715 | 7,585,506 |
| Liabilities | | | | | | | |
| Borrowings | 140,148 | 176,786 | 1,119,000 | 241,875 | - | 2,932 | 1,680,741 |
| Lease liability | - | - | - | 180,328 | - | - | 180,328 |
| Trade and other payables | - | - | - | - | - | 1,348,723 | 1,348,723 |
| Total financial liabilities | 140,148 | 176,786 | 1,119,000 | 422,203 | - | 1,351,655 | 3,209,792 |
| Total interest repricing gap | 3,620,865 | 2,657,223 | (978,231) | (422,203) | - | (501,940) | 4,375,714 |
| 2019 | | | | | | | |
| Assets | | | | | | | |
| Short term investments | 2,397,267 | 2,769,004 | 63,303 | - | - | - | 5,229,574 |
| Trade and other receivables | - | - | - | - | - | 768,351 | 768,351 |
| Cash and bank | 311,947 | - | - | - | - | 381,968 | 693,915 |
| Total financial assets | 2,709,214 | 2,769,004 | 63,303 | - | - | 1,150,319 | 6,691,840 |
| Liabilities | | | | | | | |
| Borrowings | 179,259 | 255,357 | 35,715 | 1,706,175 | 94,193 | 2,932 | 2,273,631 |
| Lease liability | - | - | - | 240,049 | - | - | 240,049 |
| Trade and other payables | - | - | - | - | - | 1,410,214 | 1,410,214 |
| Total financial liabilities | 179,259 | 255,357 | 35,715 | 1,946,224 | 94,193 | 1,413,146 | 3,923,894 |
| Total interest repricing gap | 2,529,955 | 2,513,647 | 27,588 | (1,946,224) | (94,193) | (262,827) | 2,767,946 |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

| | The Company | | | | | | Total \$'000 |
|-------------------------------------|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------------|------------------|
| | Within 1 Month \$'000 | 1 to 3 Months \$'000 | 3 to 12 Months \$'000 | 1 to 5 Years \$'000 | Over 5 Years \$'000 | Non- Interest Bearing \$'000 | |
| | 2020 | | | | | | |
| Assets | | | | | | | |
| Group companies – non current | - | - | - | 697,753 | - | - | 697,753 |
| Short term investments | 3,237,697 | 2,170,554 | 140,769 | - | - | 31,525 | 5,580,545 |
| Trade and other receivables | - | - | - | - | - | 557,355 | 557,355 |
| Group companies | - | - | - | - | - | 168,590 | 168,590 |
| Cash and bank | 136,870 | - | - | - | - | 43,307 | 180,177 |
| Total financial assets | 3,374,567 | 2,170,554 | 140,769 | 697,753 | - | 800,777 | 7,184,420 |
| Liabilities | | | | | | | |
| Borrowings | 140,148 | 176,786 | 1,119,000 | 241,875 | - | 1,480 | 1,679,289 |
| Lease Liability | - | - | 19,612 | 266,528 | - | - | 286,140 |
| Trade and other payables | - | - | - | - | - | 1,285,599 | 1,285,599 |
| Group companies | - | - | - | - | - | 11,183 | 11,183 |
| Total financial liabilities | 140,148 | 176,786 | 1,138,612 | 508,403 | - | 1,298,262 | 3,262,211 |
| Total interest repricing gap | 3,234,419 | 1,993,768 | (997,843) | 189,350 | - | (497,485) | 3,922,209 |
| 2019 | | | | | | | |
| Assets | | | | | | | |
| Loan receivable | - | - | - | 476,071 | - | - | 476,071 |
| Short term investments | 2,236,029 | 2,265,389 | - | - | - | - | 4,501,418 |
| Trade and other receivables | - | - | - | - | - | 675,278 | 675,278 |
| Group companies | - | - | - | - | - | 59,704 | 59,704 |
| Cash and bank | 192,704 | - | - | - | - | 251,215 | 443,919 |
| Total financial assets | 2,428,733 | 2,265,389 | - | 476,071 | - | 986,197 | 6,156,390 |
| Liabilities | | | | | | | |
| Borrowings | 179,259 | 255,357 | 35,715 | 1,706,175 | 94,193 | 1,480 | 2,272,179 |
| Lease Liability | - | - | 19,612 | 240,048 | - | - | 259,660 |
| Trade and other payables | - | - | - | - | - | 1,339,546 | 1,339,546 |
| Group companies | - | - | - | - | - | 7,753 | 7,753 |
| Total financial liabilities | 179,259 | 255,357 | 55,327 | 1,946,223 | 94,193 | 1,348,779 | 3,879,138 |
| Total interest repricing gap | 2,249,474 | 2,010,032 | (55,327) | (1,470,152) | (94,193) | (362,582) | 2,277,252 |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity

The following table indicates the sensitivity to a possible change in interest rates, with all other variables held constant, on the Group's and company's statement of comprehensive income and stockholders' equity.

The Group's interest rate risk arises mainly from short term deposits and borrowings. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate deposits and borrowings. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear. There was no direct impact on other comprehensive income or equity.

| | | | | The Group | | The Company | |
|-------------------------------|-------------|-------------|-------------|---------------|---------------|---------------|---------------|
| | | | | Effect on | Effect on | Effect on | Effect on |
| | | | | Profit before | Profit before | Profit before | Profit before |
| | | | | Taxation | Taxation | Taxation | Taxation |
| | | | | 2020 | 2019 | 2020 | 2019 |
| | | | | \$'000 | \$'000 | \$'000 | \$'000 |
| Change in basis points | | | | | | | |
| 2020 | 2020 | 2019 | 2019 | | | | |
| JMD | USD | JMD | USD | | | | |
| +100 | +100 | +100 | +100 | 43,757 | 27,679 | 39,222 | 22,773 |
| -100 | -100 | -100 | -100 | (43,757) | (27,679) | (39,222) | (22,773) |

(d) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders, to effectively service its customers and to maintain an optimal capital structure to reduce the cost of capital as well as meet externally imposed capital requirements. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total stockholders' equity and non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary equity holders.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total stockholders' equity. Debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less bank overdraft and interest payable. Total stockholders' equity is calculated as capital and reserves attributable to company's equity holders as shown in the consolidated statement of financial position.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(d) Capital management (continued)

During 2020, the Group's strategy, which was unchanged from 2019, was to maintain the gearing ratio no higher than 75%. The gearing ratios at 31 December 2020 and 2019 were as follows:

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Total long term borrowings (Note 31) | 1,680,741 | 2,273,631 |
| Total stockholders' equity | 32,582,332 | 26,593,460 |
| Gearing ratio (%) | 5.16% | 8.55% |

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

(e) Fair value of financial instruments

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the statement of financial position date. The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value.

Financial instruments that, subsequent to initial recognition, are measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. At the reporting date, the Group and company had only Level 2 financial instruments which are defined as:

- those with fair value measurements that are derived from inputs other than quoted prices that are observable for the asset or liability either directly (that is as prices) or indirectly, (that is, derived from prices).

At 31 December 2020, instruments included within this level comprised unquoted equities classified as financial assets at fair value through other comprehensive income which totalled \$537,112,000 and \$358,802,000 for the Group and company, respectively. There were no transfers between levels in 2020 and 2019.

The following methods and assumptions have been used in determining fair values for instruments not re-measured at fair value after initial recognition

- The carrying values less any impairment provision of financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values due to the short term maturity of these instruments. These financial assets and liabilities are cash and bank balances, trade and other accounts receivables, trade and other accounts payables, related companies balances and short term investments.
- The carrying value of other financial assets (loans) closely approximate amortised cost, which is estimated to be their fair value as they attract terms and conditions available in the market for similar transactions and are repayable after one year.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

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4. Critical Accounting Estimates and Assumptions in Applying Accounting Policies

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

Key sources of estimation uncertainty

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

Depreciable assets

Estimates of the useful life and residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Group applies a variety of methods including the use of certified independent valuers in an effort to arrive at these estimates. Any changes in estimates of residual value will directly impact the depreciation charge.

Income taxes

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

The company was granted free zone status in December 2013, resulting in an income tax rate which was variable and based on approved methodology, and in 2019 was 10.92% (Note 10). The company was granted approval to operate as an approved developer under the Special Economic Zone Act (SEZA) in 1 January 2020 thereby ending the variable tax rate regime. Under the SEZA, a corporate income tax rate of 12.50% is now applicable.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and valuation inputs and make assumptions that are mainly based on market conditions existing at each statement of financial position date. The Group uses discounted cash flow analyses and references to prices for other instruments that are substantially the same for various available-for-sale financial assets that were not traded in active markets. Details of investment securities valued using other than quoted prices in an active market are provided in Note 3(e) of the financial statements.

Impairment assessment of intangible assets

The Group and Company test annually whether Rights to Customer lists included in intangible assets has suffered any impairment, in accordance with the accounting policy stated in Note 2(f). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which require the use of estimates. In determining the value in use, management has made certain assumptions regarding revenue growth rate, projected cash flows and discount rates.

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Estimates and Assumptions in Applying Accounting Policies (Continued)

Pension and other retirement benefits

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and other post-employment benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and other post-employment benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of actual medical cost increases with the rate of inflation in the economy. Past experience has shown that the actual medical costs have increased on average by one times the rate of inflation. Other key assumptions for the pension and other post-employment benefit costs and credits are based in part on current market conditions.

If the actual health care costs trend for the post-employment obligations varied by 0.5% from estimates applied in valuation of the benefits, the consolidated net profit would be an estimated \$25,881 lower or \$29,751 higher (Note 23). Variations in the other financial assumptions can cause material adjustments in the next financial year, if it is determined that actual experience differed from the estimate (Note 23).

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5. Segment Financial Information

The Chief Executive Officer is the Group's chief operating decision maker (CODM). Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance. The Group is organised into the following business segments:

- (a) Terminal operations - Operation of public wharves and stevedoring of vessels.
- (b) Logistics Services - Operation of warehousing and logistics facilities, security services, rental of cold storage facilities and property rental.

Transactions between the business segments are on normal commercial terms and conditions. The Group derives revenue from the transfer of services at a point in time in the following major operating segments.

The Group's operations are located at Newport West, Kingston, Jamaica.

| | Terminal Operations | Logistics Services | Eliminations | Group |
|---|--------------------------------|-------------------------------|---------------------|--------------------------|
| Year ended 31 December 2020 | \$'000 | \$'000 | \$'000 | \$'000 |
| External operating revenue | 4,955,439 | 2,182,899 | - | 7,138,338 |
| Operating revenue from segments | 647,279 | 88,082 | (735,361) | - |
| Total revenue | <u>5,602,718</u> | <u>2,270,981</u> | <u>(735,361)</u> | <u>7,138,338</u> |
| Operating profit | 1,985,116 | 867,644 | - | 2,852,760 |
| Finance costs | (91,970) | (116,836) | 53,930 | (154,876) |
| Profit before tax | <u>1,893,146</u> | <u>750,808</u> | <u>53,930</u> | <u>2,697,884</u> |
| Tax expense | | | | (421,987) |
| Profit before non-controlling interest | | | | <u>2,275,897</u> |
| Non-controlling interest | | | | (38,178) |
| Net profit attributable to equity holders of the company | | | | <u><u>2,237,719</u></u> |
| Segment assets | 31,135,401 | 6,826,036 | (1,294,495) | 36,666,942 |
| Unallocated assets | | | | 1,566,564 |
| Total assets | | | | <u><u>38,233,506</u></u> |
| Segment liabilities | 3,586,536 | 803,329 | (1,180,073) | 3,209,792 |
| Unallocated liabilities | | | | 2,225,291 |
| Total liabilities | | | | <u><u>5,435,083</u></u> |
| Other segment items: | | | | |
| Interest income (Note 8) | 199,369 | 25,459 | (39,883) | 184,945 |
| Capital expenditure (Note 15) | 578,631 | 110,188 | - | 688,819 |
| Capital expenditure (Note 18) | 6,502 | 1,586 | - | 8,088 |
| Amortisation (Note 18) | 24,219 | 430 | - | 24,649 |
| Depreciation | <u>688,913</u> | <u>206,739</u> | <u>(114,927)</u> | <u>780,725</u> |

Kingston Wharves Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Financial Information (Continued)

| | Terminal Operations | Logistics Services | Eliminations | Group |
|---|--------------------------------|-------------------------------|---------------------|--------------------------|
| Year ended 31 December 2019 | \$'000 | \$'000 | \$'000 | \$'000 |
| External operating revenue | 5,753,386 | 2,144,821 | - | 7,898,207 |
| Operating revenue from segments | 610,586 | 86,915 | (697,501) | - |
| Total revenue | <u>6,363,972</u> | <u>2,231,736</u> | <u>(697,501)</u> | <u>7,898,207</u> |
| Operating profit | 2,432,711 | 670,233 | - | 3,102,944 |
| Finance costs | (102,390) | (94,503) | 18,976 | (177,917) |
| | <u>2,330,321</u> | <u>575,730</u> | <u>18,976</u> | <u>2,925,027</u> |
| Gain on disposal of interest in joint venture | | | | 22,162 |
| Gain on acquisition of subsidiary | | | | 16,120 |
| Share of results of joint venture | | | | 329 |
| Profit before tax | | | | 2,963,638 |
| Tax expense | | | | (326,144) |
| Profit before non-controlling interest | | | | 2,637,494 |
| Non-controlling interest | | | | (36,677) |
| Net profit attributable to equity holders of the company | | | | <u><u>2,600,817</u></u> |
| Segment assets | 26,563,603 | 5,800,761 | (1,872,149) | 30,492,215 |
| Unallocated assets | | | | 2,088,479 |
| Total assets | | | | <u><u>32,580,694</u></u> |
| Segment liabilities | 4,868,131 | 794,424 | (1,738,662) | 3,923,893 |
| Unallocated liabilities | | | | 1,885,428 |
| Total liabilities | | | | <u><u>5,809,321</u></u> |
| Other segment items: | | | | |
| Interest income (Note 8) | 165,364 | 13,995 | (10,824) | 168,535 |
| Capital expenditure (Note 15) | 506,176 | 68,030 | - | 574,206 |
| Capital expenditure (Note 18) | 30,085 | - | - | 30,085 |
| Amortisation (Note 18) | 29,446 | 406 | - | 29,852 |
| Depreciation | <u>730,496</u> | <u>183,306</u> | <u>(113,468)</u> | <u>800,334</u> |

Revenues of approximately \$1,778,379,000 (2019 – \$1,941,595,000) were earned from two customers. The revenues are attributable to the Terminal Operations segment.

Kingston Wharves Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

6. Expenses by Nature

Total direct and administration expenses:

| | The Group | | The Company | |
|---------------------------------------|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Advertising and public relations | 28,398 | 47,982 | 27,436 | 46,951 |
| Amortisation (Note 18) | 24,649 | 29,852 | 24,219 | 29,446 |
| Auditors' remuneration | | | | |
| Current year | 18,443 | 16,611 | 11,038 | 10,721 |
| Prior year | - | 67 | - | - |
| Bad debts | 20,823 | (5,621) | 22,069 | (4,799) |
| Bank charges | 48,175 | 50,064 | 47,632 | 49,642 |
| Claims | 22,482 | 17,625 | 20,482 | 17,625 |
| Cleaning and sanitation | 47,865 | 50,282 | 47,865 | 48,651 |
| Customs overtime | 43,984 | 56,947 | 43,984 | 56,947 |
| Depreciation | 780,725 | 800,334 | 700,061 | 714,899 |
| Directors' fees | 25,930 | 18,764 | 25,256 | 18,566 |
| Equipment rental | 111,451 | 135,660 | 111,431 | 135,660 |
| Fuel | 132,778 | 178,829 | 132,778 | 178,829 |
| Information technology | 90,833 | 86,047 | 84,836 | 84,712 |
| Insurance | 196,736 | 177,051 | 160,277 | 153,040 |
| Irrecoverable General Consumption Tax | 42,797 | 46,763 | 30,242 | 34,697 |
| Legal and consultation expenses | 33,595 | 33,523 | 23,671 | 30,102 |
| Occupancy: property taxes and rent | 9,419 | 8,430 | 9,770 | 10,192 |
| Repairs and maintenance | 594,063 | 439,472 | 581,487 | 422,076 |
| Security | 397,669 | 425,393 | 84,053 | 88,345 |
| Staff costs (Note 7) | 1,656,902 | 1,907,404 | 1,422,221 | 1,601,888 |
| Utilities | 272,578 | 257,583 | 265,660 | 252,348 |
| Other | 265,782 | 278,221 | 268,093 | 297,709 |
| | <u>4,866,077</u> | <u>5,057,283</u> | <u>4,144,561</u> | <u>4,278,247</u> |

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7. Staff Costs

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Wages and salaries | 1,391,056 | 1,490,828 | 1,171,057 | 1,286,276 |
| Payroll taxes – employer's contributions | 149,462 | 197,407 | 124,967 | 126,225 |
| Pension costs – defined benefit plan (Note 23) | (107,322) | (78,864) | (107,322) | (78,864) |
| Pension costs – defined contribution plan | 7,473 | 7,379 | - | - |
| Other retirement benefits (Note 23) | 43,098 | 39,422 | 43,098 | 39,422 |
| Meal and travelling allowances | 56,736 | 59,791 | 50,883 | 54,372 |
| Termination costs | 14,915 | 23,758 | 14,915 | 23,758 |
| Other | 101,484 | 167,683 | 124,623 | 150,699 |
| | <u>1,656,902</u> | <u>1,907,404</u> | <u>1,422,221</u> | <u>1,601,888</u> |

8. Other Operating Income

| | The Group | | The Company | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Dividends | 5,555 | 7,106 | 3,711 | 4,747 |
| Interest | 184,945 | 168,535 | 199,124 | 165,153 |
| Foreign exchange gains | 270,747 | 47,963 | 233,130 | 36,920 |
| Management fees | - | - | 6,490 | 6,490 |
| Proceeds from claims | 122,813 | 4,057 | 122,813 | 4,057 |
| Loss/gain on disposal of fixed assets | (3,575) | 34,345 | (3,575) | 32,285 |
| Other | 14 | 14 | - | - |
| | <u>580,499</u> | <u>262,020</u> | <u>561,693</u> | <u>249,652</u> |

9. Finance Costs

| | The Group | | The Company | |
|-------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Interest expense | 136,926 | 177,917 | 138,480 | 180,113 |
| Foreign exchange losses | 17,950 | - | 808 | - |
| | <u>154,876</u> | <u>177,917</u> | <u>139,288</u> | <u>180,113</u> |

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10. Tax Expense

| | The Group | | The Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Current tax on profit for the year | 382,591 | 393,015 | 310,017 | 314,608 |
| Prior year under/(over) provision | (2,112) | (603) | - | 1,794 |
| Deferred income tax (Note 32) | 41,508 | (66,268) | 65,360 | (30,188) |
| | <u>421,987</u> | <u>326,144</u> | <u>375,377</u> | <u>286,214</u> |

The tax on profit differs from the theoretical amount that would arise using a basic statutory rate of 12.50% (2019 – 10.92%) as follows:

| | The Group | | The Company | |
|---|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Profit before tax | <u>2,697,884</u> | <u>2,963,638</u> | <u>2,525,762</u> | <u>2,794,123</u> |
| Tax calculated at a tax rate of 12.50% (2019 – 10.92%) | 337,235 | 323,629 | 315,720 | 305,118 |
| Adjusted for the effects of: | | | | |
| Income not subject to tax | - | (3,557) | - | (3,525) |
| Income taxed at higher rate | 39,421 | 14,664 | - | - |
| Expenses not deductible for tax purposes | 32,313 | 2,730 | 32,313 | 2,580 |
| Change in rate for deferred income taxes | 27,314 | (10,297) | 27,314 | (10,297) |
| Prior year (over)/under provision | (2,112) | (603) | - | 1,794 |
| Other | (12,184) | (422) | 30 | (9,456) |
| Tax expense | <u>421,987</u> | <u>326,144</u> | <u>375,377</u> | <u>286,214</u> |

The company was granted free zone status under the Jamaica Export Free Zones Act effective December 2013, resulting in income tax being charged on applicable profits at zero for export activities and 25% for non-export activities. This resulted in an effective statutory rate of 10.92% in the prior year. This rate was also applied in determining the amounts for deferred taxation for the company in the 2019 financial statements (Note 32).

The Jamaica Export Free Zones Act was repealed in 2016 by the Special Economic Zones Act (SEZA). Effective 1 January 2020, the company was granted approval to operate as an approved developer under the SEZA. Under the SEZA, a corporate income tax rate of 12.50% is applicable to approved developers and occupants.

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11. Profit Attributable to Equity Holders of the Company

| | 2020 \$'000 | 2019 \$'000 |
|---|-------------------|-------------------|
| (a) Net profit is dealt with as follows in the financial statements of: | | |
| Holding company | 2,150,385 | 2,507,909 |
| Gain on acquisition of subsidiary | - | 16,120 |
| Subsidiaries | 87,335 | 76,459 |
| Joint venture | - | 329 |
| | <u>2,237,720</u> | <u>2,600,817</u> |
| (b) Retained earnings are dealt with as follows in the financial statements of: | | |
| Holding company | 11,580,757 | 10,754,507 |
| Subsidiaries | <u>(164,287)</u> | <u>(251,458)</u> |
| | <u>11,416,470</u> | <u>10,503,049</u> |

12. Non-controlling Interest

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------|----------------|----------------|
| At beginning of year | 177,913 | 141,236 |
| Share of net profit of subsidiary | <u>38,178</u> | <u>36,677</u> |
| | <u>216,091</u> | <u>177,913</u> |

13. Earnings Per Stock Unit

The calculation of basic earnings per stock unit (EPS) is based on the net profit attributable to equity holders and the weighted average number of stock units in issue during the year, excluding ordinary stock units purchased by the Group and held as treasury stock.

| | 2020 | 2019 |
|--|------------------|------------------|
| Net profit attributable to equity holders of the company (\$'000) | <u>2,237,719</u> | <u>2,600,817</u> |
| Weighted average number of ordinary stock units in issue (thousands) | <u>1,429,342</u> | <u>1,429,367</u> |
| Basic earnings per stock unit | <u>\$1.57</u> | <u>\$1.82</u> |

14. Dividends

During the year, the company declared dividends to equity holders on record as follows.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Ordinary dividends, gross – 54 cents (2019 – 54 cents) | <u>772,308</u> | <u>772,308</u> |

In December 2020, the company declared a dividend of 31 cents per share which is payable on 18 January 2021 to shareholders on record at 17 December 2020, and which is included in the total dividends above.

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15. Property, Plant and Equipment (Continued)

| | The Company | | | | | | | Total |
|---|---------------|---------------------|-------------------------|--|------------------------|----------------|------------------|------------|
| | Freehold Land | Plant and Buildings | Machinery and Equipment | Cold Room and Air Conditioning Equipment | Furniture and Fixtures | Motor Vehicles | Work in Progress | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| | 2020 | | | | | | | |
| Cost or Valuation - | | | | | | | | |
| At 31 December 2019 | 4,899,666 | 14,639,771 | 3,515,486 | 19,137 | 333,544 | 326,477 | 268,249 | 24,002,330 |
| Additions | - | 1,798 | 4,404 | - | 3,816 | - | 549,633 | 559,651 |
| Transfers | 80,636 | 396,835 | 43,206 | - | - | - | (520,677) | - |
| Transfers to intangible assets | - | - | - | - | - | - | (43,630) | (43,630) |
| Revaluation | 2,099,992 | 1,154,869 | - | - | - | - | - | 3,254,861 |
| Disposals | - | - | (27,495) | - | - | (13,486) | (1,711) | (42,692) |
| At 31 December 2020 | 7,080,294 | 16,193,273 | 3,535,601 | 19,137 | 337,360 | 312,991 | 251,864 | 27,730,520 |
| Depreciation - | | | | | | | | |
| At 31 December 2019 | - | 4,853,642 | 1,376,987 | 17,901 | 157,744 | 167,944 | - | 6,574,218 |
| Charge for the year | - | 343,850 | 188,715 | 1,023 | 22,886 | 31,594 | - | 588,068 |
| On revaluation | - | 70,194 | - | - | - | - | - | 70,194 |
| Relieved on disposals | - | - | (27,495) | - | - | (5,619) | - | (33,114) |
| At 31 December 2020 | - | 5,267,686 | 1,538,207 | 18,924 | 180,630 | 193,919 | - | 7,199,366 |
| Net Book Value - | | | | | | | | |
| At 31 December 2020 | 7,080,294 | 10,925,587 | 1,997,394 | 213 | 156,730 | 119,072 | 251,864 | 20,531,154 |
| | 2019 | | | | | | | |
| Cost or Valuation - | | | | | | | | |
| At 31 December 2018 | 4,899,666 | 14,575,057 | 3,521,255 | 19,137 | 314,626 | 283,475 | 94,475 | 23,707,691 |
| Additions | - | 12,180 | 36,368 | - | 12,990 | 17,197 | 430,733 | 509,468 |
| Transfers | - | 213,758 | 9,075 | - | 6,121 | 28,005 | (256,959) | - |
| Disposals | - | (161,224) | (51,212) | - | (193) | (2,200) | - | (214,829) |
| At 31 December 2019 | 4,899,666 | 14,639,771 | 3,515,486 | 19,137 | 333,544 | 326,477 | 268,249 | 24,002,330 |
| Depreciation - | | | | | | | | |
| At 31 December 2018 | - | 4,515,173 | 1,215,321 | 16,630 | 135,784 | 136,071 | - | 6,018,979 |
| Charge for the year | - | 344,021 | 203,015 | 1,271 | 21,986 | 34,073 | - | 604,366 |
| Adjustment to effect of revaluation surplus | - | 17,784 | - | - | - | - | - | 17,784 |
| Relieved on disposals | - | (23,336) | (41,349) | - | (26) | (2,200) | - | (66,911) |
| At 31 December 2019 | - | 4,853,642 | 1,376,987 | 17,901 | 157,744 | 167,944 | - | 6,574,218 |
| Net Book Value - | | | | | | | | |
| At 31 December 2019 | 4,899,666 | 9,786,129 | 2,138,499 | 1,236 | 175,800 | 158,533 | 268,249 | 17,428,112 |

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15. Property, Plant and Equipment (Continued)

- (a) Freehold land of the Group was revalued as at 31 December 2020 on the basis of open market value by D.C. Tavares and Finson Realty Limited, independent qualified valuers. The freehold plant and buildings of the Group were also revalued as at 31 December 2020 on the depreciated replacement cost basis which approximates fair value, by Stoppi, Cairney and Bloomfield, quantity surveyors and construction cost consultants. The carrying value of these assets has been adjusted upwards and the resultant increase in value net of deferred income taxes has been recognised in capital reserves (Note 30).

The property, plant and equipment that, subsequent to initial recognition, are measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The levels are as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The items of property, plant and equipment of the Group and the company shown at revalued amounts are included in Level 2 and 3. There were no transfers between levels. The following tables disclose the Group and company's non-financial assets carried at fair value:

| | | The Group | | |
|---------------------|----------------------------|---|---|---|
| | | Fair Value measurements as at 31 December 2020 using | | |
| | | Significant other | | |
| Categories | Date of revaluation | Quoted price in an active market | observable inputs (Level 2) \$'000 | Significant other observable inputs (Level 3) \$'000 |
| Freehold Land | Dec-20 | - | 10,733,532 | - |
| Plant and Buildings | Dec-20 | - | - | 13,980,301 |
| Total | | - | 10,733,532 | 13,980,301 |
| | | The Company | | |
| Freehold Land | Dec-20 | - | 7,080,294 | - |
| Plant and Buildings | Dec-20 | - | - | 10,925,587 |
| Total | | - | 7,080,294 | 10,925,587 |

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15. Property, Plant and Equipment (Continued)

(a) (continued)

Level 2 fair values of land have been derived using the sales comparison approach and are comparable to sales of properties in close proximity and are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot. The valuation techniques for Level 3 fair values of plant and buildings are disclosed in the tables below.

The valuation technique for Level 3 uses the current construction replacement cost (depreciable replacement cost) approach of the assets based on current rates for labour, material and contractors' charges. It is also based on the location, age and condition of the plant and buildings.

Fair Value Measurements using significant unobservable inputs (Level 3)

| | Group Plant & Buildings \$'000 | Company Plant & Buildings \$'000 |
|--|---|---|
| Opening balance at valuation | 12,182,098 | 9,786,129 |
| Additions/transfers in | 524,753 | 398,633 |
| Revaluation Adjustment to accumulated depreciation | 1,736,781 | 1,084,675 |
| Depreciation through profit or loss | (463,331) | (343,850) |
| Closing balance | <u>13,980,301</u> | <u>10,925,587</u> |

The Group

| Description | Fair value at 31 December 2020 \$'000 | Valuation technique(s) | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair value 2020 \$'000 |
|--------------------|---------------------------------------|-------------------------------------|---|---|---|
| Plant and Building | 13,980,301 | Depreciable Replacement Cost method | Labour, material and contractor's charges | None noted | The higher the cost of labour, material and contractors' charges, the higher the replacement cost |
| | | | Remaining useful lives | 1 year | If the estimates for the useful lives of the assets were higher or lower by one year, the value would be lower by \$31,013,000 and higher by \$40,398,000 . |

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15. Property, Plant and Equipment (Continued)

(a) (continued)

| The Company | | | | | |
|-----------------------|--|---|--|--|---|
| | Fair value at 31 December 2020 \$'000 | Valuation technique(s) | Unobservable inputs | Range of unobservable inputs (probability – weighted average) | Relationship of unobservable inputs to fair value 2020 \$'000 |
| Plant and Building | 10,925,587 | Depreciable Replacement Cost method | Labour, material and contractor's charges | None noted | The higher the cost of labour, material and contractors' charges, the higher the replacement cost |
| | | | Remaining useful lives | 1 year | If the estimates for the useful lives of the assets were higher or lower by one year, the value would be lower by \$21,054,000 and higher by \$28,201,000. |

- (b) A fixed charge totalling US\$26.6 million has been placed over the property, plant and equipment of the company as well as mortgages totalling \$1,040 million over certain premises and equipment owned by the company in keeping with the terms of certain loan agreements (Note 31).
- (c) If freehold land, plant and buildings were stated on the historical cost basis, the amounts would be as follows:

| | The Group | | The Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Cost | 9,175,737 | 8,516,296 | 8,787,459 | 8,308,190 |
| Accumulated depreciation | (1,232,467) | (1,086,968) | (1,178,353) | (1,045,445) |
| Net book value | 7,943,270 | 7,429,328 | 7,609,106 | 7,262,745 |

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16. Leases

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see Note 34.

(a) Amounts recognised in the statement of financial position (IFRS 16)

| | The Group | | The Company | |
|---------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Right-of-use assets | | | | |
| Land and buildings | 175,855 | 241,801 | 279,297 | 261,412 |
| Lease liabilities | | | | |
| Current | 82,886 | 77,442 | 123,257 | 97,053 |
| Non-current | 97,442 | 162,607 | 162,883 | 162,607 |
| | 180,328 | 240,049 | 286,140 | 259,660 |

(b) Amounts recognised in the statement of profit or loss IFRS16

The statement of profit or loss shows the following amounts relating to right-of-use assets:

| | The Group | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Depreciation charge of right-of-use assets | | | | |
| Land and buildings | 65,946 | 71,311 | 111,993 | 110,533 |
| Interest expense (Included in finance costs ,Note 9) | 11,943 | 5,955 | 13,497 | 8,151 |
| | 77,889 | 77,266 | 125,490 | 118,684 |

The total cash outflow for leases was \$90,787,000 (2019 - \$84,441,000). Income from the sub-lease of right of use assets was \$140,883,000 (2019 - \$84,441,000) within the Group.

17. Investment Property

| | Land \$'000 | Plant and Buildings \$'000 | Total \$'000 |
|---|----------------|----------------------------------|-----------------|
| Cost - | | | |
| At 1 November 2019, 31 December 2019 and At 31 December 2020 | 250,000 | 320,000 | 570,000 |
| Accumulated Depreciation - | | | |
| At 31 December 2018 | - | - | - |
| Charge for the year | - | 1,381 | 1,381 |
| At 31 December 2019 | - | 1,381 | 1,381 |
| Charge for the year | - | 7,918 | 7,918 |
| At 31 December 2020 | - | 9,299 | 9,299 |
| Net Book Value - | | | |
| 31 December 2020 | 250,000 | 310,701 | 560,701 |
| 31 December 2019 | 250,000 | 318,619 | 568,619 |

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17. Investment Property (Continued)

The investment property, which is carried at cost less accumulated depreciation, was valued at its last valuation in 2019 at \$570,000,000, based on open market value by D.C. Tavares and Finson Realty Limited, independent qualified valuers.

Amounts recognised in profit or loss for investment property:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Rental income | 43,865 | 7,236 |
| Direct operating expenses from property that generated rental income | <u>(7,918)</u> | <u>(1,381)</u> |

The investment property is leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as shown below:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Receivable as follows: | | |
| Within one year | 46,569 | 45,659 |
| Later than one year but not later than 5 years | 212,710 | 212,755 |
| Later than 5 years | <u>63,105</u> | <u>110,649</u> |
| | <u>322,384</u> | <u>369,063</u> |

18. Intangible Assets

| | Computer Software \$'000 | Rights to Customer Contracts \$'000 | Total \$'000 |
|---|--------------------------------|--|-----------------|
| | The Group | | |
| At Cost - | | | |
| At 31 December 2018 | 52,743 | 470,637 | 523,380 |
| Additions | 30,085 | - | 30,085 |
| At 31 December 2019 | 82,828 | 470,637 | 553,465 |
| Additions | 8,088 | - | 8,088 |
| Transfers from property plant and equipment | 43,630 | - | 43,630 |
| Disposal | (1,754) | - | (1,754) |
| At 31 December 2020 | <u>132,792</u> | <u>470,637</u> | <u>603,429</u> |
| Amortisation - | | | |
| At 31 December 2018 | 30,687 | 418,578 | 449,265 |
| Amortisation charge for year | 10,924 | 18,928 | 29,852 |
| At 31 December 2019 | 41,611 | 437,506 | 479,117 |
| Amortisation charge for year | 14,193 | 10,456 | 24,649 |
| Disposal | (351) | - | (351) |
| At 31 December 2020 | <u>55,453</u> | <u>447,962</u> | <u>503,415</u> |
| Net Book Value - | | | |
| 31 December 2020 | <u>77,339</u> | <u>22,675</u> | <u>100,014</u> |
| 31 December 2019 | <u>41,217</u> | <u>33,131</u> | <u>74,348</u> |

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18. Intangible Assets (Continued)

| | Computer Software \$'000 | Rights to Customer Contracts \$'000 | Total \$'000 |
|---|--------------------------------|--|-----------------|
| The Company | | | |
| At Cost - | | | |
| At 31 December 2018 | 50,708 | 470,637 | 521,345 |
| Additions | 30,085 | - | 30,085 |
| At 31 December 2019 | 80,793 | 470,637 | 551,430 |
| Additions | 5,920 | - | 5,920 |
| Transfers from property plant and equipment | 43,630 | - | 43,630 |
| Disposal | (1,754) | - | (1,754) |
| At 31 December 2020 | 128,589 | 470,637 | 599,226 |
| Amortisation - | | | |
| At 31 December 2018 | 30,280 | 418,578 | 448,858 |
| Amortisation charge for year | 10,517 | 18,929 | 29,446 |
| At 31 December 2019 | 40,797 | 437,507 | 478,304 |
| Amortisation charge for year | 13,763 | 10,456 | 24,219 |
| Disposal | (351) | - | (351) |
| At 31 December 2020 | 54,209 | 447,963 | 502,172 |
| Net Book Value - | | | |
| 31 December 2020 | 74,380 | 22,674 | 97,054 |
| 31 December 2019 | 39,996 | 33,130 | 73,126 |

The amortisation period for the contracts classified as rights to customer contracts are amortised over five – ten years.

The total amortisation charge is included in direct expenses in profit or loss.

19. Investments in Subsidiaries

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------|----------------|----------------|
| Harbour Cold Stores Limited | 13,335 | 13,335 |
| Security Administrators Limited | 6 | 6 |
| Western Storage Limited | 16,301 | 16,301 |
| Western Terminals Limited | 46,039 | 46,039 |
| Kingston Terminal Operators Limited | 50 | 50 |
| | <u>75,731</u> | <u>75,731</u> |

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20. Investment in Joint Venture

The Group through its subsidiary KW Logistics Limited entered into a joint venture agreement with effect from 31 August 2018, under the terms of which it acquired a fifty percent (50%) share in SSL REIT Limited (SSL REIT), a company incorporated in Jamaica. SSL REIT's primary business is the rental of warehousing facilities. The Group's investment of \$58 million was accounted for using the equity method up to 31 October 2019 when it acquired control of SSL REIT through an additional investment (Note 21).

Summarised Unaudited Statement of Comprehensive Income.

| | Ten months ended 31 October 2019 \$'000 |
|-------------------------|--|
| Revenue | 36,180 |
| Interest income | 4,114 |
| Depreciation | (6,872) |
| Interest expense | (29,375) |
| Other operating expense | (3,389) |
| Net profit | <u>658</u> |

When acquired the company had pre-acquisition losses of approximately \$29 million. As at 31 October 2019, the Group's share was profits of \$329,000.

21. Acquisition of Subsidiary

With effect from 1 November 2019, the Group through its subsidiary KW Logistics Limited acquired control of SSL REIT, formerly a joint venture interest. The Group previously held a 50% share of the issued share capital of the company and subsequently acquired the remaining 50%. SSL REIT's primary business is the rental of warehousing facilities.

Since 1 November 2019, SSL REIT contributed revenues of \$7.2 million and loss after tax of \$58 thousand to the Group's results in 2019. If the acquisition had occurred on 1 January 2019, management estimates that the company would have contributed revenues of \$43.4 million and profit after tax of \$0.5 million to the Group.

Step 1 – Deemed disposal

| | |
|---|------------------------|
| | 2019 \$'000 |
| Fair value of net assets of joint venture at 31 October 2019 | 80,524 |
| Less carrying value of investment in joint venture at 31 October 2019 | <u>(58,362)</u> |
| Gain on disposal of interest in joint venture | <u>22,162</u> |

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21. Acquisition of Subsidiary (Continued)

Step 2 - Acquisition of subsidiary

The following summarises the fair value of the identifiable assets and liabilities recognised by the group at 1 November 2019

| | |
|-----------------------------------|------------------|
| | 2019 |
| | \$'000 |
| Property, plant and equipment | 570,000 |
| Cash and cash equivalents | 16,538 |
| Receivables from related parties | 34,929 |
| Other current assets | 9,761 |
| Short term loan payable | (470,000) |
| Current liabilities | (180) |
| Net identifiable assets acquired | <u>161,048</u> |
| | 2019 |
| | \$'000 |
| Assets acquired | 631,228 |
| Less liabilities taken over | 470,180 |
| Net assets acquired | <u>161,048</u> |
| Total purchase price | <u>(144,928)</u> |
| Gain on acquisition of subsidiary | <u>16,120</u> |

Subsequent to the completion of the transaction, SSL REIT's name was changed to KW Warehousing Services Limited.

22. Investments

(a) Classification of financial assets at fair value through other comprehensive income

Investments comprise equity securities which are classified as financial assets at fair value through other comprehensive income and which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. On disposal of these equity investments, any balances within fair value reserve are reclassified through retained earnings.

(b) Equity investments at fair value through other comprehensive income

| | <u>The Group</u> | | <u>The Company</u> | |
|--|------------------|----------------|--------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Unquoted equities in a related company | | | | |
| Opening balance | 128,466 | 128,466 | 85,818 | 85,818 |
| Fair value movement | <u>408,646</u> | <u>-</u> | <u>272,984</u> | <u>-</u> |
| | <u>537,112</u> | <u>128,466</u> | <u>358,802</u> | <u>85,818</u> |

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23. Retirement Benefit Asset and Obligations

| | <u>The Group and Company</u> | |
|--|------------------------------|-----------------------------|
| | <u>2020</u> | <u>2019</u> |
| | <u>\$'000</u> | <u>\$'000</u> |
| Statement of financial position obligations/(asset) for: | | |
| Pension benefits | (1,549,850) | (2,071,885) |
| Other retirement benefits | 384,517 | 370,149 |
| | <u> </u> | <u> </u> |
| Profit or loss for (Note 7): | | |
| Pension benefits | (107,322) | (78,864) |
| Other retirement benefits | 43,098 | 39,422 |
| | <u> </u> | <u> </u> |
| Remeasurements for: | | |
| Pension benefits | 633,488 | (3,444) |
| Other retirement benefits | (17,204) | 15,235 |
| | <u> </u> | <u> </u> |
| | <u>616,284</u> | <u>11,791</u> |

(a) Pension benefits

The Group has established two pension schemes covering all permanent employees: a defined benefit plan and a defined contribution plan. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds.

Defined contribution plan

The Group, through a subsidiary, participates in a defined contributory pension scheme which was established in May 2001 and is open to security personnel and administrative personnel contracted to the subsidiary. The scheme is administered by trustees. The scheme is funded by the employer's contribution of 5% and the members mandatory contribution of 5%. Members may also voluntarily contribute up to an additional 5% of their earnings to the scheme. The total contribution to the scheme during the year was \$7,473,000 (2019 - \$7,379,000).

The plan is valued by independent actuaries triennially to determine the adequacy of funding. The latest such valuation dated 31 December 2019 revealed that the scheme was adequately funded as at that date.

Defined benefit plan

The Group operates a joint contributory defined benefit pension scheme which is fully funded. The scheme is open to all permanent employees of the Group and is administered by trustees. Under the scheme, retirement benefits are based on average salary during the three years preceding retirement. The scheme is funded by employee contributions of 5% and employer contributions of 1% of salary as recommended by independent actuaries. Members may also voluntarily contribute up to an additional 5% of their earnings to the scheme.

The assets of the scheme are held independently of the Group's assets in a separate trustee-administered fund. The scheme is valued by independent actuaries annually using the projected unit credit method. The latest actuarial valuation was carried out as at 31 December 2020 for the purposes of the financial statements.

Additionally, the plan is valued by independent actuaries triennially to determine the adequacy of funding. The latest such valuation being as at 31 December 2017 revealed that the scheme was adequately funded as at that date. The valuation report for 31 December 2020 will be completed in the second quarter of 2021.

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23. Retirement Benefit Asset and Obligations (Continued)

(a) Pension benefits (continued)

The defined benefit asset amounts recognised in the statement of financial position are determined as follows:

| | The Group and Company | |
|---|------------------------------|--------------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Fair value of plan assets | (3,730,537) | (4,200,906) |
| Present value of funded obligations | 2,180,687 | 2,129,021 |
| Surplus of funded plan/Asset in the statement of financial position | <u>(1,549,850)</u> | <u>(2,071,885)</u> |

Movements in the amounts recognised in the statement of financial position:

| | The Group and Company | |
|---|------------------------------|--------------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Asset at beginning of year | (2,071,885) | (1,985,258) |
| Amounts recognised in statement of comprehensive income | 526,166 | (82,308) |
| Contributions paid | (4,131) | (4,319) |
| Asset at end of year | <u>(1,549,850)</u> | <u>(2,071,885)</u> |

The movement in the defined benefit asset recognised in the statement of financial position is as follows:

| | The Group and Company | |
|---|------------------------------|--------------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Balance at beginning of year | (4,200,906) | (3,779,712) |
| Interest income | (312,780) | (262,327) |
| Re-measurements - | | |
| Return on plan assets, excluding amounts included in interest expense | 722,145 | (223,246) |
| Members' contributions | (37,933) | (37,946) |
| Employer's contributions | (4,131) | (4,319) |
| Benefits paid | 97,332 | 101,118 |
| Administrative expenses | 5,736 | 5,526 |
| Balance at end of year | <u>(3,730,537)</u> | <u>(4,200,906)</u> |

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23. Retirement Benefit Asset and Obligations (Continued)

(a) Pension benefits (continued)

The movement in the present value of the funded obligations over the year is as follows:

| | The Group and Company | |
|--|------------------------------|------------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Balance at beginning of year | 2,129,021 | 1,794,454 |
| Current service cost | 81,788 | 70,102 |
| Interest cost | 161,933 | 127,616 |
| Re-measurements - | | |
| (Gain)/loss from change in financial assumptions | (88,657) | 219,802 |
| Members' voluntary contributions | 17,279 | 18,165 |
| Benefits paid | (97,332) | (101,118) |
| Gain on curtailment | (23,345) | - |
| Balance at end of year | <u>2,180,687</u> | <u>2,129,021</u> |

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately \$1,321,681,000 relating to active employees, \$119,583,000 relating to deferred members, \$733,026,000 relating to members in retirement and \$6,397,000 representing other liabilities.

The amounts recognised in profit or loss are as follows:

| | The Group and Company | |
|---|------------------------------|-----------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Current service cost | 61,134 | 50,321 |
| Interest income, net | (150,847) | (134,711) |
| Administrative expenses | 5,736 | 5,526 |
| Gain on curtailment | (23,345) | - |
| Total, included in staff costs (Note 7) | <u>(107,322)</u> | <u>(78,864)</u> |

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23. Retirement Benefit Asset and Obligations (Continued)

(a) Pension benefits (continued)

Plan assets are comprised as follows:

| | The Group and Company | | | |
|---|------------------------------|--------------|------------------|--------------|
| | 2020 | | 2019 | |
| | \$'000 | % | \$'000 | % |
| Quoted securities: | | | | |
| Equity securities | 1,893,780 | 50.8 | 2,404,769 | 57.2 |
| Government of Jamaica securities | 856,006 | 22.9 | 971,257 | 23.1 |
| Corporate bonds, promissory notes and preference shares | 588,357 | 15.8 | 570,891 | 13.6 |
| Repurchase agreements | 205,057 | 5.5 | 84,167 | 2.0 |
| Leases | 20,136 | 0.5 | 33,084 | 0.8 |
| Real estate | 125,485 | 3.4 | 117,809 | 2.8 |
| Other | 41,716 | 1.1 | 18,929 | 0.5 |
| | <u>3,730,537</u> | <u>100.0</u> | <u>4,200,906</u> | <u>100.0</u> |

The pension plan assets include ordinary stock units of the company with a fair value of \$405,000,000 (2019 - \$549,000,000).

Expected contributions to the post-employment plan for the year ending 31 December 2021 are \$4,272,000.

The significant actuarial assumptions used were as follows:

| | 2020 | 2019 |
|---------------------------|-------------|-------------|
| Discount rate | 9.0% | 7.5% |
| Future salary increases | 7.0% | 5.0% |
| Expected pension increase | <u>4.5%</u> | <u>3.0%</u> |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Impact on Post-employment Obligations | | |
|---------------------------|--|-------------------------------|-------------------------------|
| | Change in Assumption | Increase in Assumption | Decrease in Assumption |
| | | \$'000 | \$'000 |
| Discount rate | 0.5% | (130,462) | 146,154 |
| Future salary increases | 0.5% | 18,873 | (17,830) |
| Expected pension increase | 0.5% | 116,264 | (104,364) |
| Life expectancy | 1 year | <u>37,606</u> | <u>(37,185)</u> |

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23. Retirement Benefit Asset and Obligations (Continued)

(a) Pension benefits (continued)

Sensitivity (continued):

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(b) Other retirement benefits

The Group operates both a group health plan and a group life plan. The parent company covers 100% of the premiums of both plans. However pensioners under the health plan have the option to pay an additional premium for single dependant or multiple dependants' coverage.

The method of accounting and the frequency of valuations for these plans are similar to those used for the pension scheme. In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long term increase in health costs of 8% per year (2019 – 6%) for the insured group health plan. The insured group life plan assumes a salary rate increase of 7% per year (2019 – 5%).

The amounts recognised in the statement of financial position were determined as follows:

| | The Group and Company | |
|---------------------------------------|------------------------------|---------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Present value of unfunded obligations | 384,517 | 370,149 |

Movement in the amounts recognised in the statement of financial position:

| | The Group and Company | |
|---|------------------------------|---------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Liability at beginning of year | 370,149 | 326,782 |
| Amounts recognised in the statement of comprehensive income | 25,894 | 54,657 |
| Contributions paid | (11,526) | (11,290) |
| Liability at end of year | 384,517 | 370,149 |

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23. Retirement Benefit Asset and Obligations (Continued)

(b) Other retirement benefits (continued)

The movement in the present value of the defined benefit obligation over the year is as follows:

| | The Group and Company | |
|--|------------------------------|---------------|
| | 2020 | 2019 |
| | \$'000 | \$'000 |
| Balance at beginning of year | 370,149 | 326,782 |
| Current service cost | 21,182 | 15,834 |
| Interest cost | 28,664 | 23,588 |
| Gain on curtailment | (6,748) | - |
| Included in staff costs in profit or loss (Note 7) | 43,098 | 39,422 |
| Re-measurements - | | |
| (Gain)/loss from change in financial assumptions | (17,204) | 23,760 |
| Experience losses/(gains) | - | (8,525) |
| Total, included in other comprehensive income | (17,204) | 15,235 |
| Benefits paid | (11,526) | (11,290) |
| Balance at end of year | 384,517 | 370,149 |

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Impact on Post-employment Obligations - Life | | |
|-------------------------|---|--------------------------------------|--------------------------------------|
| | Change in Assumption | Increase in Assumption \$'000 | Decrease in Assumption \$'000 |
| Discount rate | 0.5% | (2,036) | 2,094 |
| Future salary increases | 0.5% | 606 | (611) |

| | Impact on Post-employment Obligations - Medical | | |
|--------------------------|--|--------------------------------------|--------------------------------------|
| | Change in Assumption | Increase in Assumption \$'000 | Decrease in Assumption \$'000 |
| Discount rate | 0.5% | (25,881) | 29,751 |
| Future medical cost rate | 0.5% | 29,751 | (25,881) |

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23. Retirement Benefit Asset and Obligations (Continued)

(c) Risks associated with pension plans and other post-employment plans

Through its defined benefit pension plans and post-employment medical plans, the company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields; if plan assets underperform this yield, this will create a deficit.

As the plan matures, the trustees intend to reduce the level of investment risk by investing more in assets that better match the liabilities. The Government bonds largely represent investments in Government of Jamaica securities.

However, the company believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the company's long term strategy to manage the plans efficiently. See below for more details on the company's asset-liability matching strategy.

Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

Higher inflation will lead to higher liabilities. The majority of the plan's assets are unaffected by fixed interest bonds, meaning that an increase in inflation will reduce the surplus or create a deficit.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The company ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework, the company's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The company has not changed the processes used to manage its risks from previous periods. The company does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2020 consists of bonds and equities.

Funding levels are monitored on an annual basis and the current agreed contribution rate is 5% of pensionable salaries for the employees and 1% for the company. The next triennial valuation is due to be completed as at 31 December 2020. The company considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

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23. Retirement Benefit Asset and Obligations (Continued)

(c) **Risks associated with pension plans and other post-employment plans (continued)**
Life expectancy (continued)

The weighted average duration of the defined benefit obligation for the pension scheme is 15 years. The weighted average duration of the defined benefit obligation for post-employment medical and life insurance benefits is 17 years and 11 years respectively.

24. Inventories

| | The Group | | The Company | |
|--------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Fuel | 6,627 | 6,815 | 6,627 | 6,815 |
| Operating supplies | 407,225 | 426,230 | 404,713 | 424,210 |
| | <u>413,852</u> | <u>433,045</u> | <u>411,340</u> | <u>431,025</u> |

Operating supplies for the Group and company are shown net of provision for impairment of \$16,094,000 (2019 – \$5,000,000).

25. Related Party Transactions and Balances

(a) During the year the Group had normal business transactions with related parties as follows:

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (i) Revenue earned from sales of services | | | | |
| Subsidiaries | - | - | 11,085 | 9,044 |
| Companies controlled by directors/members or related by virtue of common directorships | <u>2,497,719</u> | <u>2,927,757</u> | <u>1,821,819</u> | <u>2,238,673</u> |
| | <u>2,497,719</u> | <u>2,927,757</u> | <u>1,832,904</u> | <u>2,247,717</u> |
| Services provided to related parties are negotiated, as with non-related party customers, and are all at arms' length. | | | | |
| (ii) Other income | | | | |
| Subsidiaries – management fees | <u>-</u> | <u>-</u> | <u>6,490</u> | <u>6,490</u> |
| Subsidiaries – interest | <u>-</u> | <u>-</u> | <u>39,883</u> | <u>5,875</u> |
| Joint venture - interest | <u>-</u> | <u>29,375</u> | <u>-</u> | <u>29,375</u> |
| Companies controlled by directors/members or related by virtue of common directorships - dividends | <u>5,555</u> | <u>2,330</u> | <u>3,711</u> | <u>1,556</u> |
| (iii) Purchases of goods and services | | | | |
| Subsidiaries | - | - | 122,136 | 144,648 |
| Companies controlled by directors/members related by virtue of common directorships | <u>209,882</u> | <u>294,133</u> | <u>209,878</u> | <u>334,159</u> |
| | <u>209,882</u> | <u>294,133</u> | <u>332,014</u> | <u>478,807</u> |

Services are bought from related parties on the basis of the prices offered to non-related parties.

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25. Related Party Transactions and Balances (Continued)

(a) Transactions (continued)

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (iv) Interest expense | | | | |
| Companies controlled by directors/members or related by virtue of common directorships | 4,325 | 6,791 | 4,325 | 6,791 |

(b) Year-end balances with related parties:

| | The Group | | The Company | |
|---|----------------|----------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (i) Due from related companies | | | | |
| Subsidiaries | | | | |
| Long term receivables | - | - | 697,753 | 706,721 |
| Current accounts | - | - | 168,590 | 59,704 |
| Companies controlled by directors/members or related by virtue of common directorships | | | | |
| Trade receivables (Note 26) | 259,246 | 358,751 | 188,492 | 286,221 |
| | <u>259,246</u> | <u>358,751</u> | <u>1,054,835</u> | <u>1,052,646</u> |

The long term receivables are comprised of

- loan to subsidiary of \$470 million (2019 – \$470 million), which is due and is repayable in 36 months. Interest is charged at a rate of 7.5% per annum. The current account includes accrued interest of \$6,071,000 (2019 - \$6,071,000) in relation to this loan.
- loan of \$61 million (2019 - \$61 million) which earns interest at 7.5% (2019 – 7.5%) and is repayable on 30 June 2022. Accrued interest relating to the loan of \$9,254,000 is recorded in the current account.
- Advances of \$167 million (2019 - \$167 million) to fund an acquisition. The balance of the long term amount receivable is interest free and not due for repayment in twelve months.

Loss allowances of \$7,033,000 (2019 - \$16,464,000) and \$1,821,000 (2019 - \$11,290,000) for the Group and company respectively are held against trade accounts receivable from related parties.

(ii) Due to related companies

| | | | | |
|--|--------------|---------------|---------------|---------------|
| Subsidiaries | - | - | 11,183 | 7,753 |
| Companies controlled by directors/members or related by virtue of common directorships (Note 33) | 7,368 | 37,595 | 7,096 | 37,595 |
| | <u>7,368</u> | <u>37,595</u> | <u>18,279</u> | <u>45,348</u> |

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25. Related Party Transactions and Balances (Continued)

(b) Year-end balances with related parties (continued):

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (iii) Borrowings | | | | |
| Companies controlled by directors/members or related by virtue of common directorships | - | 94,194 | - | 94,194 |

(c) Key management compensation:

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Salaries and other short term employee benefits | 74,528 | 117,348 | 61,353 | 105,320 |
| Payroll taxes – employer's contributions | 8,481 | 7,010 | 7,201 | 5,806 |
| Pension benefits | 799 | 678 | 673 | 558 |
| Other | 4,841 | 41,317 | 3,327 | 39,545 |
| | <u>88,649</u> | <u>166,353</u> | <u>72,554</u> | <u>151,229</u> |
| Directors' emoluments – | | | | |
| Fees | 25,930 | 18,764 | 25,256 | 18,566 |
| Management remuneration (included in salaries above) | 59,682 | 99,733 | 43,587 | 84,609 |

26. Trade and Other Receivables

| | The Group | | The Company | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Trade receivables | 544,567 | 631,963 | 448,722 | 532,986 |
| Less: Loss allowance | (71,612) | (54,771) | (62,278) | (44,189) |
| | 472,955 | 577,192 | 386,444 | 488,797 |
| Prepayments | 50,283 | 65,251 | 44,863 | 47,535 |
| Other | 178,062 | 191,159 | 170,911 | 186,481 |
| | <u>701,300</u> | <u>833,602</u> | <u>602,218</u> | <u>722,813</u> |

Trade receivables include amounts receivable from related parties (Note 25). The fair values for trade and other receivables approximate the carrying values.

Included in "Other" receivables are amounts totalling \$91,316,000 (2019 - \$141,778,000) relating to repairs to damaged berths. These amounts are recoverable from the principals of the offending ships.

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27. Cash and Cash Equivalents

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Short term investments | 6,558,479 | 5,229,574 | 5,580,545 | 4,501,418 |
| Less: Short term investments with maturities in excess of three months | (140,769) | (63,303) | (140,769) | - |
| | 6,417,710 | 5,166,271 | 5,439,776 | 4,501,418 |
| Cash and bank | 376,010 | 693,915 | 180,177 | 443,919 |
| | <u>6,793,720</u> | <u>5,860,186</u> | <u>5,619,953</u> | <u>4,945,337</u> |

The weighted average effective interest rate on short term investments was 3.28% (2019 – 2.98%) per annum for United States dollar denominated investments and 3.15% (2019 – 2.67%) per annum for Jamaican dollar investments. These short term investments have an average maturity of 89 days.

Cash at bank includes United States dollar savings accounts and an interest earning current account. Interest is currently 0.08% (2019 – 0.15%) per annum and 1% (2019 – 1%) per annum respectively.

The Group has undrawn credit facilities via bank overdrafts of \$60 million and \$5 million which attract interest at 16.85% and 16.25% respectively. Security for the facilities is described in Note 31.

28. Share Capital

The total authorised number of ordinary shares is 1,507,550,000 (2019 - 1,507,550,000) units. All issued shares are fully paid. The no par shares in issue comprise the stated capital of the company.

| | 2020 | 2019 | 2020 | 2019 |
|------------------------|------------------|------------------|------------------|------------------|
| | Units ('000) | Units ('000) | \$'000 | \$'000 |
| Issued and fully paid | | | | |
| Ordinary stock units | 1,430,200 | 1,430,200 | 2,079,398 | 2,079,398 |
| Treasury shares | (858) | (858) | (35,654) | (35,654) |
| Issued and outstanding | <u>1,429,342</u> | <u>1,429,342</u> | <u>2,043,744</u> | <u>2,043,744</u> |

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28. Share Capital (Continued)

Treasury Shares

The treasury shares are shares in the company that are held by a Trust for the purpose of issuing shares under the Kingston Wharves Limited Employee Share Ownership Scheme and the Kingston Wharves Limited Executive Share Ownership Scheme. The company established an Employee Share Ownership Trust (the Trust) and through this Trust purchased 1,217,329 units of its own shares at a fair value of \$50 million.

During the prior year, the company through this Trust sold 50,000 shares to key management personnel at a value of \$2,050,000. Included in the number of shares at the year-end are 101,000 units which were granted to employees and are being held by the Trust until the expiration of the vesting period.

| | 2020 | | 2019 | |
|---------------------------------------|-----------------------------|----------|-----------------------------|----------|
| | Number of shares '000 | \$'000 | Number of shares '000 | \$'000 |
| Shares purchased for ESOP | 1,217 | 50,000 | 1,217 | 50,000 |
| Executive share ownership scheme sale | (359) | (14,346) | (359) | (14,346) |
| Balance at end of year | 858 | 35,654 | 858 | 35,654 |

29. Other Reserves

Other reserves comprise:

| | The Group | | The Company | |
|--------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Capital reserves | 18,454,763 | 13,788,121 | 11,649,475 | 8,669,388 |
| Fair value reserve | 450,594 | 41,948 | 300,752 | 27,768 |
| | 18,905,357 | 13,830,069 | 11,950,227 | 8,697,156 |

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29. Other Reserves (Continued)

Capital Reserves

| | The Group | | The Company | |
|---|-------------------|-------------------|-------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Unrealised surplus on revaluation of property, plant and equipment | 19,717,828 | 14,690,154 | 12,053,860 | 8,869,193 |
| Less: Deferred taxation | (1,800,330) | (1,426,719) | (777,667) | (560,508) |
| | 17,917,498 | 13,263,435 | 11,276,193 | 8,308,685 |
| Realised gain on sale of assets | 30,188 | 30,188 | 5 | 5 |
| Capital distributions received | 3,612 | 3,612 | 3,612 | 3,612 |
| Capitalisation of profits | 130,325 | 130,325 | - | - |
| Asset replacement reserve | 369,655 | 357,076 | 369,655 | 357,076 |
| Capitalisation of depreciation reserve | 66 | 66 | 10 | 10 |
| Arising on consolidation | 3,419 | 3,419 | - | - |
| | <u>18,454,763</u> | <u>13,788,121</u> | <u>11,649,475</u> | <u>8,669,388</u> |

Fair Value Reserve

This represents unrealised surplus on revaluation of assets through other comprehensive income.

30. Asset Replacement/Rehabilitation and Depreciation Reserves

The Port Authority of Jamaica under the Wharfage Act mandated the creation of a special reserve to be provided through the tariff of wharfage rates, for the replacement and/or rehabilitation of the wharf facilities.

The Port Authority of Jamaica also stipulated that the depreciation charged on the historical cost of property, plant and equipment be matched with amounts placed in a Depreciation Fund. The requirement for these reserves became effective in 1998.

The Authority requires that both the Asset Replacement/Rehabilitation and the Depreciation Reserves be represented by a Fund consisting of cash, deposits or highly liquid securities. The net interest arising on such Funds should be transferred to the Asset Replacement/Rehabilitation and Depreciation Reserves, respectively. Amounts from these reserves are used for capital projects in accordance with guidelines set by The Port Authority of Jamaica.

The balance of the reserves comprises:

| | The Group | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Asset Replacement/Rehabilitation Reserve | - | - | - | - |
| Depreciation Fund | 216,761 | 216,598 | 212,968 | 212,968 |
| | <u>216,761</u> | <u>216,598</u> | <u>212,968</u> | <u>212,968</u> |

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30. Asset Replacement/Rehabilitation and Depreciation Reserves (Continued)

The movement in each category of reserves was as follows:

(a) Asset Replacement/Rehabilitation Reserve

| | <u>The Group and Company</u> | |
|---|------------------------------|-----------------|
| | 2020 \$'000 | 2019 \$'000 |
| At beginning of year | - | - |
| Transfers from profit or loss account during the year | 12,579 | 12,579 |
| Transfer to capital reserves - utilised for capital expansion | <u>(12,579)</u> | <u>(12,579)</u> |
| At end of year | <u>-</u> | <u>-</u> |

(b) Depreciation Fund

| | <u>The Group</u> | | <u>The Company</u> | |
|--|------------------|----------------|--------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| At beginning of year | 216,598 | 216,447 | 212,968 | 212,968 |
| Transfer from retained earnings (net interest) | <u>163</u> | <u>151</u> | <u>-</u> | <u>-</u> |
| At end of year | <u>216,761</u> | <u>216,598</u> | <u>212,968</u> | <u>212,968</u> |

(c) Value of Reserve Funds Represented by Cash and Short Term Investments

The company is awaiting approval from The Port Authority of Jamaica for amounts spent to undertake capital projects which have exceeded the value of the Reserve Fund. As such, all related cash, deposits or highly liquid securities pertaining to reserves have been fully utilised.

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31. Borrowings

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (a) The Port Authority of Jamaica | 1,480 | 1,480 | 1,480 | 1,480 |
| (b) The Port Authority of Jamaica | 1,452 | 1,452 | - | - |
| (c) Bank of Nova Scotia Jamaica Limited | 1,107,000 | 1,359,000 | 1,107,000 | 1,359,000 |
| (d) SAJE Logistics Infrastructure Limited | - | 94,194 | - | 94,194 |
| (e) Development Bank of Jamaica/CIBC FirstCaribbean International Bank (Jamaica) Limited | - | 35,714 | - | 35,714 |
| (f) CIBC FirstCaribbean International Bank (Jamaica) Limited | 140,148 | 179,259 | 140,148 | 179,259 |
| (g) CIBC FirstCaribbean International Bank (Jamaica) Limited | 176,786 | 255,357 | 176,786 | 255,357 |
| (h) CIBC FirstCaribbean International Bank (Jamaica) Limited | 241,875 | 306,375 | 241,875 | 306,375 |
| (i) First Global Bank Limited | 12,000 | 40,800 | 12,000 | 40,800 |
| | <u>1,680,741</u> | <u>2,273,631</u> | <u>1,679,289</u> | <u>2,272,179</u> |
| Less: Current portion | <u>(446,183)</u> | <u>(504,168)</u> | <u>(446,183)</u> | <u>(504,168)</u> |
| | <u>1,234,558</u> | <u>1,769,463</u> | <u>1,233,106</u> | <u>1,768,011</u> |

- (a) These loans, which are interest free and unsecured, were obtained to build a security wall and are repayable only if the wharf is sold.
- (b) This comprises a loan towards the partial cost of construction of a security wall. This interest-free and unsecured loan is repayable only in the event of the asset being sold.
- (c) This represents a loan of \$1.8 billion from The Bank of Nova Scotia for the financing of the company's Total Logistics Facility. This loan facility was renegotiated; the loan remains repayable over a 7 year period and had a moratorium on principal which ended 30 June 2018. Thereafter, principal is repayable in 20 quarterly instalments of \$63,000,000 each and one final payment of \$540,000,000. The interest rate varies over the life of the loan with rates fixed at 7.0% per annum for three years and 5.0% per annum for the remainder of the loan. This is scheduled to be repaid in June 2023.
- (d) This represented a loan facility of \$110 million from SAJE Logistics Infrastructure Limited, a related party, for financing of the company's capital projects. The interest rate is fixed at 7% and the loan, which was scheduled to be repaid in July 2031, was paid out during the year.
- (e) This represented a credit facility granted by the Development Bank of Jamaica through CIBC FirstCaribbean International Bank (Jamaica) Limited towards the company's capital expenditure program. The DBJ portion of the loan was repaid during the year and refinanced by CIBC FirstCaribbean International Bank. The interest rate was fixed at 5% p.a. and the loan was fully repaid in December 2020.
- (f) This represents a loan facility from CIBC FirstCaribbean International Bank (Jamaica) Limited towards the company's capital expenditure program for the amount of \$352 million. The loan is being amortised over a period of ten years at a fixed interest rate of 9.5% for the first two years and WATBY plus 2.5% thereafter. The loan facility also attracted a moratorium on principal in the first year and is scheduled to be repaid in July 2024.

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31. Borrowings (Continued)

- (g) This represents a loan facility from CIBC FirstCaribbean International Bank (Jamaica) Limited toward the company's capital expenditure program in the amount of \$550 million. The loan is being amortised over a 7 year period and interest is currently computed based on a six-month WATBY plus 2.5%; subject to a cap of 10.25% and is scheduled to be repaid in March 2023.
- (h) This represents a credit facility of \$372 million granted by the Development Bank of Jamaica (DBJ) through CIBC FirstCaribbean International Bank (Jamaica) Limited and loan of \$79.5 million from CIBC FirstCaribbean International Bank (Jamaica) Limited toward the company's capital expenditure program. The DBJ portion of the loan was repaid during the year and refinanced by CIBC FirstCaribbean International Bank. The loan is currently fixed at 5% p.a. and is to be repaid in September 2024.
- (i) This represents a credit facility of \$88.8 million granted by First Global Bank toward the company's capital expenditure program. The loan is being amortised over 3 years, with a current interest rate of 6.75% p.a for 12 months and variable thereafter, subject to change by the Bank. The principal is repayable in monthly instalments of \$2,400,000 and is scheduled to be fully repaid in May 2021. The loan is secured by mortgages over property owned by the Group, bills of sale over certain pieces of machinery and assignment of insurance over these pieces of machinery.

Security for the loan facilities with CIBC FirstCaribbean International Bank (Jamaica) Limited (e)-(h) above and including the bank overdrafts (Notes 3 and 27) and guarantees (Note 35), is a registered demand debenture providing fixed and floating charges over the company's fixed and floating assets stamped to cover US\$26.6 million, assignment of insurance proceeds and promissory notes stamped in the sums of \$1.302 billion and US\$26.6 million and mortgages/charges over property and machinery owned by the Group of \$1,503.5 million. Undrawn facilities with this institution (excluding overdrafts (Note 27)) total \$150 million for capital expenditure.

The facility with SAJE Logistics Infrastructure Limited (d) was secured by mortgages over property owned by the Group.

The Bank of Nova Scotia (BNS) facility (c) is secured by a debenture ranked pari passu with CIBC FirstCaribbean International Bank (Jamaica) Limited over the fixed and floating assets of the company, together with a legal mortgage over land and buildings owned by the Group, and supported by guarantees totalling \$1.8 billion. Undrawn facilities from BNS include insurance premium financing of US\$1.5 million, unsecured revolving loan of \$4 million and bank overdraft (Note 27).

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group and company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group and company's statements of cash flows as cash flows from financing activities.

| | The Group | | The Company | |
|-------------------------|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| At beginning of year | 2,273,631 | 2,777,428 | 2,272,179 | 2,775,976 |
| Financing cash outflows | (592,890) | (503,797) | (592,890) | (503,797) |
| At end of year | <u>1,680,741</u> | <u>2,273,631</u> | <u>1,679,289</u> | <u>2,272,179</u> |

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32. Deferred Income Tax

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 12.50% (2019 - 10.92%) for the company and 25% (2019 - 25%) for the subsidiaries.

| | The Group | | The Company | |
|---|------------------|------------------|------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Statement of financial position (assets)/liabilities for: | | | | |
| Deferred income tax assets | (6,250) | (2,605) | - | - |
| Deferred income tax liabilities | 1,756,649 | 1,414,921 | 1,035,168 | 829,685 |
| | <u>1,750,399</u> | <u>1,412,316</u> | <u>1,035,168</u> | <u>829,685</u> |

Deferred income tax assets and liabilities are due to the following items:

| | The Group | | The Company | |
|-------------------------------------|------------------|------------------|------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Deferred income tax assets - | | | | |
| Vacation leave accrual | 2,305 | 3,684 | 1,471 | 2,631 |
| Other payables | 3,898 | 1,872 | - | - |
| Employee benefit obligations | 48,065 | 40,420 | 48,065 | 40,420 |
| Property, plant and equipment | 3,436 | 1,874 | - | - |
| Unrealised foreign exchange losses | 6,283 | 3,948 | 1,011 | 2,320 |
| | <u>63,987</u> | <u>51,798</u> | <u>50,547</u> | <u>45,371</u> |
| Deferred income tax liabilities - | | | | |
| Property, plant and equipment | 1,614,301 | 1,233,890 | 886,127 | 645,219 |
| Unrealised foreign exchange gains | - | - | - | - |
| Interest receivable | 6,354 | 3,974 | 5,857 | 3,587 |
| Retirement benefit asset | 193,731 | 226,250 | 193,731 | 226,250 |
| | <u>1,814,386</u> | <u>1,464,114</u> | <u>1,085,715</u> | <u>875,056</u> |
| Net deferred income tax liabilities | <u>1,750,399</u> | <u>1,412,316</u> | <u>1,035,168</u> | <u>829,685</u> |

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32. Deferred Income Tax (Continued)

The movement in the net deferred income tax assets and liabilities during the year is as follows:

| | The Group | | The Company | |
|---|------------------|------------------|------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Net liabilities at beginning of year | 1,412,316 | 1,497,827 | 829,685 | 881,692 |
| Profit or loss (Note 10) | 41,508 | (66,268) | 65,360 | (32,764) |
| Effect on re-measurements of post- employment benefits | (77,036) | 1,288 | (77,036) | 1,288 |
| Stockholders' equity on revaluation surplus | 292,512 | - | 136,060 | - |
| Effect of change in tax rate on previous years' revaluation surplus | 81,099 | (20,531) | 81,099 | (20,531) |
| Net liabilities at end of year | <u>1,750,399</u> | <u>1,412,316</u> | <u>1,035,168</u> | <u>829,685</u> |

The deferred tax movement in the profit or loss comprises the following temporary differences:

| | The Group | | The Company | |
|------------------------------------|----------------|-----------------|----------------|-----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Vacation leave accrual | 1,379 | (33) | 1,160 | 52 |
| Other payables | (2,026) | (1,751) | - | - |
| Employee benefit obligations | (9,795) | (5,091) | (9,795) | (5,091) |
| Unrealised foreign exchange losses | (2,335) | (3,948) | 1,309 | (2,320) |
| Property, plant and equipment | 5,238 | (58,761) | 23,749 | (28,485) |
| Unrealised foreign exchange gains | - | (601) | - | (601) |
| Interest receivable | 2,380 | 2,023 | 2,270 | 1,787 |
| Retirement benefit asset | 46,667 | 1,894 | 46,667 | 1,894 |
| | <u>41,508</u> | <u>(66,268)</u> | <u>65,360</u> | <u>(32,764)</u> |

The deferred tax movement on the re-measurements of post-employment benefits in other comprehensive income comprises:

| | The Group | | The Company | |
|------------------------------|-----------------|----------------|-----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Retirement benefit asset | (79,186) | (375) | (79,186) | (375) |
| Employee benefit obligations | 2,150 | 1,663 | 2,150 | 1,663 |
| | <u>(77,036)</u> | <u>1,288</u> | <u>(77,036)</u> | <u>1,288</u> |

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32. Deferred Income Tax (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts shown in the statement of financial position include the following:

| | The Group | | The Company | |
|--|------------------|------------------|------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Deferred income tax assets to be recovered - | | | | |
| After more than 12 months | <u>60,101</u> | <u>42,294</u> | <u>49,076</u> | <u>40,420</u> |
| Deferred income tax liabilities to be extinguished - | | | | |
| After more than 12 months | <u>1,808,032</u> | <u>1,460,140</u> | <u>1,079,858</u> | <u>871,469</u> |

33. Trade and Other Payables

| | The Group | | The Company | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Trade payables | 76,941 | 221,354 | 54,881 | 195,178 |
| Dividends payable | 493,590 | 450,400 | 493,590 | 450,400 |
| Provision for 16% wharfage reserve | 141,241 | 111,148 | 141,241 | 111,148 |
| Contract retention | - | 4,325 | - | 4,325 |
| Other payables and accruals | <u>636,951</u> | <u>622,987</u> | <u>595,887</u> | <u>578,495</u> |
| | <u>1,348,723</u> | <u>1,410,214</u> | <u>1,285,599</u> | <u>1,339,546</u> |

Trade and other payables include amounts payable to related parties (Note 25).

34. Operating Leases

The Group earned property rental income of \$215,709,000 (2019- \$181,642,000) under operating leases.

The future minimum lease payments receivable under operating leases (excluding investment property – Note17) are as follows:

| | 2020 \$'000 | 2019 \$'000 |
|----------------------|----------------|----------------|
| No later than 1 year | 234,392 | 177,795 |
| Within 1 to 5 years | <u>106,270</u> | <u>144,472</u> |
| | <u>340,662</u> | <u>322,267</u> |

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35. Contingent Liabilities

Litigation

The company and its subsidiaries are subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both financial position and results of operations. The Group is not currently involved in any significant litigation.

Bank Guarantee

The Group is contingently liable to its bankers in respect of guarantees in the ordinary course of business totalling approximately \$2.8 million.

Other

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The Group was active in managing the crisis by establishing a COVID-19 committee to implement prevention measures to safeguard its employees, customers and other stakeholders. Additionally, steps were taken to stabilize the Group's operations through business continuity strategies aimed at streamlining processes and ensuring continuous operational efficiency. At this stage, there has been a modest decline in revenue and profit; however there has been no deterioration of the Group's receivables and the Group maintains a favourable liquidity position with an increase in cash and short-term deposit balances.

The Group will continue to follow the various government policies and advice and will do its utmost to continue operations in the best and safest way possible to ensure the health of its employees.

36. Commitments

The Group and company had capital commitments at year-end as follows:

| | 2020 | 2019 |
|-------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Authorised and contracted for | <u>24,800</u> | <u>76,270</u> |