GraceKennedy

# INTERIM REPORT

**(THREE MONTHS)**
**31 MARCH 2019**

# INTERIM REPORT TO OUR STOCKHOLDERS

For the three months ended March 31, 2019, the GraceKennedy Group achieved revenues of J$25.9 billion, representing an increase of 4.1% or J$1.0 billion over the corresponding period of 2018. Net profit after tax for the period was J$1.0 billion, representing a decline of 22.6% or J$296.3 million compared with 2018. Net profit attributable to stockholders was J$897.0 million, 24.9% or J$297.3 million lower than that of the corresponding period of 2018. Profit before other income for the period was J$885.1 million, 24.3% or J$173.1 million higher than that of the corresponding period in 2018, indicating an improved operating margin. Performance was therefore ahead of plan, notwithstanding that profit for the quarter was below the corresponding period in the prior year. The Group expects to meet its target and achieve improved operating performance. Earnings per stock unit for the period was J$0.90 (Q1 2018: J$1.20). GraceKennedy has declared an interim dividend of J$0.40 per stock unit, which is payable to shareholders on June 14.

Stockholders will recall that the GraceKennedy Group is a net earner of foreign exchange and has net foreign assets, whose values are subject to movements in foreign currency exchange rates. During the first three 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.

Over the three month period, shareholders' equity increased by J$1.1 billion to J$45.7 billion, which resulted in a book value per share of J$46.06. On the adoption of IFRS 16: Leases, on January 1, 2019, the Group recognized a right-of-use asset of approximately J$6.4B shown in fixed assets, with a corresponding amount being recognized 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. This was due, primarily to the performance of Grace Foods UK Limited (GFUK) and the delay in the start of production at our manufacturing plant at Denbigh, Clarendon in Jamaica that impacted supplies. GFUK was negatively affected by a decline in sales, compared to the same period in the prior year. GFUK will be relaunching Nurishment with new labels on our canned format and the addition of new packaging, from which we expect to see improved performance. The successful performance of the range of Grace Chips will be used as a springboard for new products designed to move the Grace brand from the "World Food" to the "Mainstream" aisle in UK supermarkets.

Increased revenue for GraceKennedy Foods (USA) LLC stemmed from growth in both the Grace Brand and the Third Party brand portfolio of 6%. The expanded distribution of the range of Grace chicken wings, has contributed positively to this performance. Grace Patties continue to show exceptional growth and exceeded Q1 2018 performance by over 200%.

Our Jamaican foods business experienced growth in most of our key products. The main consumer promotion for the year, "Grace Winna House" was launched in January 2019 and will run until May 2019. Brand building remains a major objective of the business as we focus on further engaging with millennials, while continuing to satisfy the needs of our current consumer base. Our Jamaican chain of supermarkets, Hi-Lo Foods Stores continued to experienced recovery in sales and customer count. Renovation of our stores will continue with focus on our Cross Roads location. World Brands Services Limited reported improved performance partly attributable to the expansion of the van sales fleet in 2018. It is expected that four additional routes will be added during 2019. Our recent investment in Catherine's Peak Bottling Company Limited also contributed positively to the profitability of the division. Consumer Brands Limited continues to perform well.

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

The Banking and Investments segment reported an increase in pre-tax profit compared to the corresponding period in 2018. First Global Bank Limited (FGB) reported increased profitability and growth in its loan portfolio, driven in part by the automation of elements of the loan process, facilitating improved turnaround times and efficiencies. GK Capital Limited (GKCM) continued to grow, building on its strong 2018 performance. This positive growth has been buoyed by a strong Q1 market presence with GKCM climbing to second in Jamaica Stock Exchange trading volumes. GKCM's investment banking unit continued to perform positively after raising over J$1 billion in fixed income financing for clients during the quarter.

The Insurance segment reported strong growth in revenue. Allied Insurance Brokers Limited (AIB) remains the leading insurance broker and celebrated its 50th anniversary in April 2019. AIB's core revenue continues to grow year over year. GK General Insurance Company Limited ended the first quarter with strong performance in revenues against prior year period. In particular, the core business performed well with steady growth in the motor portfolio, supported by an increase in quotations and revenue on our online platform, "GKGOnline". The commercial portfolio showed growth driven primarily by strong account retention and growth in new business.

Performance in the Money Services segment was impacted by a decline in remittance transaction volumes and volatility in the foreign exchange market. GraceKennedy Money Services (GKMS) has worked closely with our strategic partner, Western Union, to develop an enhanced compliance programme. The temporary reduction in transaction volumes is due to the ongoing implementation of the 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. Performance was positively impacted by growth in the Bahamas markets, the most recent addition to our money services operation within the Caribbean region.

The Money Services segment continued to focus on providing a wide range of innovative solutions to meet our customers' needs across the Caribbean. In January 2019 GKMS launched the Western Union app in Jamaica. This will increase the ease with which customers can move money within Jamaica and from Jamaica to more than 200 countries and territories. The use of WU.com continues to show growth with volumes in March 2019 surpassing prior month and being the highest recorded since its launch. In keeping with our strategic focus on increased customer centricity and efficiency through innovation, GKMS, in collaboration with Western Union, successfully completed the pilot of a new money transfer service allowing for direct to bank settlement of incoming funds. We expect that the commercial launch of this service will enhance our value proposition by providing increased convenience to customers receiving monies from overseas. We are determined to establish and maintain strong measures, the right processes, technology and infrastructure to strengthen this business.

GraceKennedy Limited was pleased to announce the appointment of Andrew Messado, Group Chief Financial Officer, to its Board of Directors effective April 1, 2019. A Fellow and Lifetime Member of the Institute of Chartered Accountants of Jamaica, (ICAJ), Andrew has served the GraceKennedy Group for over 20 years in various positions, the most recent being his distinguished service as Group Comptroller.

The construction of GraceKennedy Limited's new headquarters is complete. The building's retail center will include a Hi-Lo Foods Express Store and a GKOne location which will provide access to affordable financial products and services including remittance, bill payment, and micro lending insurance and commercial banking. The Group remains committed to the development of Downtown Kingston and has invested over J$3 billion in this project that brings together the Group's executive office, financial services division and money services group.

We would like to thank our shareholders, employees and customers for their support and commitment. Even in this constantly changing operating environment, we remain focused on our goal to create an agile, efficient and successful company 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, O.J. | Donald G. Wehby, C.D. |
| Chairman | Group Chief Executive Officer |

May 9, 2019

## GraceKennedy Limited
CONSOLIDATED INCOME STATEMENT
THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)

| | 3 months to 3/31/2019 $'000 | 3 months to 3/31/2018 $'000 |
|---|---|---|
| Revenue from products and services | 24,927,991 | 23,886,054 |
| Interest revenue | 1,000,846 | 1,024,010 |
| **Revenues** (Note 2) | 25,928,837 | 24,910,064 |
| Direct and operating expenses | (24,984,573) | (24,121,439) |
| Net impairment losses on financial assets | (59,174) | (76,612) |
| **Expenses** | (25,043,747) | (24,198,051) |
| **Profit before other income** | 885,090 | 712,013 |
| Other income | 314,251 | 733,805 |
| **Profit from Operations** | 1,199,341 | 1,445,818 |
| Interest income – non-financial services | 97,611 | 100,635 |
| Interest expense – non-financial services | (230,575) | (143,829) |
| Share of results of associates and joint ventures | 254,567 | 259,924 |
| **Profit before Taxation** | 1,320,944 | 1,662,548 |
| Taxation | (303,817) | (349,135) |
| **Net Profit for the period** | 1,017,127 | 1,313,413 |
| **Profit attributable to:** | | |
| **Owners of GraceKennedy Limited** | 897,048 | 1,194,389 |
| **Non-controlling interests** | 120,079 | 119,024 |
| | 1,017,127 | 1,313,413 |

| | | |
|---|---|---|
| **Earnings per Stock Unit for profit attributable to the owners of the company during the period:** | | |
| (expressed in $ per stock unit): | | |
| **Basic** | $0.90 | $1.20 |
| **Diluted** | $0.90 | $1.20 |

## GraceKennedy Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)

| | 3 months to 3/31/2019 $'000 | 3 months to 3/31/2018 $'000 |
|---|---|---|
| **Profit for the period** | 1,017,127 | 1,313,413 |
| **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 | 228,888 | (16,638) |
| Remeasurements of post-employment benefit obligations | (186,208) | (172,451) |
| Share of other comprehensive income of associates and joint ventures | (5,587) | - |
| | 36,902 | (189,089) |
| *Items that may be subsequently reclassified to profit or loss:* | | |
| Foreign currency translation adjustments | 34,521 | 154,254 |
| Changes in fair value of debt instruments at fair value through other comprehensive income | 153,997 | (113,924) |
| Share of other comprehensive income of associates and joint ventures | (12,507) | 7,255 |
| | 176,011 | 47,585 |
| **Other comprehensive income for the period, net of tax** | 212,913 | (141,504) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | 1,230,040 | 1,171,909 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of GraceKennedy Limited | 1,116,595 | 1,049,634 |
| Non-controlling interests | 113,445 | 122,275 |
| | 1,230,040 | 1,171,909 |

# GraceKennedy Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 MARCH 2019
(Unaudited)

| | March 31 2019 $'000 | December 31 2018 $'000 | March 31 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits | 10,585,005 | 14,824,799 | 12,860,573 |
| Investment securities | 31,125,465 | 28,261,306 | 30,313,379 |
| Pledged assets | 8,548,389 | 9,931,362 | 6,017,582 |
| Receivables | 17,824,063 | 15,226,423 | 17,003,080 |
| Inventories | 12,009,726 | 12,784,061 | 10,537,575 |
| Loans receivable | 26,604,905 | 26,469,557 | 25,587,100 |
| Taxation recoverable | 769,974 | 764,826 | 613,684 |
| Investments in associates and joint ventures | 3,202,050 | 2,964,841 | 2,108,291 |
| Investment properties | 628,000 | 628,000 | 618,000 |
| Intangible assets | 4,013,254 | 4,128,043 | 4,293,373 |
| Fixed assets | 20,916,017 | 14,300,969 | 12,008,168 |
| Deferred tax assets | 1,576,931 | 1,410,080 | 1,099,510 |
| Pension plan asset | 2,844,238 | 3,269,925 | 6,076,297 |
| Assets classified as held for sale | 296,501 | 271,208 | - |
| **Total Assets** | 140,944,518 | 135,235,400 | 129,136,612 |
| **LIABILITIES** | | | |
| Deposits | 33,593,089 | 34,371,026 | 34,173,105 |
| Securities sold under agreements to repurchase | 6,833,068 | 7,208,337 | 5,022,614 |
| Bank and other loans | 23,889,025 | 16,529,313 | 14,073,985 |
| Payables | 21,153,786 | 23,201,686 | 21,688,618 |
| Taxation | 534,327 | 464,890 | 331,554 |
| Deferred tax liabilities | 789,029 | 687,069 | 1,207,949 |
| Other post-employment obligations | 6,214,733 | 6,083,687 | 5,339,148 |
| **Total Liabilities** | 93,007,057 | 88,546,008 | 81,836,973 |
| **EQUITY** | | | |
| **Capital & reserves attributable to the company's owners** | | | |
| Share capital | 548,995 | 490,354 | 546,068 |
| Capital and fair value reserves | 6,697,283 | 6,346,838 | 5,390,938 |
| Retained earnings | 33,062,776 | 32,306,560 | 32,803,589 |
| Banking reserves | 3,120,711 | 3,118,867 | 3,044,111 |
| Other reserves | 2,319,286 | 2,351,808 | 3,606,845 |
| | 45,749,051 | 44,614,427 | 45,391,551 |
| **Non-Controlling Interests** | 2,188,410 | 2,074,965 | 1,908,088 |
| **Total Equity** | 47,937,461 | 46,689,392 | 47,299,639 |
| **Total Equity and Liabilities** | 140,944,518 | 135,235,400 | 129,136,612 |

**Approved for issue by the Board of Directors on 9 May 2019 and signed on its behalf by:**

Gordon Shirley — Chairman

Donald Wehby — Group Chief Executive Officer

# GraceKennedy Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED 31 MARCH 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 | - | - | - | 1,194,389 | - | - | 1,194,389 | 119,024 | 1,313,413 |
| Other comprehensive income for the period | - | - | (130,562) | (172,451) | - | 158,258 | (144,755) | 3,251 | (141,504) |
| Total comprehensive income for the period | - | - | (130,562) | 1,021,938 | - | 158,258 | 1,049,634 | 122,275 | 1,171,909 |
| Transactions with owners: | | | | | | | | | |
| Share-based payments | - | - | - | - | - | 26,121 | 26,121 | - | 26,121 |
| Transfer of treasury shares to employees | 139 | 5,117 | 866 | - | - | (5,983) | - | - | - |
| Total transactions with owners | 139 | 5,117 | 866 | - | - | 20,138 | 26,121 | - | 26,121 |
| Transfers between reserves: | | | | | | | | | |
| To capital reserves | - | - | 36,838 | (36,838) | - | - | - | - | - |
| Balance at 31 March 2018 | 992,793 | 546,068 | 5,390,938 | 32,803,589 | 3,044,111 | 3,606,845 | 45,391,551 | 1,908,088 | 47,299,639 |
| | | | | | | | | | |
| 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 | - | - | - | 897,048 | - | - | 897,048 | 120,079 | 1,017,127 |
| Other comprehensive income for the period | - | - | 377,107 | (186,208) | - | 28,648 | 219,547 | (6,634) | 212,913 |
| Total comprehensive income for the period | - | - | 377,107 | 710,840 | - | 28,648 | 1,116,595 | 113,445 | 1,230,040 |
| Transactions with owners: | | | | | | | | | |
| Sale of treasury shares | 48 | 2,876 | - | - | - | - | 2,876 | - | 2,876 |
| Share-based payments charged | - | - | - | - | - | 33,384 | 33,384 | - | 33,384 |
| Share-based payments exercised | - | - | - | - | - | (18,231) | (18,231) | - | (18,231) |
| Transfer of treasury shares to employees | 1,282 | 55,765 | 20,558 | - | - | (76,323) | - | - | - |
| Total transactions with owners | 1,330 | 58,641 | 20,558 | - | - | (61,170) | 18,029 | - | 18,029 |
| Transfers between reserves: | | | | | | | | | |
| From capital reserves | - | - | (47,220) | 47,220 | - | - | - | - | - |
| To banking reserves | - | - | - | (1,844) | 1,844 | - | - | - | - |
| Balance at 31 March 2019 | 993,195 | 548,995 | 6,697,283 | 33,062,776 | 3,120,711 | 2,319,286 | 45,749,051 | 2,188,410 | 47,937,461 |

# GraceKennedy Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)

| | 3/31/2019<br>$'000 | 3/31/2018<br>$'000 |
|---|---|---|
| **SOURCES/(USES) OF CASH:** | | |
| **Operating Activities** (Note 3) | (2,983,806) | 4,024,353 |
| **Financing Activities** | | |
| Loans received | 1,979,488 | 910,761 |
| Loans repaid | (1,695,689) | (1,447,574) |
| Sale of treasury shares | 2,876 | - |
| Exercise of share based payments | (18,231) | - |
| Interest paid – non financial services | (261,933) | (141,694) |
| | 6,511 | (678,507) |
| **Investing Activities** | | |
| Additions to fixed assets | (748,124) | (526,621) |
| Proceeds from disposal of fixed assets | 5,293 | 10,458 |
| Additions to investments | (1,416,659) | (1,707,135) |
| Cash outflow on purchase of interest in associates and joint ventures | - | (43,000) |
| Proceeds from sale of investments | 45,617 | 1,498,334 |
| Additions to intangibles | (24,970) | (12,067) |
| Interest received – non financial services | 193,987 | 122,327 |
| | (1,944,856) | (657,704) |
| (Decrease)/increase in cash and cash equivalents | (4,922,151) | 2,688,142 |
| Cash and cash equivalents at beginning of year | 12,278,198 | 9,402,295 |
| Exchange and translation (losses)/gains on net foreign cash balances | (25,521) | 64,225 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 7,330,526 | 12,154,662 |

# GraceKennedy Limited

FINANCIAL INFORMATION BY OPERATING SEGMENT
THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)

| 3 months to 31 March 2019 | Food Trading $'000 | Banking & Investments $'000 | Insurance $'000 | Money Services $'000 | Consolidation Adjustments $'000 | Group $'000 |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| External sales | 20,957,838 | 1,492,411 | 1,741,029 | 1,737,559 | - | 25,928,837 |
| Inter-segment sales | 46,267 | 11,301 | 15,418 | - | (72,986) | - |
| Total Revenue | 21,004,105 | 1,503,712 | 1,756,447 | 1,737,559 | (72,986) | 25,928,837 |
| **RESULT** | | | | | | |
| Operating results | 751,827 | 163,181 | 124,954 | 643,588 | 8,642 | 1,692,192 |
| Unallocated expense | - | - | - | - | (492,851) | (492,851) |
| Profit from operations | - | - | - | - | - | 1,199,341 |
| Finance income | 9,306 | 6,933 | 4,790 | 4,482 | 72,100 | 97,611 |
| Finance expense | (186,284) | (17,956) | (2,378) | (2,389) | (21,568) | (230,575) |
| Share of associates and joint ventures | 252,005 | 13,994 | (11,432) | - | - | 254,567 |
| Profit before Taxation | 826,854 | 166,152 | 115,934 | 645,681 | (433,677) | 1,320,944 |
| Taxation | | | | | | (303,817) |
| Net Profit for the period | | | | | | 1,017,127 |
| Attributable to: | | | | | | |
| Owners of GraceKennedy Limited | | | | | | 897,048 |
| Non-controlling interests | | | | | | 120,079 |
| | | | | | | 1,017,127 |

| 3 months to 31 March 2018 | Food Trading $'000 | Banking & Investments $'000 | Insurance $'000 | Money Services $'000 | Consolidation Adjustments $'000 | Group $'000 |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| External sales | 19,978,104 | 1,511,696 | 1,611,475 | 1,808,789 | - | 24,910,064 |
| Inter-segment sales | 44,107 | 11,971 | 1,570 | - | (57,648) | - |
| Total Revenue | 20,022,211 | 1,523,667 | 1,613,045 | 1,808,789 | (57,648) | 24,910,064 |
| **RESULT** | | | | | | |
| Operating results | 698,572 | 118,901 | 204,898 | 663,505 | 7,438 | 1,693,314 |
| Unallocated expense | - | - | - | - | (247,496) | (247,496) |
| Profit from operations | - | - | - | - | - | 1,445,818 |
| Finance income | 4,551 | 10,617 | 4,466 | 6,264 | 74,737 | 100,635 |
| Finance expense | (95,374) | (15,068) | - | (696) | (32,691) | (143,829) |
| Share of associates and joint ventures | 233,784 | 26,140 | - | - | - | 259,924 |
| Profit before Taxation | 841,533 | 140,590 | 209,364 | 669,073 | (198,012) | 1,662,548 |
| Taxation | | | | | | (349,135) |
| Net Profit for the period | | | | | | 1,313,413 |
| Attributable to: | | | | | | |
| Owners of GraceKennedy Limited | | | | | | 1,194,389 |
| Non-controlling interests | | | | | | 119,024 |
| | | | | | | 1,313,413 |

## Notes

### 1. Accounting Policies

#### (a) Basis of preparation

This condensed consolidated interim financial report for the reporting period ended 31 March 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 | 23,483,194 | 22,529,748 |
| Services transferred over time | 30,307 | 37,837 |
| Revenue from insurance contracts | 1,414,490 | 1,318,469 |
| Interest revenue | 1,000,846 | 1,024,010 |
| | 25,928,837 | 24,910,064 |

## 3. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

| | 3/31/2019 $'000 | 3/31/2018 $'000 |
|---|---|---|
| Net profit | 1,017,127 | 1,313,413 |
| Items not affecting cash: | | |
| Depreciation | 524,618 | 270,457 |
| Amortisation | 136,429 | 185,907 |
| Change in value of investments | (22,780) | (16,117) |
| Gain on disposal of fixed assets | (2,874) | (6,682) |
| Share-based payments | 33,384 | 26,121 |
| Exchange loss/(gain) on foreign balances | 115,396 | (83,939) |
| Interest income – non financial services | (97,611) | (100,635) |
| Interest income – financial services | (1,067,476) | (1,107,122) |
| Interest expense – non financial services | 230,575 | 143,829 |
| Interest expense – financial services | 187,382 | 215,635 |
| Taxation expense | 303,817 | 349,135 |
| Unremitted equity income in associates and joint ventures | (254,567) | (259,924) |
| Pension plan surplus | 177,410 | 82,072 |
| Other post-employment obligations | 131,046 | 129,696 |
| | 1,411,876 | 1,141,846 |
| Changes in working capital components: | | |
| Inventories | 774,335 | 715,565 |
| Receivables | (2,597,641) | (1,229,772) |
| Loans receivable, net | (165,672) | 1,549,428 |
| Payables | (2,047,900) | (665,603) |
| Deposits | (553,887) | 510,112 |
| Securities sold under repurchase agreements | (350,973) | 1,188,705 |
| | (3,529,862) | 3,210,281 |
| Interest received – financial services | 1,096,186 | 1,241,566 |
| Interest paid – financial services | (152,751) | (236,447) |
| Translation gains | 55,474 | 79,821 |
| Taxation paid | (452,853) | (270,868) |
| Net cash (used in)/provided by operating activities | (2,983,806) | 4,024,353 |

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

| | 3/31/2019 $'000 | 3/31/2018 $'000 |
|---|---|---|
| At beginning of year | 13,982,712 | 13,833,665 |
| Effect of adopting IFRS 16 | 6,384,074 | - |
| Loans received | 1,979,488 | 910,761 |
| Loans repaid | (1,695,689) | (1,447,574) |
| Foreign exchange adjustments | 15,737 | 83,265 |
| Net interest movements | (31,776) | (12,043) |
| At end of period | 20,634,546 | 13,368,074 |

## 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

### (b) Current year disclosures

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

| | 31 March 2019 $'000 | 1 January 2019 $'000 |
|---|---|---|
| Properties | 5,505,470 | 5,643,466 |
| Equipment | 35,103 | 39,663 |
| Motor Vehicles | 649,100 | 700,945 |
| Total right-of-use assets | 6,189,673 | 6,384,074 |

The Group incurred depreciation charges of $232,159,000 on the right-of-use assets and interest expense of $83,151,000 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. The matter was adjourned to 5 July 2019 for a ruling.

GKRS Guyana is confident that it has a strong basis of appeal having regard to counsel's advice, that the requirement to pay taxes as a commercial company, as set out in the Corporation Tax Act of Guyana, does not apply because the company does not satisfy the criterion for this classification. Based on this, no amounts have been provided for in these financial statements in respect of this matter.

(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.