INTERIM REPORT

(SIX MONTHS)
30 JUNE 2019

GraceKennedy Limited

INTERIM REPORT TO OUR STOCKHOLDERS

For the six months ended June 30, 2019, the GraceKennedy Group achieved revenues of J$51.49 billion, representing an increase of 6.5% or J$3.12 billion over the corresponding period of 2018. Net profit after tax for the period was J$2.27 billion, representing a decline of 7.3% or J$179.2 million compared to the corresponding period of 2018. Net profit attributable to stockholders was J$2.01 billion, 6.6% or J$142.2 million lower than that of the corresponding period of 2018. Our results were negatively impacted by the new accounting standard on leases (IFRS 16) which resulted in an additional expense of J$115.0 million, as well as post-employment benefit expenses relating to IAS 19 increasing by J$189.0 million. Profit before other income for the period was J$1.65 billion, 15.1% or J$217.1 million higher than that of the corresponding period in 2018, indicating an improved operating performance.

The Group reported improved performance for the second quarter of 2019 relative to the corresponding quarter of 2018. Revenue of J$25.56 billion, an increase of 9.0% or $2.10 billion was achieved along with net profit of J$1.25 billion, an increase of 10.3% or $117 million. While revenue and profit were ahead of plan, profit for the half-year was below the corresponding period of 2018. The Group expects to meet its 2019 12-month profit target and achieve improved operating performance. Earnings per stock unit for the period was J$2.03 (2018: J$2.17).

Stockholders will recall that the GraceKennedy Group is a net earner of foreign exchange and has net foreign assets, where values are subject to movements in foreign currency exchange rates. During the first six months of 2019, the volatility in the Jamaican foreign exchange market, particularly in the US Dollar exchange rate, had a significant negative effect on the Group's results when compared to the corresponding period of 2018.

Over the six month period, stockholders' equity increased by J$6.16 billion to J$50.77 billion. On the adoption of IFRS 16: Leases, on January 1, 2019, the Group recognised a right-of-use asset of approximately J$6.4 billion shown in fixed assets, with a corresponding amount being recognised as a lease liability shown in bank and other loans.

The Food Trading segment recorded improved revenue but profitability declined when compared to the corresponding period of 2018.

Our Jamaican foods distribution business experienced growth in most key products. The extremely successful consumer promotion, "Grace Winna House" came to an end on June 28th with the staging of the grand finale at Stonebrook Manor, Falmouth, Trelawny. Our Jamaican chain of supermarkets, Hi-Lo Foods Stores, showed improved performance when compared to the corresponding period of 2018. The newest location in our chain is Hi-Lo Express, a convenience-sized store, which was opened at the new GraceKennedy Headquarters, Downtown Kingston. Since the opening, we have seen a steady flow of customers. Our investments in Catherine's Peak and Consumer Brands Limited continue to perform well. Grace Agro Processors experienced a delay in the start of production at our manufacturing plant at Denbigh, Clarendon in Jamaica. This in turn impacted production volumes, and a supply shortage of peppers impacted production volumes at the Hounslow factory in St. Elizabeth Jamaica. We are currently broadening our supplier base for peppers which is expected to reduce the pepper shortage at the Grace Agro Processors factory and expand our network of farmers. GraceKennedy's commitment to growing Jamaica's agro processing landscape was extended to the development of our Agro Park project in Hounslow, St. Elizabeth in partnership with farmers.

GraceKennedy Foods (USA) LLC reported improved revenue and operating performance for the period. The Grace brand has seen growth of 11% in the USA market, compared to the corresponding period of 2018. The major contributors to this performance include Grace Frozen Patties, Grace Jerk Wings and Grace Tropical Rhythms. The re-launch of the LaFe brand officially began in May with the brand being re-positioned around the qualities of being fresh, convenient and healthy. Our equity investment in Majesty Foods LLC in the United States, manufacturer of Grace Frozen Patties and Grace Jerk Wings, is performing well.

Grace Foods UK Limited (GFUK) reported a decline in sales. GFUK will be re-launching the Nurishment brand with new and convenient packaging, from which we expect to see improved performance. The company has earned good distribution gains in supermarkets for the Encona and Grace branded products. Grace Tropical Rhythms is also showing significant growth in sales.

The GraceKennedy Financial Group (GKFG) reported marginal growth in revenues and increased profitability over the corresponding period in 2018.

The Banking and Investments segment reported an increase in pre-tax profit compared to the corresponding period of 2018. First Global Bank Limited's (FGB) focus on improved customer experience resulted in increased revenue, profitability and continued improvement in efficiency. FGB continued to build the relationship with its customers and expand on its financial inclusion strategy by being the first Jamaican institution to offer agency banking. GK Capital Management Limited (GKCM) reported strong performance for the period. This was led by the Investment Banking Unit, which saw a significant increase in revenues for both corporate finance and advisory services. GKCM's corporate finance unit experienced success in the fixed income securities market including the arrangement of financing deals.

The Insurance segment continued to perform well with existing operations achieving growth and various new initiatives forming a base for future growth.

GK General Insurance Company Limited (GKGI) reported strong growth in revenues, with the motor portfolio achieving significant gains over the corresponding period of 2018. The company experienced an increase in claims when compared to the corresponding period of 2018, which negatively affected its underwriting results. GKGI launched its latest offering, "Cyber Control", targeting the unmet need for cyber insurance. This is consistent with GKGI's reputation of delivering innovative solutions to the market.

During the period GraceKennedy and the Musson Group's new joint venture company, Canopy Insurance Limited, successfully registered with the Financial Services Commission as an Ordinary Long Term Insurance company to enter into the group health and life insurance market. To date, the company has incurred startup costs and is currently onboarding health care providers in anticipation of providing services to customers in the last quarter of 2019.

Performance in the Money Services segment was impacted by a decline in remittance transaction volumes and volatility in the foreign exchange market. The temporary reduction in transaction volumes is due to the ongoing implementation of enhanced compliance measures, however it is anticipated that the increased oversight, for the protection of our customers, will be a competitive advantage through a stronger network of agencies. The segment is focused on enhancing the customer experience and is pursuing initiatives to foster increased communication and engagement.

GraceKennedy Money Services (GKMS) continues to drive revenues and growth through an efficient, innovative and customer-centric approach, in keeping with our strategic focus. The company successfully launched a new money transfer service allowing for direct to bank settlement of incoming funds and has seen strong consumer adoption. Transactions settled via our other digital channels – BXOnline and WU.com – are showing strong growth over the corresponding period of 2018.

Under the GraceKennedy Jamaican Birthright Internship Programme, the company is hosting four university students of Jamaican descent, from the USA, UK and Canada for a five-week professional and cultural internship in Jamaica from June 28 to August 7, 2019. The internship, which is intended to expose the students to various facets of Jamaica's culture also allows the interns to work at GraceKennedy in an area linked to their career interests. The programme helps to foster a strong connection between Jamaica and its diaspora.

On May 29, Prime Minister Andrew Holness participated in the official opening of GraceKennedy's new headquarters and was also the guest speaker at the ceremony. The building is designed to be energy efficient increasing the company's green footprint through the use of solar panels and rain water harvesting. We are very proud that our new building is a product of Jamaican hands with over 150 Jamaicans from communities in Downtown Kingston working on the construction project. This building represents more than a physical structure; it is a demonstration of GraceKennedy's commitment to Downtown Kingston.

We would like to thank our stockholders, employees and customers for their support and commitment as we seek to realize our vision of becoming a Global Consumer Group, guided always by our core principles of Honesty, Integrity and Trust.

Gordon V. Shirley, OJ	Donald G. Wehby, CD
Chairman	Group Chief Executive Officer

July 31, 2019

GraceKennedy Limited

CONSOLIDATED INCOME STATEMENT
SIX MONTHS ENDED 30 JUNE 2019
(Unaudited)

	3 months to 6/30/2019 $'000	6 months to 6/30/2019 $'000	3 months to 6/30/2018 $'000	6 months to 6/30/2018 $'000
Revenue from products and services	24,530,279	49,458,270	22,442,828	46,328,882
Interest revenue	1,030,386	2,031,232	1,015,671	2,039,681
Revenues (Note 2)	25,560,665	51,489,502	23,458,499	48,368,563
Direct and operating expenses	(24,651,794)	(49,636,367)	(22,641,101)	(46,762,540)
Net impairment losses on financial assets	(140,722)	(199,896)	(93,229)	(169,841)
Expenses	(24,792,516)	(49,836,263)	(22,734,330)	(46,932,381)
Profit before other income	768,149	1,653,239	724,169	1,436,182
Other income	876,461	1,190,712	717,585	1,451,390
Profit from Operations	1,644,610	2,843,951	1,441,754	2,887,572
Interest income – non-financial services	113,799	211,410	112,681	213,316
Interest expense – non-financial services	(242,724)	(473,299)	(141,908)	(285,737)
Share of results of associates and joint ventures	113,696	368,263	27,407	287,331
Profit before Taxation	1,629,381	2,950,325	1,439,934	3,102,482
Taxation	(374,758)	(678,575)	(302,386)	(651,521)
Net Profit for the period	1,254,623	2,271,750	1,137,548	2,450,961
Profit attributable to:				
Owners of GraceKennedy Limited	1,114,399	2,011,447	959,305	2,153,694
Non-controlling interests	140,224	260,303	178,243	297,267
	1,254,623	2,271,750	1,137,548	2,450,961

Earnings per Stock Unit for profit attributable to the owners of the company during the period:				
(expressed in $ per stock unit):				
Basic	$1.12	$2.03	$0.97	$2.17
Diluted	$1.12	$2.02	$0.97	$2.17

GraceKennedy Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 JUNE 2019
(Unaudited)

	3 months to 6/30/2019 $'000	6 months to 6/30/2019 $'000	3 months to 6/30/2018 $'000	6 months to 6/30/2018 $'000
Profit for the period	1,254,623	2,271,750	1,137,548	2,450,961
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Losses on revaluation of land and buildings	-	(191)	-	-
Changes in fair value of equity instruments at fair value through other comprehensive income	371,265	600,153	11,567	(5,071)
Remeasurements of post-employment benefit obligations	3,748,993	3,562,785	249,099	76,648
Share of other comprehensive income of associates and joint ventures	-	(5,587)	-	-
	4,120,258	4,157,160	260,666	71,577
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustments	392,961	427,482	210,875	365,129
Changes in fair value of debt instruments at fair value through other comprehensive income	134,333	288,330	(102,896)	(216,820)
Share of other comprehensive income of associates and joint ventures	40,693	28,186	29,264	36,519
	567,987	743,998	137,243	184,828
Other comprehensive income for the period, net of tax	4,688,245	4,901,158	397,909	256,405
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	5,942,868	7,172,908	1,535,457	2,707,366
Total comprehensive income attributable to:				
Owners of GraceKennedy Limited	5,784,262	6,900,857	1,338,375	2,388,009
Non-controlling interests	158,606	272,051	197,082	319,357
	5,942,868	7,172,908	1,535,457	2,707,366

GraceKennedy Limited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2019
(Unaudited)

	June 30 2019 $'000	December 31 2018 $'000	June 30 2018 $'000
ASSETS			
Cash and deposits	10,945,559	14,824,799	12,195,249
Investment securities	32,772,699	28,261,306	32,542,487
Pledged assets	7,761,518	9,931,362	7,178,607
Receivables	18,582,704	15,226,423	17,257,445
Inventories	11,922,112	12,784,061	10,751,092
Loans receivable	28,698,107	26,469,557	25,281,385
Taxation recoverable	726,004	764,826	386,659
Investments in associates and joint ventures	3,201,693	2,964,841	2,014,963
Investment properties	628,000	628,000	618,000
Intangible assets	4,111,753	4,128,043	4,239,965
Fixed assets	21,332,473	14,300,969	12,321,256
Deferred tax assets	1,377,679	1,410,080	1,329,160
Pension plan asset	7,884,105	3,269,925	6,404,083
Assets classified as held for sale	309,535	271,208	-
Total Assets	150,253,941	135,235,400	132,520,351
LIABILITIES			
Deposits	36,105,903	34,371,026	35,791,409
Securities sold under agreements to repurchase	6,249,286	7,208,337	5,788,359
Bank and other loans	22,404,695	16,529,313	13,216,177
Payables	23,242,617	23,201,686	22,233,429
Taxation	621,809	464,890	208,405
Deferred tax liabilities	1,949,608	687,069	1,270,205
Other post-employment obligations	6,561,777	6,083,687	5,548,306
Total Liabilities	97,135,695	88,546,008	84,056,290
EQUITY			
Capital & reserves attributable to the company's owners			
Share capital	524,907	490,354	546,068
Capital and fair value reserves	7,137,297	6,346,838	5,437,067
Retained earnings	37,255,040	32,306,560	33,477,418
Banking reserves	3,120,711	3,118,867	3,044,111
Other reserves	2,735,132	2,351,808	3,854,227
	50,773,087	44,614,427	46,358,891
Non-Controlling Interests	2,345,159	2,074,965	2,105,170
Total Equity	53,118,246	46,689,392	48,464,061
Total Equity and Liabilities	150,253,941	135,235,400	132,520,351

Approved for issue by the Board of Directors on 31 July 2019 and signed on its behalf by:

Gordon Shirley — Chairman

Donald Wehby — Group Chief Executive Officer

GraceKennedy Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
SIX MONTHS ENDED 30 JUNE 2019
(Unaudited)

	Attributable to owners of the company							Non-controlling interests	Total Equity
	No. of Shares '000	Share Capital $'000	Capital and Fair Value Reserve $'000	Retained Earnings $'000	Banking Reserves $'000	Other Reserves $'000	Total $'000	$'000	$'000
Balance at 1 January 2018	992,654	540,951	5,483,796	31,818,489	3,044,111	3,428,449	44,315,796	1,785,813	46,101,609
Profit for the period	-	-	-	2,153,694	-	-	2,153,694	297,267	2,450,961
Other comprehensive income for the period	-	-	(221,891)	76,648	-	379,558	234,315	22,090	256,405
Total comprehensive income for the period	-	-	(221,891)	2,230,342	-	379,558	2,388,009	319,357	2,707,366
Transactions with owners:									
Share-based payments	-	-	-	-	-	52,203	52,203	-	52,203
Transfer of treasury shares to employees	139	5,117	866	-	-	(5,983)	-	-	-
Dividends paid	-	-	-	(397,117)	-	-	(397,117)	-	(397,117)
Total transactions with owners	139	5,117	866	(397,117)	-	46,220	(344,914)	-	(344,914)
Transfers between reserves:									
To capital reserves	-	-	174,296	(174,296)	-	-	-	-	-
Balance at 30 June 2018	992,793	546,068	5,437,067	33,477,418	3,044,111	3,854,227	46,358,891	2,105,170	48,464,061
Balance at 1 January 2019	991,865	490,354	6,346,838	32,306,560	3,118,867	2,351,808	44,614,427	2,074,965	46,689,392
Profit for the period	-	-	-	2,011,447	-	-	2,011,447	260,303	2,271,750
Other comprehensive income for the period	-	-	882,705	3,562,785	-	443,920	4,889,410	11,748	4,901,158
Total comprehensive income for the period	-	-	882,705	5,574,232	-	443,920	6,900,857	272,051	7,172,908
Transactions with owners:									
Issue of shares	25	690	-	-	-	-	690	-	690
Sale of treasury shares	154	9,232	-	-	-	-	9,232	-	9,232
Purchase of treasury shares	(776)	(48,416)	-	-	-	-	(48,416)	-	(48,416)
Share-based payments charged	-	-	-	-	-	66,444	66,444	-	66,444
Share-based payments exercised	-	-	-	-	-	(26,460)	(26,460)	(637)	(27,097)
Transfer of shares to employees	5	312	-	-	-	(312)	-	-	-
Transfer of treasury shares to employees	1,685	72,735	28,753	-	-	(100,268)	1,220	(1,220)	-
Dividends paid	-	-	-	(744,907)	-	-	(744,907)	-	(744,907)
Total transactions with owners	1,093	34,553	28,753	(744,907)	-	(60,596)	(742,197)	(1,857)	(744,054)
Transfers between reserves:									
From capital reserves	-	-	(120,999)	120,999	-	-	-	-	-
To banking reserves	-	-	-	(1,844)	1,844	-	-	-	-
Balance at 30 June 2019	992,958	524,907	7,137,297	37,255,040	3,120,711	2,735,132	50,773,087	2,345,159	53,118,246

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED 30 JUNE 2019
(Unaudited)

	6/30/2019 $'000	6/30/2018 $'000
SOURCES/(USES) OF CASH:		
Operating Activities (Note 3)	584,322	7,871,655
Financing Activities		
Loans received	3,436,491	1,498,383
Loans repaid	(3,585,174)	(3,153,765)
Purchase of treasury shares	(48,416)	-
Sale of treasury shares	9,232	-
Issue of shares	690	-
Exercise of share based payments	(27,097)	-
Interest paid – non financial services	(495,906)	(287,296)
Dividends	(744,907)	(397,117)
	(1,455,087)	(2,339,795)
Investing Activities		
Additions to fixed assets	(1,583,417)	(1,090,046)
Proceeds from disposal of fixed assets	23,784	18,920
Additions to assets held for sale	(30,390)	-
Additions to investments	(1,683,574)	(4,763,887)
Cash outflow on purchase of interest in associates and joint ventures	-	(43,000)
Proceeds from sale of investments	716,308	1,935,171
Additions to intangibles	(177,116)	(47,642)
Interest received – non financial services	307,786	214,401
	(2,426,619)	(3,776,083)
(Decrease)/increase in cash and cash equivalents	(3,297,384)	1,755,777
Cash and cash equivalents at beginning of year	12,278,198	9,402,295
Exchange and translation gains on net foreign cash balances	148,709	197,978
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,129,523	11,356,050

GraceKennedy Limited

FINANCIAL INFORMATION BY OPERATING SEGMENT
SIX MONTHS ENDED 30 JUNE 2019
(Unaudited)

6 months to 30 June 2019	Food Trading $'000	Banking & Investments $'000	Insurance $'000	Money Services $'000	Consolidation Adjustments $'000	Group $'000
REVENUE						
External sales	40,927,071	3,022,720	3,814,059	3,725,652	-	51,489,502
Inter-segment sales	101,313	18,394	28,314	-	(148,021)	-
Total Revenue	41,028,384	3,041,114	3,842,373	3,725,652	(148,021)	51,489,502
RESULT						
Operating results	1,134,833	344,940	514,158	1,432,000	14,039	3,439,970
Unallocated expense	-	-	-	-	(596,019)	(596,019)
Profit from operations	-	-	-	-	-	2,843,951
Finance income	12,235	11,593	10,284	10,035	167,263	211,410
Finance expense	(361,635)	(35,848)	(2,377)	(15,084)	(58,355)	(473,299)
Share of associates and joint ventures	332,530	61,647	(25,914)	-	-	368,263
Profit before Taxation	1,117,963	382,332	496,151	1,426,951	(473,072)	2,950,325
Taxation						(678,575)
Net Profit for the period						2,271,750
Attributable to:						
Owners of GraceKennedy Limited						2,011,447
Non-controlling interests						260,303
						2,271,750

6 months to 30 June 2018	Food Trading $'000	Banking & Investments $'000	Insurance $'000	Money Services $'000	Consolidation Adjustments $'000	Group $'000
REVENUE						
External sales	38,374,214	2,899,241	3,333,948	3,761,160	-	48,368,563
Inter-segment sales	92,468	12,841	-	-	(105,309)	-
Total Revenue	38,466,682	2,912,082	3,333,948	3,761,160	(105,309)	48,368,563
RESULT						
Operating results	1,174,723	177,349	439,819	1,457,667	16,653	3,266,211
Unallocated expense	-	-	-	-	(378,639)	(378,639)
Profit from operations	-	-	-	-	-	2,887,572
Finance income	9,426	19,802	8,715	27,305	148,068	213,316
Finance expense	(190,602)	(27,443)	-	(2,638)	(65,054)	(285,737)
Share of associates and joint ventures	237,747	49,584	-	-	-	287,331
Profit before Taxation	1,231,294	219,292	448,534	1,482,334	(278,972)	3,102,482
Taxation						(651,521)
Net Profit for the period						2,450,961
Attributable to:						
Owners of GraceKennedy Limited						2,153,694
Non-controlling interests						297,267
						2,450,961

Notes

1. Accounting Policies

(a) Basis of preparation

This condensed consolidated interim financial report for the reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard IAS 34 'Interim Financial Reporting'.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

The accounting policies followed in these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of IFRS 16 'Leases', which became effective 1 January 2019. The impact of adopting the new standards are shown in Note 4.

New standards effective in the current year

IFRS 16, 'Leases'
The Group has adopted IFRS 16 from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard in applying the simplified transition approach. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces the guidance in IAS 17, which made a distinction in classification between leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset (finance leases) and those that do not (operating leases). For a lessee, finance leases were recognised as an asset that was depreciated over the lease term and the amount due to the lessor recognised as borrowings. While operating leases were recognised as a periodic rental payment that was treated as a current expense in the income statement.

IFRS 16 introduces a single lease accounting model for lessees. It requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets. For lessors, the accounting stays almost the same.

Accounting policy effective 1 January 2019

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

1. **Accounting Policies (continued)**

(a) Basis of preparation

IFRS 16, 'Leases' (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

(b) Segment reporting

The principal activities of the company, its subsidiaries, associates and joint ventures (the Group) are as follows:

- *Food Trading* – Merchandising of general goods and food products, both locally and internationally; processing and distribution of food products; and the operation of a chain of supermarkets.
- *Banking and Investment* – Commercial banking; stock brokerage; corporate finance; advisory services; and lease financing.
- *Insurance* – General insurance and insurance brokerage.
- *Money Services* – Operation of money transfer services; cambio operations and bill payment services.

2. **Revenues**

Revenues for the Group can be disaggregated as follows:

	2019 $'000	2018 $'000
Timing of revenue recognition from contracts with customers		
Goods and services transferred at a point in time	46,428,402	43,581,344
Services transferred over time	76,459	61,616
Revenue from insurance contracts	2,953,409	2,685,922
Interest revenue	2,031,232	2,039,681
	51,489,502	48,368,563

3. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

	6/30/2019 $'000	6/30/2018 $'000
Net profit	2,271,750	2,450,961
Items not affecting cash:		
Depreciation	1,060,013	547,154
Amortisation	273,786	311,416
Change in value of investments	(100,360)	(3,280)
Loss/(gain) on disposal of fixed assets	2,518	(10,346)
(Gain)/loss on disposal of investments	(1,200)	200
Share-based payments	66,444	52,203
Exchange loss/(gain) on foreign balances	570,996	(436,496)
Interest income – non financial services	(211,410)	(213,316)
Interest income – financial services	(2,183,943)	(2,214,822)
Interest expense – non financial services	473,299	285,737
Interest expense – financial services	387,622	407,215
Taxation expense	678,575	651,521
Unremitted equity income in associates and joint ventures	(213,551)	(137,331)
Pension plan surplus	352,198	165,882
Other post-employment obligations	262,092	259,392
	3,688,829	2,116,090
Changes in working capital components:		
Inventories	861,949	502,048
Receivables	(3,356,282)	(1,484,137)
Loans receivable, net	(1,955,513)	2,096,206
Payables	40,931	(120,792)
Deposits	1,220,298	1,593,323
Securities sold under repurchase agreements	(1,124,735)	1,936,022
	(624,523)	6,638,760
Interest received – financial services	2,082,353	2,185,708
Interest paid – financial services	(337,142)	(432,504)
Translation gains	291,985	141,930
Taxation paid	(828,351)	(662,239)
Net cash provided by operating activities	584,322	7,871,655

Reconciliation of movements of liabilities to cash flows arising from financing activities:
Amounts represent bank and other loans, excluding bank overdrafts

	6/30/2019 $'000	6/30/2018 $'000
At beginning of year	13,982,712	13,833,665
Effect of adopting IFRS 16	6,384,074	-
Loans received	3,436,491	1,498,383
Loans repaid	(3,585,174)	(3,153,766)
Foreign exchange adjustments	393,606	215,239
Net interest movements	(23,050)	(16,543)
At end of period	20,588,659	12,376,978

4. Effect of new standards

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.15%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

The table below shows the reconciliation of the operating lease commitments disclosed as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019:

	January 1 2019 $'000
Operating lease commitments disclosed as at 31 December 2018	6,197,274
Discounted using the incremental borrowing rate at the date of initial application	5,186,392
Adjustments arising from different treatment of extension and termination options and changes in the index or rate affecting variable payments	1,197,682
Lease liabilities recognised on adoption of IFRS 16	6,384,074
Finance lease liabilities recognised as at 31 December 2018	77,687
Lease liabilities recognised as at 1 January 2019	6,461,761

As noted in the accounting policies for the new standards, the transition provisions applied by the Group do not require comparative figures to be restated. The total impact of adoption is therefore recognised in the opening statement of financial position on 1 January 2019.

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The adoption of IFRS 16 resulted in an increase in the lease liabilities of $6,384,074,000 and a corresponding increase in the right-of-use assets of $6,384,074,000 on 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- Reliance on previous assessments on whether a contract is, or contains, a lease applying IAS 17 and IFRIC 4
- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4. Effect of new standard (continued)

(b) Current year disclosures

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 $'000	1 January 2019 $'000
Properties	5,341,902	5,643,466
Equipment	47,754	39,663
Motor Vehicles	628,737	700,945
Total right-of-use assets	6,018,393	6,384,074

The Group incurred depreciation charges of $465,320,000 on the right-of-use assets and interest expense of $156,208,000 on the lease liabilities during the period.

5. Contingent Liability

(a) By letter dated 17 May 2018, the Guyana Revenue Authority (GRA) indicated that GraceKennedy Remittance Services Guyana ('GKRS Guyana') was "incorrectly" classified as a non-commercial company rather than a commercial company. Based on this, the GRA asserted that GKRS Guyana had wrongly paid corporation taxes at the lower non-commercial company rate. GKRS Guyana's tax liability was assessed by the GRA to be the equivalent of J$225,116,000, excluding penalties and interest if applicable. GKRS Guyana lodged objections to the GRA's assessment on the basis that the GRA wrongly assessed GKRS Guyana as a commercial company and that GKRS Guyana had filed (and the GRA had accepted), returns for a period of over 20 years as a non-commercial company. By letter dated 26 September 2018, received on 4 October 2018, the GRA indicated that it would maintain its assessments despite the objection.

GKRS Guyana filed an appeal on 26 October 2018 and defence in response filed by the GRA on 21 December 2018. Oral submissions were heard in chambers before the Judge on 27 March 2019 and on 8 July 2019, the court ruled in favour of GKRS Guyana; setting aside the decision by the GRA to reclassify the company as a commercial company and therefore reversing the decision by GRA to impose corporation tax at the commercial rate.

(b) By letter dated 20 March 2019, Tax Administration Jamaica (TAJ) raised assessments on a subsidiary company, GraceKennedy Remittance Services Limited (GKRS), under the General Consumption Tax (GCT) Act for a net tax liability of $358,870,000 (inclusive of penalties and interest) in relation to incorrect GCT input taxes claimed. GKRS lodged objections to TAJ's assessments on the basis that TAJ incorrectly disallowed the GCT input taxes. The Group is of the opinion that GKRS has a strong basis for objection in respect of these assessments and that GKRS will be successful in having these assessments withdrawn. Accordingly, no amounts have been provided for in these financial statements in respect of these matters.