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## INDEPENDENT AUDITORS' REPORT

To the Members of  
KINGSTON PROPERTIES LIMITED

### **Report on the Audit of the Financial Statements**

#### *Opinion*

We have audited the separate financial statements of Kingston Properties Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 8 to 45, which comprise the Group's and Company's statements of financial position as at December 31, 2016, the Group's and Company's statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at December 31, 2016, and of the Group's and Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
KINGSTON PROPERTIES LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Key Audit Matters*

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

*Key audit matters and how they were addressed in our audit*

*1 Valuation of investment property*

The valuation of the Group's investment property requires significant estimation, which is impacted by uncertainty of market factors, pricing assumptions and general business and economic conditions.

Our audit procedures in this area included the following:

- Evaluating the independence and qualification of management's valuation expert to determine that the valuation was done with appropriate independence and free of management bias.
- Using our own valuation specialists to assess the reasonableness of the valuation methodologies employed by the management expert and the fair value conclusions for a sample of properties at the valuation date. We considered the provisions of IFRS 13 *Fair Value Measurement*; reviewed the sources of data and underlying assumptions utilised to value the properties; performed a search for similar transactions and listings; and performed market participant interviews to determine potential value changes that occurred within the period.
- Inspecting a sample of investment property to evaluate their physical condition and consider evidence of damage or impairment that might affect the fair value measurements.

Assessing the adequacy and appropriateness of the Group's investment property disclosures, including the valuation techniques and significant unobservable inputs in accordance with IFRS 13, *Fair Value Measurement*.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
KINGSTON PROPERTIES LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Key audit matters and how they were addressed in our audit (continued)*

*2 Taxation*

Recognition of current and deferred tax involves judgement and estimates, given that the Group is subject to special tax rules in respect of its investment property operations, particularly in the United States of America.

Our audit procedures in this area included the following:

- Using our own tax specialists and our knowledge of the application of relevant tax legislation to assess the Group's current and deferred tax position.
- Analysing and challenging the assumptions used to determine tax provisions and temporary differences for the purposes of computing deferred tax.
- Testing the mathematical accuracy of the computations of current and deferred tax provisions.

*Other information*

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

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to The Board of Directors.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
KINGSTON PROPERTIES LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Responsibility of Management and the Board of Directors for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Group'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 to cease operations, or has no realistic alternative but to do so. The Board of Directors is responsible for overseeing the Group's financial reporting process.

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 6-7, forms part of our auditors' report.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
KINGSTON PROPERTIES LIMITED

**Report on additional matters as required by the Jamaican Companies Act.**

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

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

The engagement partner on the audit resulting in this independent auditors' report is Nigel Chambers.

A handwritten signature in blue ink that reads 'KPMG' in a cursive, stylized font.

Chartered Accountants  
Kingston, Jamaica

February 27, 2017



*Appendix to the Independent Auditors' report*

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

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



*Appendix to the Independent Auditors' report (continued)*

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

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

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

KINGSTON PROPERTIES LIMITEDGroup Statement of Profit or Loss and Other Comprehensive Income  
Year ended December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Revenue - rental income	4	130,457,378	108,368,868
Operating expenses	7	( 98,264,169)	(100,902,850)
Results of operating activities before other income		32,193,209	7,466,018
Other income:			
Fair value gain on investment properties	10(b)(i)	119,941,059	165,674,495
Gain on disposal of investment properties		-	3,212,757
Termination fee	11	12,189,057	-
Miscellaneous income		<u>1,228,912</u>	<u>284,582</u>
Operating profit		165,552,237	176,637,852
Executive settlement	8(b)	<u>-</u>	( 32,850,000)
Profit before net finance costs and impairment loss		<u>165,552,237</u>	<u>143,787,852</u>
Finance income	5	7,590,686	12,483,953
Finance costs	5	( 7,536,898)	( 28,984,611)
Net finance income/(costs)	5	<u>53,788</u>	( 16,500,658)
Impairment loss on land held for development	12(b)	( 1,369,727)	<u>-</u>
Profit before income tax		164,236,298	127,287,194
Income tax charge	6	( 34,317,258)	( 21,865,656)
Profit for the year	8(a)	129,919,040	105,421,538
Other comprehensive income that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations, being total other comprehensive income		<u>60,949,209</u>	<u>30,177,442</u>
Total comprehensive income for the year		<u>\$190,868,249</u>	<u>135,598,980</u>
Earnings per stock unit (cents)	9	<u>81¢</u>	<u>99¢</u>

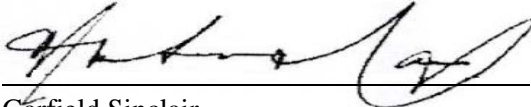
The accompanying notes form an integral part of the financial statements.

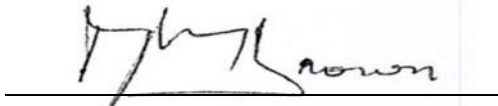


KINGSTON PROPERTIES LIMITEDGroup Statement of Financial Position  
December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>NON-CURRENT ASSETS</b>			
Investment property	10(a)	1,930,922,213	1,552,203,131
Land held for development	12(a)	-	19,082,177
Furniture and equipment	13	<u>2,693,620</u>	<u>2,928,225</u>
Total non-current assets		<u>1,933,615,833</u>	<u>1,574,213,533</u>
<b>CURRENT ASSETS</b>			
Deposits on investment property	15	151,916,549	-
Land held for sale	12(b)	17,712,450	-
Receivables	17	30,147,868	22,335,537
Income tax recoverable		136,947	107,558
Cash and cash equivalents	18	<u>24,078,908</u>	<u>132,896,744</u>
Total current assets		<u>223,992,722</u>	<u>155,339,839</u>
Total assets		<u>\$2,157,608,555</u>	<u>1,729,553,372</u>
<b>EQUITY</b>			
Share capital	19	1,028,508,717	1,028,508,717
Treasury shares	20	( 5,049,311)	( 5,049,311)
Currency translation reserve		286,232,019	225,282,810
Retained earnings		<u>416,493,116</u>	<u>336,296,559</u>
Total equity		<u>1,726,184,541</u>	<u>1,585,038,775</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans payable	21	268,479,831	-
Deferred tax liabilities	22	<u>115,477,805</u>	<u>78,179,077</u>
Total non-current liabilities		<u>383,957,636</u>	<u>78,179,077</u>
<b>CURRENT LIABILITIES</b>			
Loans payable	21	5,498,020	-
Accounts payable and accrued charges	23	38,974,826	66,335,520
Income tax payable		<u>2,993,532</u>	<u>-</u>
Total current liabilities		<u>47,466,378</u>	<u>66,335,520</u>
Total equity and liabilities		<u>\$2,157,608,555</u>	<u>1,729,553,372</u>

The financial statements on pages 8 to 45 were approved for issue by the Board of Directors on February 27, 2017 and signed on its behalf by:

  
 Garfield Sinclair  
 Chairman

  
 Meghan Miller-Brown  
 Director

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

**KINGSTON PROPERTIES LIMITED****Group Statement of Changes in Equity**  
**Year ended December 31, 2016**

	Share <u>capital</u> (note 19)	Treasury <u>shares</u> (note 20)	Cumulative translation <u>reserve</u>	Retained <u>earnings</u>	<u>Total</u>
Balances at December 31, 2014	<u>406,608,605</u>	<u>(3,292,635)</u>	<u>195,105,368</u>	<u>253,511,735</u>	<u>851,933,073</u>
Total comprehensive income:					
Profit for the year	-	-	-	105,421,538	105,421,538
Other comprehensive income:					
Exchange difference on translation of foreign subsidiaries, being total other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>30,177,442</u>	<u>-</u>	<u>30,177,442</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>30,177,442</u>	<u>105,421,538</u>	<u>135,598,980</u>
Transactions with owners of the company					
Shares repurchased	-	(1,756,676)	-	-	( 1,756,676)
Issuance of share capital	621,900,112	-	-	-	621,900,112
Dividends paid (note 24)	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 22,636,714)</u>	<u>( 22,636,714)</u>
Total transactions with owners of the company	<u>621,900,112</u>	<u>(1,756,676)</u>	<u>-</u>	<u>( 22,636,714)</u>	<u>597,506,722</u>
Balances at December 31, 2015	<u>1,028,508,717</u>	<u>(5,049,311)</u>	<u>225,282,810</u>	<u>336,296,559</u>	<u>1,585,038,775</u>
Total comprehensive income:					
Profit for the year	-	-	-	129,919,040	129,919,040
Other comprehensive income:					
Exchange difference on translation of foreign subsidiaries, being total other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>60,949,209</u>	<u>-</u>	<u>60,949,209</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>60,949,209</u>	<u>129,919,040</u>	<u>190,868,249</u>
Dividends paid (note 24), being total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 49,722,483)</u>	<u>( 49,722,483)</u>
Balances at December 31, 2016	<u>\$1,028,508,717</u>	<u>(5,049,311)</u>	<u>286,232,019</u>	<u>416,493,116</u>	<u>1,726,184,541</u>

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

KINGSTON PROPERTIES LIMITEDGroup Statement of Cash Flows  
Year ended December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Profit for the year		129,919,040	105,421,538
Adjustments for:			
Income tax charge	6	34,317,258	21,865,656
Depreciation	13	487,075	409,079
Interest income	5	( 2,550,537)	( 10,352,306)
Impairment loss on land held for development	12(b)	1,369,727	-
Interest expense	5	7,536,898	22,127,339
Fair value gain on investment property	10(b)(i)	(119,941,059)	(165,674,495)
Gain on disposal of investment property		-	( 3,095,437)
Gain on disposal of office furniture		-	( 3,729)
Unrealised foreign exchange gains on loans		( 2,770,275)	( 1,365,732)
		48,368,127	( 30,668,087)
Changes in:			
Other receivables		( 7,812,331)	( 8,817,552)
Deposit on property		(151,916,549)	-
Accounts payable and accrued charges		( 27,360,694)	41,020,909
Income tax paid		( 5,945,613)	( 560,603)
Net cash (used)/ provided by operating activities		(144,667,060)	974,667
Cash flows from investing activities			
Interest received		2,550,537	10,352,306
Securities purchased under agreements to resell		-	487,853
Additions to office equipment	13	( 225,235)	( 808,029)
Disposal of equipment		-	335,625
Land held for development			( 585,000)
Additions to investment property	10(b)(i)	(183,194,548)	(623,233,019)
Proceeds of disposal of investment property		-	417,741,088
Net cash used in investing activities		(180,869,246)	(195,709,176)
Cash flows from financing activities			
Interest paid		( 7,536,898)	( 22,127,339)
Dividends paid		( 49,722,483)	( 22,519,878)
Loan received		273,977,851	-
Repayment of vendor's mortgage		-	( 39,010,132)
Repayment of bank loan		-	(441,582,699)
Issuance of share capital	19	-	621,900,112
Stock units repurchased	20	-	( 1,756,676)
Net cash provided by financing activities		216,718,470	94,903,388
Net decrease in cash and cash equivalents		(108,817,836)	( 99,831,121)
Cash and cash equivalents at beginning of year		132,896,744	232,660,434
Effect of exchange rate fluctuations on cash and cash equivalents		-	67,431
Cash and cash equivalents at end of year	18	\$ 24,078,908	132,896,744

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

KINGSTON PROPERTIES LIMITED
Separate Statement of Profit or Loss and Other Comprehensive Income  
Year ended December 31, 2016

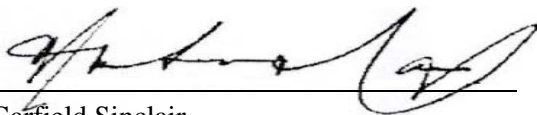
	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Revenue – rental income	4	53,088,997	46,954,077
Operating expenses	7	(39,604,016)	( 46,232,080)
Results of operating activities before other income		13,484,981	721,997
Fair value gain on investment properties	10(b)(i)	-	165,674,495
Loss on disposal of investment properties		-	( 580,081)
Termination fees	11	12,189,057	-
Miscellaneous income		<u>994,149</u>	<u>93,189</u>
Operating profit		26,668,187	165,909,600
Executive settlement	8(b)	<u>-</u>	( 29,465,342)
Profit before net finance costs and impairment loss		<u>26,668,187</u>	<u>136,444,258</u>
Finance income	5	23,778,857	4,730,325
Finance costs	5	( 219,774)	( 23,309,825)
Net finance income/(costs)	5	<u>23,559,083</u>	( 18,579,500)
Impairment loss on land held for development	12(b)	( 1,369,727)	<u>-</u>
Profit before income tax		48,857,543	117,864,758
Income tax charge	6	( 3,053,532)	( 11,613,179)
Profit for the year, being total comprehensive income	8(a)	<u>\$45,804,011</u>	<u>\$106,251,579</u>

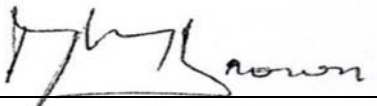
The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDSeparate Statement of Financial Position  
December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>NON-CURRENT ASSETS</b>			
Investment property	10(a)	549,600,180	549,600,180
Land held for development	12(a)	-	19,082,177
Furniture and equipment	13	2,322,786	2,483,037
Investment in subsidiaries	14	<u>308,730,729</u>	<u>308,730,729</u>
Total non-current assets		<u>860,653,695</u>	<u>879,896,123</u>
<b>CURRENT ASSETS</b>			
Deposit on investment property	15(i)	51,206,875	-
Land held for sale	12(b)	17,712,450	-
Owed by subsidiaries	16	418,733,290	571,272,866
Receivables	17	8,120,183	2,593,786
Cash and cash equivalents	18	<u>1,640,485</u>	<u>6,010,168</u>
Total current assets		<u>497,413,283</u>	<u>579,876,820</u>
Total assets		<u>\$1,358,066,978</u>	<u>1,459,772,943</u>
<b>EQUITY</b>			
Share capital	19	1,028,508,717	1,028,508,717
Treasury shares	20	( 5,049,311)	( 5,049,311)
Retained earnings		<u>165,265,336</u>	<u>169,183,808</u>
Total equity		<u>1,188,724,742</u>	<u>1,192,643,214</u>
<b>CURRENT LIABILITIES</b>			
Owed to subsidiary	16	146,602,026	233,981,834
Accounts payable and accrued charges	23	19,746,678	33,147,895
Income tax payable		<u>2,993,532</u>	<u>-</u>
Total current liabilities		<u>169,342,236</u>	<u>267,129,729</u>
Total equity and liabilities		<u>\$1,358,066,978</u>	<u>1,459,772,943</u>

The financial statements on pages 8 to 45 were approved for issue by the Board of Directors on February 27, 2017 and signed on its behalf by:

  
 \_\_\_\_\_  
 Garfield Sinclair  
 Chairman

  
 \_\_\_\_\_  
 Meghan Miller-Brown  
 Director

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

KINGSTON PROPERTIES LIMITEDSeparate Statement of Changes in Equity  
Year ended December 31, 2016

	<u>Share capital</u> (note 19)	<u>Treasury shares</u> (note 20)	<u>Retained earnings</u>	<u>Total</u>
Balances at December 31, 2014	<u>406,608,605</u>	<u>(3,292,635)</u>	<u>85,568,943</u>	<u>488,884,913</u>
Profit for the year, being total comprehensive income	<u>-</u>	<u>-</u>	<u>106,251,579</u>	<u>106,251,579</u>
Transactions with owners of the company				
Stock units repurchased	-	(1,756,676)	-	( 1,756,676)
Issuance of share capital	621,900,112	-	-	621,900,112
Dividends paid (note 24)	<u>-</u>	<u>-</u>	<u>( 22,636,714)</u>	<u>( 22,636,714)</u>
Total transactions with owners of the company	<u>621,900,112</u>	<u>(1,756,676)</u>	<u>( 22,636,714)</u>	<u>597,506,722</u>
Balances at December 31, 2015	<u>1,028,508,717</u>	<u>(5,049,311)</u>	<u>169,183,808</u>	<u>1,192,643,214</u>
Profit for the year, being total comprehensive income	<u>-</u>	<u>-</u>	<u>45,804,011</u>	<u>45,804,011</u>
Dividends paid (note 24), being total transactions with owners	<u>-</u>	<u>-</u>	<u>( 49,722,483)</u>	<u>( 49,722,483)</u>
Balances at December 31, 2016	<u>\$1,028,508,717</u>	<u>(5,049,311)</u>	<u>165,265,336</u>	<u>1,188,724,742</u>

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

KINGSTON PROPERTIES LIMITEDSeparate Statement of Cash Flows  
Year ended December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Profit for the year		45,804,011	106,251,579
Adjustments for:			
Income tax charge	6	3,053,532	11,613,179
Depreciation	13	385,486	369,395
Interest income	5	( 2,489,357)	( 2,552,899)
Impairment loss on land held for development	12(b)	1,369,727	-
Interest expense	5	219,774	16,488,497
Loss on disposal of investment property		-	580,081
Gain on disposal of office furniture		-	( 3,729)
Increase in fair value of investment property	10(b)(i)	<u>-</u>	<u>(165,674,495)</u>
		48,343,173	( 32,928,392)
Changes in:			
Other receivables		( 5,526,397)	2,250,726
Accounts payable and accrued charges		( 13,401,217)	17,674,827
Deposit on property		( 51,206,875)	-
Income tax paid		( 60,000)	( 2,137,871)
Owed by subsidiaries		152,539,576	(570,403,482)
Owed to subsidiary		<u>( 87,379,808)</u>	<u>181,658,486</u>
Net cash provided by /(used in) operating activities		<u>43,308,452</u>	<u>(403,885,706)</u>
Cash flows from investing activities			
Interest received		2,489,357	2,552,899
Securities purchased under agreements to resell		-	487,853
Land held for development		-	( 585,000)
Additions to property and equipment	13	( 225,235)	( 334,131)
Additions to investment property		-	( 335,625)
Proceeds from disposal of office furniture		-	335,625
Proceeds from disposal of investment property		<u>-</u>	<u>196,095,995</u>
Net cash provided by investing activities		<u>2,264,122</u>	<u>198,217,616</u>
Cash flows from financing activities			
Interest paid		( 219,774)	( 16,488,497)
Dividends paid		( 49,722,483)	( 22,519,878)
Repayment of parent company loan		-	(114,660,700)
Repayment of vendor's mortgage		-	( 39,010,132)
Issuance of share capital	19	-	621,900,112
Repayment of loan payable		-	(217,922,761)
Stock units repurchased	20	<u>-</u>	<u>( 1,756,676)</u>
Net cash (used in)/provided by financing activities		<u>( 49,942,257)</u>	<u>209,541,468</u>
Net (decrease)/increase in cash and cash equivalents		( 4,369,683)	3,873,378
Cash and cash equivalents at beginning of year		6,010,168	2,069,359
Effect of exchange rate fluctuations on cash and cash equivalents		<u>-</u>	<u>67,431</u>
Cash and cash equivalents at end of year	18	<u>\$ 1,640,485</u>	<u>6,010,168</u>

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

## KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements  
December 31, 2016

### 1. Identification and principal activities

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

The Company has two wholly-owned subsidiaries:

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

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

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

### 2. Statement of compliance and basis of preparation

#### (a) Statement of compliance

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

Certain amended standards came into effect during the financial year under review. The Group has assessed them and has adopted those which are relevant to the financial statements but these had no material effect.

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

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The Group is assessing the impact that this amendment will have on its 2017 financial statements.



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

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

(a) Statement of compliance (continued)

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the reporting date, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.
- IFRS 15, *Revenue from Contracts with Customers*, is effective for annual reporting periods beginning on or after January 1, 2017. It replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. The new standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence.

The Group is assessing the impact that this amendments will have on its 2017 financial statements.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

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

(a) Statement of compliance (continued)

• IFRS 9, *Financial Instruments* (continued)

It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement categories are significantly different. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The Group is assessing the impact that these amendments will have on its 2018 financial statements.

• IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

The Group is assessing the impact that the standard will have on its 2019 financial statements.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, except for investment property and available-for-sale investments which are measured at fair value.

(c) Functional and presentation currency

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

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

## (d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS and the Act requires management to make estimates, based on assumptions. It also requires management to make judgements. These estimates and judgements affect the application of accounting policies and the reported amounts of, and disclosures related to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from these estimates. The estimates, and the assumptions underlying them, are based on historical experience and/or various other factors that are believed to be reasonable under the circumstances.

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

There is significant risk of material adjustment in the next year because of changes in estimate, or significant judgements made in applying the Group accounting policies.

*Main sources of estimation uncertainty**Valuation of investment property*

Investment property is carried at fair value. Given the infrequency of trades in comparable properties in some cases, and therefore the absence of a number of observable recent market prices, fair value is less objective and requires significant estimation, which is impacted by the uncertainty of market factors, pricing assumptions and general business and economic conditions [see note 10(c)].

*Taxation*

Recognition of current and deferred tax involves judgement and estimates, given that the Group is subject to special tax rules in respect of its investment property operations, particularly in the United States of America.

This includes the application of the Internal Revenue Service (IRS) 1031 Exchange Capital Gains Real Estate Tax Deferral rules, under which the company is allowed to sell investment property and reinvest the proceeds in ownership of like-kind property, thereby and defer the capital gains taxes.

3. Significant accounting policies

## (a) Consolidation

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (a) Consolidation (continued)

## (i) Subsidiaries

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

## (ii) Transactions eliminated on consolidation

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

## (b) Investment in subsidiary

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

## (c) Cash and cash equivalents

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

## (d) Accounts payable and accrued charges

Accounts payable and accrued charges are measured at amortised cost.

## (e) Receivables

Receivables are measured at amortised cost less impairment losses, if any.

## (f) Related parties

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

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

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

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

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (f) Related parties (continued)

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

- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (3) Both entities are joint ventures of the same third party.
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled, or jointly controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (8) The entity, or any member of a group of which it is a part provides key management services to the Group.

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

## (g) Foreign currencies

- (i) Transactions in foreign currencies are translated to the functional currencies at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Exchange differences arising on settlement of monetary items or on reporting the Group's monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements, are recognised as income or expense in the period in which they arise. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at historical cost are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (g) Foreign currencies (continued)

## (ii) (continued)

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

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

- (1) Assets and liabilities are translated at the closing rate at the reporting date;
- (2) Share capital and retained earnings are converted at historical rates;
- (3) Income and expenses are translated at average exchange rates; and
- (4) All resulting exchange differences are recognised through other comprehensive income and reflected in the currency translation reserve, a component of shareholders' equity.

## (h) Impairment

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

## (i) Calculation of recoverable amount

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

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

## (ii) Reversals of impairment

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

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (h) Impairment (continued)

## (ii) Reversals of impairment (continued)

An impairment loss is reversed only to the extent that the carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

## (i) Securities purchased under agreements to resell

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

## (j) Financial assets and liabilities

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

## (i) Recognition

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

## (ii) Derecognition

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

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (k) Capital

## (i) Classification

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

## (ii) Share issue costs

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

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

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

## (iv) Dividends

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

## (l) Income tax

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

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

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets or liabilities. For this purpose the carrying amount of investment property measured at fair value is presumed to be recovered through sale.

A deferred tax asset is recognised only to the extent that management can demonstrate that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Current and deferred tax assets and liabilities are offset in the statement of financial position if they apply to the same tax authority.



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (l) Income tax (continued)

Recognition of current and deferred tax involves judgement and estimates given that the Company's subsidiary, Kingston Properties Miami LLC, is subject to special tax rules in respect of its investment property operations in the United States.

The subsidiary participates in the Internal Revenue Service (IRS) 1031 Exchange Capital Gains Real Estate Tax Deferral on the disposal of investment property, which requires that the subsidiary:

- (i) Identify a replacement property within 45 days.
- (ii) Exchange the property the earliest of:
  - (a) 180 days after it sells the relinquished property
  - (b) The due date of the income tax return that would include the property sale.
- (iii) Not receive cash from the sale prior to the exchange. It may use a qualified intermediary to hold such cash prior to the exchange.

## (m) Furniture and equipment

- (i) Items of office equipment and furniture are measured at cost less accumulated depreciation and, impairment losses.

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

The costs of day-to-day servicing of office equipment, software and furniture are recognised in profit or loss as incurred.

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

Computer and accessories	20%
Furniture and fixtures	10%

## (n) Investment property

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

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

3. Significant accounting policies (continued)

## (n) Investment property (continued)

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

## (o) Land held for development

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

## (p) Assets held for sale

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

Such assets, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

## (q) Borrowings

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

## (r) Revenue recognition

## Rental income

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

## (s) Segment reporting

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

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

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

4. Rental income

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Red Hills Road commercial complex	53,088,997	46,954,077	53,088,997	46,954,077
555 Miami apartment units	-	20,404,707	-	-
Miami condominiums, Loft II	36,480,460	34,696,401	-	-
Midblock Miami condominiums	16,258,248	4,795,562	-	-
W.Ft Lauderdale condominiums	16,977,493	1,518,121	-	-
Opera Tower Condominiums	<u>7,652,180</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$130,457,378</u>	<u>108,368,868</u>	<u>53,088,997</u>	<u>46,954,077</u>

5. Net finance costs

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Finance income:				
Interest income	<u>2,550,537</u>	<u>10,352,306</u>	<u>2,489,357</u>	<u>2,552,899</u>
Foreign exchange gains/(losses) arising from investing and financing activities:				
Net unrealised gains on translation of foreign currency investments and borrowings	5,971,400	2,023,311	22,220,751	2,069,090
Net realised (losses)/gains on conversion of foreign currency investments and borrowings	( 931,251)	<u>108,336</u>	( 931,251)	<u>108,336</u>
	<u>5,040,149</u>	<u>2,131,647</u>	<u>21,289,500</u>	<u>2,177,426</u>
Total finance income	<u>7,590,686</u>	<u>12,483,953</u>	<u>23,778,857</u>	<u>4,730,325</u>
Finance costs:				
Interest expense	(7,536,898)	(22,127,339)	( 219,774)	(16,488,497)
Commitment fees	<u>-</u>	( 6,857,272)	<u>-</u>	( 6,821,328)
Total finance costs	(7,536,898)	(28,984,611)	( 219,774)	(23,309,825)
Net finance income/ (cost)	<u>\$ 53,788</u>	<u>(16,500,658)</u>	<u>23,559,083</u>	<u>(18,579,500)</u>

KINGSTON PROPERTIES LIMITEDNotes to the Financial Statements (Continued)  
December 31, 20166. Taxation charge

## (a) Taxation comprises:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
(i) Current income tax expense:				
Income tax at 25%	3,053,532	60,000	3,053,532	60,000
Income tax credit	-	117,672	-	-
(ii) Deferred income tax expense:				
Origination and reversal of temporary differences	<u>31,263,726</u>	<u>21,687,984</u>	<u>-</u>	<u>11,553,179</u>
Total income tax charge	<u>\$34,317,258</u>	<u>21,865,656</u>	<u>3,053,532</u>	<u>11,613,179</u>

## (b) Reconciliation of actual tax expense

The tax rate for the Company is 25% (2015: 25%) of profit before income tax, adjusted for tax purposes, while the tax rate for the St. Lucia subsidiary is 1% of profits, and that for the Florida subsidiary ranges from 15% - 35%. The actual tax charge for the year is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Profit before income tax	<u>\$164,236,298</u>	<u>127,287,194</u>	<u>48,857,543</u>	<u>117,864,758</u>
Computed "expected" tax expense at Jamaican tax rate of 25%	41,059,075	31,821,799	12,214,386	29,466,190
Effect of different tax rates in foreign jurisdictions	12,838,190	( 2,300,271)	-	-
Tax effect of treating certain items differently for financial statement purposes than for tax purposes :				
Revaluation gain on investment property	-	( 41,450,678)	-	( 41,450,678)
Disallowed exchange losses, net of gains	( 3,963,638)	29,194,664	( 3,963,638)	29,194,664
Depreciation	( 11,532,381)	12,286,293	( 1,113,228)	2,089,154
Other disallowed expenses	1,398,872	-	1,398,872	-
Utilised tax losses	( <u>5,482,860</u> )	( <u>7,686,151</u> )	( <u>5,482,860</u> )	( <u>7,686,151</u> )
Actual tax charge	<u>\$ 34,317,258</u>	<u>21,865,656</u>	<u>3,053,532</u>	<u>11,613,179</u>
Effective rate of tax	<u>20.89%</u>	<u>17.18%</u>	<u>6.25%</u>	<u>9.90%</u>

- (c) Although tax losses may be carried forward indefinitely in Jamaica, the amount that can be utilised in any one year is restricted to 50% of chargeable income for that year. Income tax losses, available for set-off against future taxable profits, amounted to approximately \$35,938,000 (2015: \$74,994,433) for the Company and the Group.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

7. Expense by nature

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Accounting fees	2,608,894	2,323,688	1,400,550	1,408,450
Asset tax	200,000	200,000	200,000	200,000
Bank charges	458,138	1,038,213	291,962	647,040
Employers' taxes	1,831,200	2,490,963	1,831,200	2,490,963
Homeowners' Association fees	19,412,409	13,052,716	-	-
Insurance	5,041,231	7,565,811	3,085,393	4,436,274
Professional fees	7,754,175	3,951,704	4,486,876	3,394,943
Property taxes	21,703,006	14,250,298	521,000	615,750
Regulatory fees and charges	699,285	512,718	699,285	512,718
Maintenance	891,454	13,687,336	-	13,150
Salaries and related costs	18,270,064	24,408,753	18,270,064	24,408,753
Tenants accommodations	-	1,542,087	-	-
Utilities	490,938	2,576,587	199,620	199,620
Other operating expenses	<u>18,903,375</u>	<u>13,301,976</u>	<u>8,618,066</u>	<u>7,904,419</u>
	<u>\$98,264,169</u>	<u>100,902,850</u>	<u>39,604,016</u>	<u>46,232,080</u>

8. Profit for the year

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

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	\$	\$	\$	\$
Auditors' remuneration	4,609,700	3,787,000	2,500,000	2,500,000
Key management personnel compensation				
Directors' remuneration:				
- salaries and incentives	18,270,064	22,967,150	18,270,064	22,967,150
- fees	<u>3,878,553</u>	<u>3,226,795</u>	<u>1,938,883</u>	<u>1,613,645</u>

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

(b) Executive settlement

The company designed a Long Term Incentive Plan (LTIP) in 2010 by which the Executive Director was entitled to an allocation of shares based on the achievement of certain profit performance targets. However, the plan was not formally approved and effected until 2015. The Board of Directors agreed that an amount of \$Nil (2015: \$30,000,000) be paid to the former Executive Director in lieu of the amount determined in accordance with the terms of the plan. The amount of \$32,850,000, which includes employer's statutory contributions was recognised in the 2015 financial statements.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

9. Earnings per stock unit

The earnings per stock unit is computed by dividing the profit for the year of \$129,919,040 (2015: \$105,421,538), attributable to the company's stockholders, by a weighted average number of stock units in issue during the year, computed as follows:

	<u>2016</u>	<u>2015</u>
Ordinary stock units at January 1	160,996,334	68,371,602
Effect of repurchasing stock units	-	( 220,899)
Effect of rights issue on August 7, 2015	<u>-</u>	<u>37,398,607</u>
Weighted average number of ordinary stock units held during the year	<u>160,996,334</u>	<u>105,549,310</u>
Earning per share (cents)	<u>81¢</u>	<u>99¢</u>

10. Investment property

(a) Investment property held by the Group is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Miami condominiums, Loft II (i)	503,420,889	369,274,724	-	-
Midblock Miami condominiums (ii)	298,304,605	268,481,808	-	-
W. Ft Lauderdale condominiums (iii)	388,750,432	364,846,419	-	-
Opera Tower Condominiums (iv)	190,846,107	-	-	-
Red Hills Road commercial complex (v)	<u>549,600,180</u>	<u>549,600,180</u>	<u>549,600,180</u>	<u>549,600,180</u>
	<u>\$1,930,922,213</u>	<u>1,552,203,131</u>	<u>549,600,180</u>	<u>549,600,180</u>

- (i) This represents 15 residential condominiums comprising 12,380 square feet in the Loft II building located at 133 NE 2<sup>nd</sup> Avenue in downtown Miami, Florida.
- (ii) This represents 5 residential condominiums comprising 5,213 square feet located at 3250 NE 1<sup>st</sup> Avenue in Miami Florida. The property was purchased in September 2015.
- (iii) This represents 4 residential condominiums comprising of 4,174 square feet purchased in October 2015, located at 3101 Bayshore, Fort Lauderdale.
- (iv) This represents 3 residential condominiums comprising 2,660 square feet located at 1750 North Bayshore Drive, Miami, Florida. The property was purchased in April 2016.

**KINGSTON PROPERTIES LIMITED**

Notes to the Financial Statements (Continued)  
December 31, 2016

10. Investment property (continued)

- (a) Investment property held by the Group is as follows (continued):
- (v) This represents a commercial property of 52,012 square feet on Red Hills Road, Kingston, Jamaica.
- (b) (i) The carrying amounts of investment property have been determined as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Balance as at beginning of year	1,552,203,131	953,788,854	549,600,180	383,590,060
Additions during the year	183,194,548	623,233,019	-	335,625
Disposals during the year	-	(217,969,575)	-	-
Fair value gain [see (c)(ii)]	119,941,059	165,674,495	-	165,674,495
Foreign currency translation adjustments	<u>75,583,475</u>	<u>27,476,338</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$1,930,922,213</u>	<u>1,552,203,131</u>	<u>549,600,180</u>	<u>549,600,180</u>

- (ii) The fair value measurement for investment properties is classified as Level 3.

Valuation techniques and significant unobservable inputs:

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

<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
<i>Investment approach:</i> The valuation model examines the price an investor would be prepared to pay for the right to receive a certain income stream.	<ul style="list-style-type: none"> <li>• Expected market rental growth</li> <li>• Yields</li> <li>• Rental rates</li> </ul>	The estimated fair value would increase/(decrease) if: <ul style="list-style-type: none"> <li>• Expected market rental growth were higher (lower); The occupancy rate were higher (lower)</li> </ul>

**KINGSTON PROPERTIES LIMITED**

Notes to the Financial Statements (Continued)  
December 31, 2016

10. Investment properties (continued)

- (b) (ii) The carrying amounts of investment properties have been determined as follows (continued):

<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
<p>The model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, and current rental rates. The estimated net cash flows are discounted using current yields. Among other factors, the yield estimation considers the quality of a building and its location, tenants' credit quality and lease terms.</p>		<ul style="list-style-type: none"> <li>• Rent-free periods were shorter (longer); or</li> <li>• Yields were lower (higher)</li> </ul>
<p><i>Sales comparison approach:</i> The approach relies heavily upon the principle of substitution. Recent sales of similar properties are gathered and a meaningful unit of comparison is developed.</p> <p>Then a comparative analysis of the subject is done, involving consideration for differences in location, time, terms of sales and physical characteristics.</p>	<ul style="list-style-type: none"> <li>• Sales of similar properties</li> </ul>	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> <li>• Sales prices of similar properties were higher/(lower)</li> </ul>



**KINGSTON PROPERTIES LIMITED**

Notes to the Financial Statements (Continued)  
December 31, 2016

10. Investment properties (continued)

- (b) (ii) The carrying amounts of investment properties have been determined as follows (continued):

<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
<p><i>Income approach:</i> This approach converts anticipated annual net income into an indication of value. This process is called capitalisation, and involves multiplying the annual net income by a factor or dividing it by a rate that weighs such considerations such as risk, time, and return on investment</p>	<ul style="list-style-type: none"> <li>• Annual net income</li> </ul>	<p>The estimated fair value would increase/(decrease) if:</p> <p>Annual net income was higher/(lower)</p>

- (c) (i) The fair value of investment properties as at the reporting date is based on estimates of open market value, which may be defined as the best price at which an interest in a property might reasonably be expected to be sold by private treaty at the date of valuation, assuming:
- a willing seller;
  - a willing buyer;
  - a reasonable period in which to negotiate a sale, taking into account the nature of the property and state of the market;
  - values are expected to remain stable throughout the period of market exposure and disposal by way of sale;
  - the property will be freely exposed to the market;
  - that no account has been taken of any possible additional bid/s reflecting any premium in price which might be forth-coming from a potential purchaser with a special interest in acquiring the premises; and
  - that the subject premises, in its current zoned use class, can be sold, exchanged, transferred, let, mortgaged or used for any other economic activity, within its land use class, in the open market.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

10. Investment property (continued)

(c) (Continued)

(ii) During the year, the condominiums located within Loft Downtown II and Midblock Miami were revalued by independent valuers, Access Appraisals of Miami, Florida. The Red Hills Road property was revalued as at December 31, 2015, by independent valuers, NAI Jamaica Langford and Brown, of Kingston, Jamaica.

(d) Gross rental income from investment property is as disclosed in note 4.

(e) Property operating expenses are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Homeowners' association fees	19,412,409	13,052,716	-	-
Insurance premium	5,041,231	7,565,811	3,085,393	4,436,274
Property taxes	21,703,006	14,250,298	521,000	615,750
Professional fees	7,754,175	3,951,704	4,486,876	3,394,943
Maintenance	891,454	13,687,336	-	13,150
Management fees	-	330,203	-	-
	<u>\$54,802,275</u>	<u>52,838,068</u>	<u>8,093,269</u>	<u>8,460,117</u>

11. Termination fee

This represents fees for early termination of a lease agreement by one tenant based on the termination provisions of the lease.

12. Land held for development

(a) This represents land in Waterworks, Westmoreland, Jamaica, that was held for development. In August 23, 2016, management committed to a plan to sell the land. Accordingly, the land was reclassified to asset held for sale. The sale is expected to be completed by May 2017.

(b) On reclassification to asset held for sale, the land was remeasured at fair value less cost to sell, resulting in an impairment loss of \$1,369,727 recognised in profit for the year.

KINGSTON PROPERTIES LIMITEDNotes to the Financial Statements (Continued)  
December 31, 201613. Furniture, software and equipment

	<u>Group</u>			<u>Company</u>
	<u>Office furniture &amp; equipment</u>	<u>Computer software</u>	<u>Total</u>	<u>Office furniture &amp; equipment</u>
Cost:				
December 31, 2014	3,820,317	338,293	4,158,610	3,820,317
Foreign currency translation	11,728	-	11,728	-
Additions	808,029	-	808,029	334,131
Disposals	( 447,400)	-	( 447,400)	( 447,400)
December 31, 2015	4,192,674	338,293	4,530,967	3,707,048
Foreign currency translation	31,817	-	31,817	-
Additions	<u>225,235</u>	-	<u>225,235</u>	<u>225,235</u>
December 31, 2016	<u>4,449,726</u>	<u>338,293</u>	<u>4,788,019</u>	<u>3,932,283</u>
Depreciation:				
December 31, 2014	970,120	338,293	1,308,413	970,120
Foreign currency translation	754	-	754	-
Charge for year	409,079	-	409,079	369,395
Disposals	( 115,504)	-	( 115,504)	( 115,504)
December 31, 2015	1,264,449	338,293	1,602,742	1,224,011
Foreign currency translation	4,582	-	4,582	-
Charge for year	<u>487,075</u>	-	<u>487,075</u>	<u>385,486</u>
December 31, 2016	<u>1,756,106</u>	<u>338,293</u>	<u>2,094,399</u>	<u>1,609,497</u>
Net book value:				
December 31, 2016	<u>\$2,693,620</u>	<u>-</u>	<u>2,693,620</u>	<u>2,322,786</u>
December 31, 2015	<u>\$2,928,225</u>	<u>-</u>	<u>2,928,225</u>	<u>2,483,037</u>
December 31, 2014	<u>\$2,850,197</u>	<u>-</u>	<u>2,850,197</u>	<u>2,850,197</u>

14. Investment in subsidiaries

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

	<u>Company</u>	
	<u>2016</u>	<u>2015</u>
Carlton Savannah REIT (St. Lucia) Limited		
Amount paid for shares	282,156,561	282,156,561
Funds borrowed [see (i) below]	(208,576,584)	(208,576,584)
	<u>73,579,977</u>	<u>73,579,977</u>
Kingston Properties Miami LLC [see (ii) below]		
Loan	<u>235,150,752</u>	<u>235,150,752</u>
	<u>\$308,730,729</u>	<u>308,730,729</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

14. Investment in subsidiaries (continued)

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

(ii) Kingston Properties Miami LLC

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

15. Deposit on investment property

During the year, the Group made deposits on one property in Jamaica [see (i) below] and one in the Cayman Islands [see (ii) below] for which the acquisitions were finalised in January 2017.

(i) The Company completed the acquisition of a warehouse and office complex on January 18, 2017. The property was subsequently leased to the operators of manufacturing, distribution and logistics businesses.

(ii) Carlton Savannah REIT (St. Lucia) Limited completed the acquisition of a fully tenanted mixed use building on January 10, 2017. The property is located in the West Bay Beach area of the Cayman Islands, and comprises offices, retail outlets and residential units.

16. Owed by/(to) subsidiaries

	<u>Company</u>	
	<u>2016</u>	<u>2015</u>
Owed by subsidiaries:		
Kingston Properties Miami LLC US\$3,260,137 (2015: \$4,744,200) [see note (i)]	<u>\$418,733,290</u>	<u>571,272,866</u>
Owed to subsidiaries:		
Carlton Savannah REIT (St. Lucia) US\$1,149,995 (2015: \$1,943,129)[see note (ii)]	<u>\$146,602,026</u>	<u>233,981,834</u>

(i) This represents an amount of US\$5,283,565 advanced by the Company to Kingston Properties Miami LLC for the purpose of purchasing two investment properties in 2015. The loan amount is interest free and has no fixed repayment date. In April 2016, US\$2,023,428 was repaid.

(ii) During the prior year, Carlton Savannah REIT (St. Lucia) repaid a loan on behalf of Kingston Properties Limited. The advance is interest free and has no fixed repayment date. During the year, Kingston Properties Limited repaid US\$793,134.

KINGSTON PROPERTIES LIMITEDNotes to the Financial Statements (Continued)  
December 31, 201617. Receivables

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Rent receivable	1,751,562	92,900	53,661	92,900
Withholding tax recoverable	2,872,972	2,250,227	2,872,972	2,250,227
Security deposits	2,691,062	2,530,182	74,650	74,650
Prepayments	17,298,681	16,943,305	5,081,900	73,293
Other receivables	<u>5,533,591</u>	<u>518,923</u>	<u>37,000</u>	<u>102,716</u>
	<u>\$30,147,868</u>	<u>22,335,537</u>	<u>8,120,183</u>	<u>2,593,786</u>

18. Cash and cash equivalents

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Interest bearing accounts	14,120	3,992,509	14,120	13,074
Current accounts	23,142,815	128,904,235	704,392	5,997,094
Securities purchased under resale agreement	<u>921,973</u>	<u>-</u>	<u>921,973</u>	<u>-</u>
	<u>\$24,078,908</u>	<u>132,896,744</u>	<u>1,640,485</u>	<u>6,010,168</u>

As at December 31, 2016 the fair value of the underlying securities purchased under resale agreements was \$921,973 (2015: \$Nil).

19. Share capital

	<u>2016</u>	<u>2015</u>
Authorised capital:		
500,000,000 ordinary shares of no par value		
Issued and fully paid:		
160,996,334 (2015: 160,996,334 ) ordinary shares	<u>\$1,028,508,717</u>	<u>1,028,508,717</u>

On July 2015, the company issued and offered a subscription to stock holders of 92,860,487 additional ordinary shares of \$7 each, by way of a rights issue to holders of ordinary stock units. This was concluded on August 7<sup>th</sup>, 2015 and an amount of \$621,900,112, was raised, net of transaction cost of \$28,123,296.

20. Treasury shares

The repurchase of the Company's stock units is conducted on the open market through the Company's stockbrokers, consequent on a decision of the Board of Directors. There was no repurchase of shares in 2016.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

21. Loans payable

	<u>Group</u>	
	<u>2016</u>	<u>2015</u>
Bank loan classified as follows:		
Non-current portion	268,479,831	-
Current portion	<u>5,498,020</u>	<u>-</u>
Total loans payable	<u>\$273,977,851</u>	<u>-</u>

This represents a loan of US\$2,200,000 from Terrabank N.A., a financial institution in Florida, payable by Kingston Properties Miami LLC. The loan is for a duration of ten (10) years at an interest rate of 4%.

The loan is secured by a first mortgage on twenty (20) condominium units, being five (5) residential units located at 3250 NE 1<sup>st</sup> Avenue in Miami, Florida and fifteen (15) residential condominiums at The Loft located at 135 NE 2<sup>nd</sup> Avenue, Downtown Miami.

Transaction costs of approximately US\$43,785 were incurred in obtaining the loan. These costs were deducted from the loan balance and are being amortised over the life of the loan.

22. Deferred tax liability

Deferred taxation is calculated on temporary differences using a tax rate of 25% (2015: 25%) for the Company and a range of rates for Kingston Properties Miami, LLC. The balances and movements are as follows:

	<u>Group</u>						
	<u>Balance at December 31, 2014</u>	<u>Recognised in profit or loss</u>	<u>Recognised in equity</u>	<u>Balance at December 31, 2015</u>	<u>Recognised in profit or loss</u>	<u>Recognised in equity</u>	<u>Balance at December 31, 2016</u>
Investment property	(64,476,332)	( 9,966,500)	(3,736,245)	(78,179,077)	(32,583,996)	(4,714,732)	(115,477,805)
Accounts payable	<u>168,305</u>	<u>( 168,305)</u>	-	-	-	-	-
	<u>\$(64,308,027)</u>	<u>(10,134,805)</u>	<u>(3,736,245)</u>	<u>(78,179,077)</u>	<u>(32,583,996)</u>	<u>(4,714,732)</u>	<u>(115,477,805)</u>

23. Accounts payable and accrued charges

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Accounts payable	5,900,683	8,420,263	1,669,342	471,581
Accounting and audit fees	4,399,609	3,880,174	2,779,891	2,500,000
Dividends payable	389,304	333,992	389,304	333,992
Other payables and accrued charges	17,616,092	43,679,663	11,797,334	27,316,487
Security deposits held	<u>10,669,138</u>	<u>10,021,428</u>	<u>3,110,807</u>	<u>2,525,835</u>
	<u>\$38,974,826</u>	<u>66,335,520</u>	<u>19,746,678</u>	<u>33,147,895</u>

KINGSTON PROPERTIES LIMITEDNotes to the Financial Statements (Continued)  
December 31, 201624. Dividends

	<u>Group and Company</u>	
	<u>2016</u>	<u>2015</u>
US\$0.00248 (2015: US\$0.0029) per share	<u>\$49,722,483</u>	<u>22,636,714</u>

The Company declared a dividend of US\$0.00124 (2015: US\$0.0029) per share unit payable on March 29, 2016 and interim dividend for 2016 in the amount of US\$0.00124 (2015: Nil) per unit payable on October 7, 2016.

25. Segment reporting

The Group has three operating segments. Internal management reports are reviewed monthly by the Board.

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

	<u>2016</u>				
	<u>Jamaica</u>	<u>United States of America</u>	<u>St. Lucia</u>	<u>Elimination</u>	<u>Group</u>
	\$	\$	\$	\$	\$
External revenue	53,088,997	77,368,381	-	-	130,457,378
Operating expenses	( 39,604,016)	( 54,013,503)	( 4,646,650)	-	( 98,264,169)
Results of operating activities before other income	13,484,981	23,354,878	( 4,646,650)	-	32,193,209
Other income gains:					
Fair value gain on revaluation of investment property	-	119,941,059	-	-	119,941,059
Termination fee	12,189,057	-	-	-	12,189,057
Miscellaneous income	994,149	234,763	-	-	1,228,912
Interest income	2,489,357	3,693	57,487	-	2,550,537
Interest expense and commitment fees	( 219,774)	( 7,317,124)	-	-	( 7,536,898)
Net gains/(losses) on translation of foreign currency balances	21,289,500	-	-	( 16,249,351)	5,040,149
Impairment loss	( 1,369,727)	-	-	-	( 1,369,727)
Profit/(loss) before tax	48,857,543	136,217,269	( 4,589,163)	( 16,249,351)	164,236,298
Income tax expense	( 3,053,532)	( 31,263,726)	-	-	( 34,317,258)
Profit after tax	<u>45,804,011</u>	<u>104,953,543</u>	<u>( 4,589,163)</u>	<u>( 16,249,351)</u>	<u>129,919,040</u>
Segment assets	<u>1,358,066,978</u>	<u>1,426,157,903</u>	<u>462,668,143</u>	<u>(1,089,284,469)</u>	<u>2,157,608,555</u>
Segment liabilities	<u>169,342,236</u>	<u>1,068,559,423</u>	<u>650,263</u>	<u>( 807,127,908)</u>	<u>431,424,014</u>
Other segment items:					
Capital expenditure	<u>225,235</u>	<u>183,194,548</u>	<u>-</u>	<u>-</u>	<u>183,419,783</u>
Depreciation	<u>385,486</u>	<u>101,589</u>	<u>-</u>	<u>-</u>	<u>487,075</u>

**KINGSTON PROPERTIES LIMITED****Notes to the Financial Statements (Continued)**  
**December 31, 2016****25. Segment reporting (continued)**

	2015				
	<u>Jamaica</u> \$	<u>United States of America</u> \$	<u>St. Lucia</u> \$	<u>Elimination</u> \$	<u>Group</u> \$
External revenue	46,954,077	61,414,791	-	-	108,368,868
Operating expenses	( 46,232,080)	( 52,150,734)	( 2,520,036)	-	(100,902,850)
Results of operating activities before other income/gains	721,997	9,264,057	( 2,520,036)	-	7,466,018
Executive settlement	( 29,465,342)	( 3,384,658)	-	-	( 32,850,000)
Other income gains:					
Fair value gain on revaluation of investment property	165,674,495	-	-	-	165,674,495
(Loss)/gain on disposal of investment property	( 580,081)	3,792,838	-	-	3,212,757
Miscellaneous income	93,189	6,372,470	-	( 6,181,077)	284,582
Interest income	2,552,899	4,155,122	7,734,908	( 4,090,623)	10,352,306
Interest expense and commitment fees	( 23,309,825)	( 15,946,486)	-	10,271,700	( 28,984,611)
Net gain/(losses) on translation of foreign currency balances	2,177,426	( 45,779)	-	-	2,131,647
Profit before tax	117,864,758	4,207,564	5,214,872	-	127,287,194
Income tax expense	( 11,613,179)	( 10,370,149)	117,672	-	( 21,865,656)
Profit after tax	106,251,579	( 6,162,585)	5,332,544	-	105,421,538
Segment assets	1,459,772,943	1,145,696,143	452,950,114	(1,328,865,828)	1,729,553,372
Segment liabilities	267,129,729	610,179,170	585,217	( 811,558,596)	66,335,520
Other segment items:					
Capital expenditure	669,756	633,813,906	-	-	634,483,662
Depreciation	369,395	39,684	-	-	409,079

During 2016, revenue from one customer of the Group represented approximately \$24,347,012 or 18% (2015: \$22,213,033 or 20%) of the Group's total revenue.

**26. Financial instruments and financial risk management**

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

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

The risk management policies are established and implemented by the directors to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

26. Financial instruments and financial risk management (continued)

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

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

## (a) Credit risk

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

## Exposure to credit risks

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

- (i) Cash and cash equivalents are held with financial institutions and collateral is not required for such accounts, as management regards the institutions as strong.
- (ii) The Group manages credit risk related to receivables by limiting exposure to specific counterparties and by monitoring settlements.
- (iii) Reverse repurchase agreements expose the Group to credit losses as there is a risk that the counterparty will fail to fulfill its contractual obligations. The Group manages this risk by contracting only with counterparties that management considers to be financially sound.

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

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

## (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management requires the Group to maintain sufficient cash and marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

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

**KINGSTON PROPERTIES LIMITED**

Notes to the Financial Statements (Continued)  
December 31, 2016

26. Financial instruments and financial risk management (continued)

## (b) Liquidity risk (continued)

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

		<u>Group</u>				
		<u>2016</u>				
	<u>Carrying value</u>	<u>Contractual cash flows</u>	<u>Within 3 month</u>	<u>3 to 12 months</u>	<u>Over 12 months</u>	
Loans payable	273,977,851	370,821,639	4,759,983	10,864,743	355,296,913	
Accounts payable and accrued charges	<u>38,974,826</u>	<u>38,974,826</u>	<u>11,600,429</u>	<u>27,374,397</u>	<u>-</u>	
	<u>\$312,952,677</u>	<u>409,796,465</u>	<u>16,360,412</u>	<u>38,239,140</u>	<u>355,296,913</u>	
		<u>2015</u>				
	<u>Carrying value</u>	<u>Contractual cash flows</u>	<u>Within 3 month</u>	<u>3 to 12 months</u>	<u>Over 12 months</u>	
Accounts payable and accrued charges	<u>\$66,335,520</u>	<u>66,335,520</u>	<u>12,300,437</u>	<u>54,035,083</u>	<u>-</u>	
		<u>Company</u>				
		<u>2016</u>				
	<u>Carrying value</u>	<u>Contractual cash flows</u>	<u>Within 3 month</u>	<u>3 to 12 months</u>	<u>Over 12 months</u>	
Owed to subsidiary	146,602,026	146,602,026	-	-	146,602,026	
Accounts payable and accrued charges	<u>19,746,678</u>	<u>19,746,678</u>	<u>2,271,581</u>	<u>17,475,097</u>	<u>-</u>	
	<u>166,348,704</u>	<u>166,348,704</u>	<u>2,217,581</u>	<u>17,475,097</u>	<u>146,602,026</u>	
		<u>2015</u>				
	<u>Carrying value</u>	<u>Contractual cash flows</u>	<u>Within 3 month</u>	<u>3 to 12 months</u>	<u>Over 12 months</u>	
Owed to subsidiary	233,981,834	233,981,834	-	-	233,981,834	
Accounts payable and accrued charges	<u>33,147,895</u>	<u>33,147,895</u>	<u>2,971,581</u>	<u>30,176,314</u>	<u>-</u>	
	<u>\$267,129,729</u>	<u>267,129,729</u>	<u>2,971,581</u>	<u>30,176,314</u>	<u>233,981,834</u>	

## (c) Market risk

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

26. Financial instruments and financial risk management (continued)

## (c) Market risk (continued)

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

## (i) Foreign currency risk

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

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

	<u>Group</u>		<u>Company</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	US\$	US\$	US\$	US\$
Foreign currency assets:				
Cash	175,006	1,098,620	22,537	40,229
Receivables	196,830	203,872	1,158	38,865
Securities purchased under resale agreements	<u>9,396</u>	<u>2,163</u>	<u>7,232</u>	<u>-</u>
	<u>381,232</u>	<u>1,304,655</u>	<u>30,927</u>	<u>79,094</u>
Foreign currency liabilities:				
Payables and accrued charges	( 178,129)	( 486,774)	(28,423)	211,164
Loans payable	<u>(2,133,113)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(2,311,242)</u>	<u>( 486,774)</u>	<u>(28,423)</u>	<u>(211,164)</u>
Net foreign currency assets/ (liabilities)	<u>(1,930,010)</u>	<u>817,881</u>	<u>2,504</u>	<u>(132,070)</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

26. Financial instruments and financial risk management (continued)

## (c) Market risk (continued)

## (i) Foreign currency risk (continued)

## Sensitivity to foreign exchange rate movements

An 6% (2015: 8%) weakening of the Jamaica dollar against the United States dollar at December 31, 2016 would have increased the profit of the Group and the Company by \$14,491,275 (2015: \$2,724,249 ) and \$18,798 (2015: \$2,724,249 ), respectively. The analysis assumes that all other variables, in particular, interest rates, remain constant.

A 1% (2015: 1%) strengthening of the Jamaica dollar against the United States dollar at December 31, 2016 would have decreased the profit of the Group and the Company by \$2,415,213 (2015: \$959,359 ) and \$3,133 (2015: \$340,531 ), respectively, on the basis that all other variables remain constant.

The following rates of exchange of one J\$ for one US\$ applied for the year:

	<u>Average rate</u>		<u>Reporting date spot rate</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>		<u>2015</u>	
			<u>Buying</u>	<u>Selling</u>	<u>Buying</u>	<u>Selling</u>
United States Dollar (US\$)	<u>125.14</u>	<u>117.32</u>	<u>127.48</u>	<u>128.44</u>	<u>119.64</u>	<u>120.42</u>

## (ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate or that cashflows will vary due to changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group manages this risk by monitoring market interest rates. Even though there is no formally predetermined gap limits, to the extent judged appropriate, the maturity profile of the Group's financial assets is matched with that of the financial liabilities. Where gaps occur, management expects that its monitoring will, on a timely basis, identify the need to take quick action to close a gap, if it becomes necessary. The Group was not subject to significant interest rate risk, at the reporting date.

## Sensitivity to interest rate movements

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)  
December 31, 2016

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27. Fair value

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

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

The carrying value of non-current loan is assumed to approximate fair value, as the terms of the loan effect normal commercial considerations.

28. Capital management

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