# GRACEKENNEDY LIMITED

**Financial Statements**
**31 December 2008**

# GraceKennedy Limited

Index

**31 December 2008**

## Independent Auditors' Report

To the Members of
GraceKennedy Limited

**Report on the Consolidated Financial Statements**

We have audited the accompanying financial statements of GraceKennedy Limited and its subsidiaries ("the group"), set out on pages 1 to 90, which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the accompanying balance sheet of GraceKennedy Limited standing alone as of 31 December 2008 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the company as of 31 December 2008, and of financial performance, changes in equity and cash flows of the Group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**Report on Other Legal and Regulatory Requirements**

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

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

Chartered Accountants

26 March 2009

Kingston, Jamaica

# GraceKennedy Limited

## Consolidated Balance Sheet
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits | 5 | 7,698,399 | 8,109,924 |
| Investment securities | 6 | 46,835,527 | 39,448,435 |
| Receivables | 7 | 8,567,839 | 7,919,134 |
| Inventories | 8 | 5,582,398 | 5,017,771 |
| Loans receivable | 9 | 9,389,004 | 5,747,738 |
| Taxation recoverable | | 652,278 | 703,959 |
| Investments in associates | 10 | 851,331 | 763,442 |
| Intangible assets | 11 | 2,486,997 | 2,512,117 |
| Fixed assets | 12 | 4,198,367 | 2,993,412 |
| Deferred tax assets | 13 | 659,309 | 241,177 |
| Pension plan asset | 14 | 7,165,149 | 6,548,653 |
| **Total Assets** | | **94,086,598** | **80,005,762** |
| **Liabilities** | | | |
| Deposits | | 13,942,768 | 11,846,600 |
| Securities sold under agreements to repurchase | | 27,258,533 | 22,607,385 |
| Bank and other loans | 15 | 14,715,491 | 10,026,439 |
| Payables | 16 | 11,991,771 | 9,737,925 |
| Taxation | | 278,098 | 690,872 |
| Provisions | 17 | 13,770 | 6,810 |
| Deferred tax liabilities | 13 | 2,036,831 | 2,100,629 |
| Other post-employment obligations | 14 | 1,659,160 | 1,376,132 |
| **Total Liabilities** | | **71,896,422** | **58,392,792** |
| **Equity** | | | |
| **Capital and reserves attributable to the company's equity holders** | | | |
| Share capital | 18 | 553,879 | 419,739 |
| Capital and fair value reserves | 19 | 1,741,106 | 3,564,283 |
| Retained earnings | | 15,444,301 | 13,564,901 |
| Reserve funds | 20 | 776,884 | 776,884 |
| Other reserves | | 1,900,345 | 1,712,710 |
| | | 20,416,515 | 20,038,517 |
| **Minority interest** | 21 | 1,773,661 | 1,574,453 |
| **Total equity** | | **22,190,176** | **21,612,970** |
| **Total Equity and Liabilities** | | **94,086,598** | **80,005,762** |

Approved for issue by the Board of Directors on 26 March 2009 and signed on its behalf by:

Douglas Orane, Chairman

Fay McIntosh, Chief Financial Officer

# GraceKennedy Limited

## Consolidated Profit and Loss Account
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Revenues** | 23 | 53,462,279 | 48,749,434 |
| **Expenses** | 24 | 51,225,617 | 45,723,471 |
| | | 2,236,662 | 3,025,963 |
| Other income | 25 | 1,247,233 | 2,112,004 |
| **Profit from Operations** | | 3,483,895 | 5,137,967 |
| Interest income – non-financial services | | 395,292 | 363,823 |
| Interest expense – non-financial services | | (570,481) | (744,703) |
| Share of results of associated companies | 10 | 95,852 | 45,087 |
| **Profit before Taxation** | | 3,404,558 | 4,802,174 |
| Taxation | 27 | (1,006,562) | (1,266,958) |
| **NET PROFIT** | | 2,397,996 | 3,535,216 |
| **Attributable to:** | | | |
| Equity holders of GraceKennedy Limited | 28 | 2,291,585 | 3,435,532 |
| Minority interest | 21 | 106,411 | 99,684 |
| | | 2,397,996 | 3,535,216 |
| **Earnings per Stock Unit for profit attributable to the equity holders of the company during the year -** | 30 | | |
| **Basic** | | $6.98 | $10.55 |
| **Diluted** | | $6.92 | $10.45 |

# GraceKennedy Limited

## Consolidated Statement of Changes in Equity
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | | Attributable to equity holders of the company | | | | | | Minority Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number of Stock Units '000 | Share Capital $'000 | Capital and Fair Value Reserves $'000 | Retained Earnings $'000 | Reserve Fund $'000 | Other Reserves $'000 | $'000 | $'000 |
| Balance at 1 January 2007 | | 325,248 | 405,686 | 3,835,045 | 10,513,278 | 776,884 | 1,628,082 | 773,382 | 17,932,357 |
| Foreign currency translation adjustments | | - | - | - | - | - | 73,517 | 25,249 | 98,766 |
| Revaluation loss | | - | - | (4,309) | - | - | - | - | (4,309) |
| Fair value losses | | - | - | (274,870) | - | - | - | - | (274,870) |
| Other | | - | - | (138) | - | - | - | - | (138) |
| Net (expense)/income recognised directly in equity | | - | - | (279,317) | - | - | 73,517 | 25,249 | (180,551) |
| Net profit | | - | - | - | 3,435,532 | - | - | 99,684 | 3,535,216 |
| Total recognised (expense)/income for 2007 | | - | - | (279,317) | 3,435,532 | - | 73,517 | 124,933 | 3,354,665 |
| Issue of shares | 18 (a) | 1,472 | 48,964 | - | - | - | - | - | 48,964 |
| Purchase of treasury shares | 18 (b) | (585) | (34,911) | (180) | - | - | - | - | (35,091) |
| Employee share option scheme: | 18 (h) | | | | | | | | |
| Value of services received | | - | - | - | - | - | 11,111 | - | 11,111 |
| Transfers between reserves: | | | | | | | | | |
| To capital reserves | | - | - | 8,735 | (8,735) | - | - | - | - |
| Increase in minority interest arising from dilution of interest in subsidiary | | - | - | - | - | - | - | 686,941 | 686,941 |
| Dividends paid | 29 | - | - | - | (375,174) | - | - | - | (375,174) |
| Dividends paid by subsidiary to minority interest | | - | - | - | - | - | - | (10,803) | (10,803) |
| **Balance at 31 December 2007** | | 326,135 | 419,739 | 3,564,283 | 13,564,901 | 776,884 | 1,712,710 | 1,574,453 | 21,612,970 |

# GraceKennedy Limited

## Consolidated Statement of Changes in Equity (Continued)
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | | Attributable to equity holders of the company | | | | | | Minority Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number of Stock Units ’000 | Share Capital $’000 | Capital and Fair Value Reserves $’000 | Retained Earnings $’000 | Reserve Fund $’000 | Other Reserves $’000 | $’000 | $’000 |
| Balance at 1 January 2008 | | 326,135 | 419,739 | 3,564,283 | 13,564,901 | 776,884 | 1,712,710 | 1,574,453 | 21,612,970 |
| Foreign currency translation adjustments | | - | - | - | - | - | 153,548 | 24,454 | 178,002 |
| Revaluation Surplus | | - | - | 412,900 | - | - | - | 68,343 | 481,243 |
| Fair value losses | 6 (b) | - | - | (2,282,627) | - | - | - | - | (2,282,627) |
| Net (expense)/income recognised directly in equity | | - | - | (1,869,727) | - | - | 153,548 | 92,797 | (1,623,382) |
| Net profit | | - | - | - | 2,291,585 | - | - | 106,411 | 2,397,996 |
| Total recognised (expense)/income for 2008 | | - | - | (1,869,727) | 2,291,585 | - | 153,548 | 199,208 | 774,614 |
| Issue of shares | 18 (a) | 1,947 | 66,989 | - | - | - | - | - | 66,989 |
| Purchase of treasury shares | 18 (b) | 1,072 | 67,151 | 12,678 | - | - | - | - | 79,829 |
| Employee share option scheme: | 18 (h) | | | | | | | | |
| Value of services received | | - | - | - | - | - | 34,087 | - | 34,087 |
| Transfers between reserves: | | | | | | | | | |
| To capital reserves | | - | - | 33,872 | (33,872) | - | - | - | - |
| Dividends paid | 29 | - | - | - | (378,313) | - | - | - | (378,313) |
| **Balance at 31 December 2008** | | 329,154 | 553,879 | 1,741,106 | 15,444,301 | 776,884 | 1,900,345 | 1,773,661 | 22,190,176 |

# GraceKennedy Limited

## Consolidated Statement of Cash Flows
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **SOURCES/(USES) OF CASH:** | | |
| **Operating Activities** (Note 31) | 4,624,818 | 2,251,986 |
| **Financing Activities** | | |
| Loans received | 9,149,395 | 7,880,049 |
| Loans repaid | (4,129,912) | (4,413,698) |
| Dividends paid by subsidiary to minority interest (Note 21) | - | (10,803) |
| Sale/(purchase) of treasury shares | 67,151 | (34,911) |
| Issue of shares | 66,989 | 48,964 |
| Interest paid – non financial services | (597,947) | (701,705) |
| Dividends (Note 29) | (378,313) | (375,174) |
| | 4,177,363 | 2,392,722 |
| **Investing Activities** | | |
| Additions to fixed assets (Note 12) * | (1,098,098) | (526,514) |
| Proceeds from disposal of fixed assets | 10,493 | 86,810 |
| Additions to investments | (10,252,342) | (5,566,781) |
| Cash outflow on acquisition of subsidiaries (Note 36) | - | (3,527,848) |
| Proceeds from sale of investments | 2,523,095 | 2,056,854 |
| Additions to intangibles | (606,319) | (125,832) |
| Interest received – non financial services | 396,586 | 413,092 |
| | (9,026,585) | (7,190,219) |
| Decrease in cash and cash equivalents | (224,404) | (2,545,511) |
| Cash and cash equivalents at beginning of year | 6,251,787 | 8,646,625 |
| Exchange and translation gains on net foreign cash balances | 376,873 | 150,673 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | 6,404,256 | 6,251,787 |

* The principal non-cash transaction was the acquisition of fixed assets under finance lease of $16,122,000 (2007: $47,417,000), (Note 12).

# GraceKennedy Limited

## Company Balance Sheet
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits | 5 | 827,500 | 4,289,023 |
| Investment securities | 6 | 12,390,246 | 9,692,303 |
| Receivables | 7 | 983,197 | 821,680 |
| Inventories | 8 | 1,157,587 | 902,741 |
| Loans receivable | 9 | 56,852 | 30,138 |
| Subsidiaries | 34 | 1,347,618 | 108,358 |
| Taxation recoverable | | 57,538 | 96,504 |
| Investments in associates | 10 | 219,950 | 219,950 |
| Intangible assets | 11 | 63,911 | 40,591 |
| Fixed assets | 12 | 657,385 | 115,598 |
| Pension plan asset | 14 | 5,966,851 | 5,383,289 |
| **Total Assets** | | **23,728,635** | **21,700,175** |
| **Liabilities** | | | |
| Bank and other loans | 15 | 4,521,148 | 5,842,078 |
| Payables | 16 | 1,738,160 | 1,277,942 |
| Provisions | 17 | 6,221 | 6,221 |
| Deferred tax liabilities | 13 | 1,777,888 | 1,670,410 |
| Other post-employment obligations | 14 | 693,325 | 552,726 |
| **Total Liabilities** | | **8,736,742** | **9,349,377** |
| **Equity** | | | |
| Share capital | 18 | 553,879 | 419,739 |
| Capital and fair value reserves | 19 | 62,373 | 251,025 |
| Other reserves | | 230,071 | 195,984 |
| Retained earnings | | 14,145,570 | 11,484,050 |
| **Total equity** | | **14,991,893** | **12,350,798** |
| **Total Equity and Liabilities** | | **23,728,635** | **21,700,175** |

Approved for issue by the Board of Directors on 26 March 2009 and signed on its behalf by:

Douglas Orane — Chairman

Fay McIntosh — Chief Financial Officer

# GraceKennedy Limited

## Company Profit and Loss Account
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2008 $'000 | 2007 $'000 |
|---|---|---|---|
| **Turnover** | 23 | 10,062,660 | 8,629,224 |
| Cost of goods sold | 24 | (8,007,874) | (6,630,110) |
| **Gross Profit** | | 2,054,786 | 1,999,114 |
| Other income | 25 | 3,965,633 | 6,483,226 |
| Administration expenses | 24 | (2,731,845) | (2,149,798) |
| **Profit from Operations** | | 3,288,574 | 6,332,542 |
| Interest income | | 432,549 | 369,786 |
| Interest expense | | (403,845) | (599,155) |
| **Profit before Taxation** | | 3,317,278 | 6,103,173 |
| Taxation | 27 | (277,445) | (218,361) |
| **NET PROFIT** | 28 | **3,039,833** | **5,884,812** |

# GraceKennedy Limited

## Company Statement of Changes in Equity
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | Number of Stock Units '000 | Share Capital $'000 | Capital and Fair Value Reserves $'000 | Other Reserves $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2007 | | 325,248 | 405,686 | 225,242 | 184,873 | 5,974,412 | 6,790,213 |
| Revaluation loss | | - | - | (1,543) | - | - | (1,543) |
| Fair value gains | | - | - | 27,506 | - | - | 27,506 |
| Net income recognised directly in equity | | - | - | 25,963 | - | - | 25,963 |
| Net profit | | - | - | - | - | 5,884,812 | 5,884,812 |
| Total recognised income for 2007 | | - | - | 25,963 | - | 5,884,812 | 5,910,775 |
| Issue of shares | 18 (a) | 1,472 | 48,964 | - | - | - | 48,964 |
| Purchase of treasury shares | 18 (b) | (585) | (34,911) | (180) | - | - | (35,091) |
| Employee share option scheme: | 18 (h) | | | | | | |
| Value of services received | | - | - | - | 11,111 | - | 11,111 |
| Dividends paid | 29 | - | - | - | - | (375,174) | (375,174) |
| **Balance at 31 December 2007** | | **326,135** | **419,739** | **251,025** | **195,984** | **11,484,050** | **12,350,798** |
| Balance at 1 January 2008 | | 326,135 | 419,739 | 251,025 | 195,984 | 11,484,050 | 12,350,798 |
| Revaluation gain | | - | - | 6,567 | - | - | 6,567 |
| Fair value losses | | - | - | (207,898) | - | - | (207,898) |
| Net income recognised directly in equity | | - | - | (201,331) | - | - | (201,331) |
| Net profit | | - | - | - | - | 3,039,833 | 3,039,833 |
| Total recognised income for 2008 | | - | - | (201,331) | - | 3,039,833 | 2,838,502 |
| Issue of shares | 18 (a) | 1,947 | 66,989 | - | - | - | 66,989 |
| Sale of treasury shares | 18 (b) | 1,072 | 67,151 | 12,679 | - | - | 79,830 |
| Employee share option scheme: | 18 (h) | | | | | | |
| Value of services received | | - | - | - | 34,087 | - | 34,087 |
| Dividends paid | 29 | - | - | - | - | (378,313) | (378,313) |
| **Balance at 31 December 2008** | | 329,154 | 553,879 | 62,373 | 230,071 | 14,145,570 | 14,991,893 |

# GraceKennedy Limited

## Company Statement of Cash Flows
**Year ended 31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

| | 2008<br>$'000 | 2007<br>$'000 |
|---|---|---|
| **SOURCES/(USES) OF CASH:** | | |
| **Operating Activities** (Note 31) | 91,240 | (376,454) |
| **Financing Activities** | | |
| Loans received | 2,064,223 | 3,991,236 |
| Loans repaid | (2,621,999) | (3,492,907) |
| Sale/(purchase) of treasury shares | 67,151 | (34,911) |
| Issue of shares | 66,989 | 48,964 |
| Interest paid | (439,792) | (573,484) |
| Dividends (Note 29) | (378,313) | (375,174) |
| | (1,241,741) | (436,276) |
| **Investing Activities** | | |
| Additions to fixed assets (Note 12) * | (584,997) | (39,154) |
| Proceeds from disposal of fixed assets | 151 | 6,749 |
| Additions to investments | (987,907) | (7,748,414) |
| Loans receivable, net | (26,714) | 155,982 |
| Proceeds from sale of investments | 9,413 | 9,709,178 |
| Additions to intangibles | (40,315) | (4,106) |
| Interest received | 429,632 | 348,564 |
| | (1,200,737) | 2,428,799 |
| (Decrease)/increase in cash and cash equivalents | (2,351,238) | 1,616,069 |
| Cash and cash equivalents at beginning of year | 2,349,319 | 717,688 |
| Exchange and translation (losses)/gains on net foreign cash balances | (16,588) | 15,562 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | (18,507) | 2,349,319 |

* The principal non-cash transaction was the acquisition of fixed assets under finance lease of $10,884,000 (2007: $47,144,000), (Note 12).

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**1. Identification**

GraceKennedy Limited (the company) is a company limited by shares, incorporated and domiciled in Jamaica. The registered office of the company is 73 Harbour Street, Kingston, Jamaica.

The company is a publicly listed company having its primary listing on the Jamaica Stock Exchange, with further listings on the Barbados, Trinidad and Tobago and Eastern Caribbean Stock Exchanges.

The Group is organised into two divisions namely, GK Foods and GK Investments. The GK Foods division comprises all the food related companies while GK Investments comprises all the other companies in the Group. For the purpose of segment reporting the Group reports its results under the five segments described below.

The principal activities of the company, its subsidiaries and its associated companies (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.

Retail and Trading -
Merchandising of agricultural supplies, hardware and lumber; institutional and airline catering; and an automotive dealership.

Banking and Investments -
Commercial banking; investment management; lease and trade financing; stock brokerage; pension management; property rental; and mutual fund management.

Insurance -
General insurance and insurance brokerage.

Money Services -
Operation of money transfer services, cambio operations and bill payment services.

**2. Significant Accounting Policies**

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

**(a) Basis of preparation**

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain fixed and financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The group has assessed the relevance of all such new standards, interpretations and amendments and has put into effect the following IFRS, which are immediately relevant to its operations.

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation will not have an impact on the Group's financial statements.

- IFRIC 12, Services Concession Arrangements. IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provides public sector services.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(a) Basis of preparation (Continued)**

***Standards, interpretations and amendments to published standards effective in the current year (continued)***

- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation has no material impact on the Group's financial statements.

- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement. IAS 39 permits the following reclassifications of certain non-derivative financial assets:

  - Financial assets classified as held-for-trading may be reclassified from the fair value through profit or loss category to another category in rare circumstances, or, if the financial asset was eligible for classification as loans and receivables at the date of reclassification.
  - Financial assets classified as available-for-sale may be reclassified to loans and receivables if, at the date of reclassification, the financial asset would have been eligible for classification as loans and receivables.

  In both circumstances, the entity must have the intent and ability to hold the asset for the foreseeable future or to maturity. Fair value at the date of reclassification is treated as amortised cost and any subsequent increases in future cash receipts as a result of increased recoverability will be spread over the life of the assets. Some of the group companies have utilised the provisions of the amendment and have reclassified certain financial assets from available-for-sale investments to loans and receivables (Note 6). There was no impact on opening retained earnings as at 1 January 2008 as a result of the adoption of this amendment as, in accordance with the transitional provisions, the amendment to the standard is applied from 1 July 2008 and reclassifications are not permitted retrospectively prior to the effective date.

- IFRS 7 (Amendment), Financial Instruments: Disclosures. For financial assets reclassified in accordance with IAS 39 (Amendment), an entity is required to disclose details of carrying amounts and fair values until they are derecognised, together with details of the fair value gain or loss that would have been recognised in the profit and loss or equity if the financial assets had not been reclassified.

***Standards, interpretations and amendments to published standards not yet effective***

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are mandatory for the company's accounting periods beginning on or after 1 January 2009 or later periods, but were not effective at the balance sheet date, and which the company has not early adopted except for IAS 23, Borrowing Costs. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be immediately relevant to its operations, and has concluded as follows:

- IAS 23 (Amendment), Borrowing costs (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group has elected to early adopt this standard and has applied IAS 23 (Amended) from 1 January 2008.

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. Management has determined that there are no material transactions in the Group to which this applies.

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging, including the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. Management has determined that there are no transactions in the Group to which this applies.

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8, from 1 January 2009.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(a) Basis of preparation (Continued)**

***Standards, interpretations and amendments to published standards not yet effective (continued)***

- IAS 1 (Revised), Presentation of Financial Statements and IAS 1 (Amendment), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). IAS 1 now requires recognised income and expenses to be presented in a single statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income), separately from owner changes in equity. Components of other comprehensive income may not be presented in the statement of changes in equity. Both the statement of comprehensive income and the statement of changes in equity are to be included as primary statements and the balance sheet will be referred to as the 'statement of financial position' and the cash flow statement referred to as the 'statement of cash flows'. The Group will be required to disclose the income tax related to each component of other comprehensive income either in the statement of comprehensive income or in the notes and should present a statement of financial position (that is, a balance sheet) as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassifies items in the financial statements. The standard also clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 are examples of current assets and liabilities respectively. The Group will apply IAS 1 (Revised) from 1 January 2009.

- IFRS 1 (Amendment), First Time Adoption of IFRS and IAS 27 (Amendment), Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. The standards require the cost of a subsidiary, jointly controlled entity or associate in a parent's separate financial statements, on transition to IFRS, to be determined under IAS 27 or as a deemed cost. Deemed cost is either fair value or the carrying amount under the previous accounting practice. Dividends from a subsidiary, jointly controlled entity or associate are recognised as income. There is no longer a distinction between pre-acquisition and post-acquisition dividends. The cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) is measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent. The Group will apply IFRS 1 (Amendment) and IAS 27 (Amendment) from 1 January 2009.

- IFRS 2 (Amendment), Share-based Payment. IFRS 2 narrows the definition of vesting conditions and clarifies that vesting conditions are limited only to service and performance conditions. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- IAS 32 (Amendment), Financial Instruments: Presentation' and IAS 1 (Amendment), Presentation of Financial Instruments – Puttable Financial Instruments and Obligations Arising on Liquidation. The standards introduce a limited exception to the principles in IAS 32 for certain puttable financial instruments and certain instruments containing obligations arising on liquidation. Where such instruments meet the strict criteria set out in the amendment, they are classified as equity, rather than financial liabilities, despite the contractual obligation to deliver cash or another financial asset. IAS 32 also prohibits designating inflation as a hedgeable component of a fixed rate debt. The Group will apply IAS 32 (Amendment) and IAS 1 (Amendment) from 1 January 2009.

- IAS 36 (Amendment), Impairment of Assets. IAS 36 states that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculations should be made. The Group will apply this amendment from 1 January 2009.

- IAS 38 (Amendment), Intangible Assets. IAS 38 states that an asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. It has also deleted wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The Group will apply this amendment from 1 January 2009.

- IAS 40 (Amendment), Investment Property (and consequential amendments to IAS 16). IAS 40 states that property that is under construction or development for future use as investment property is within the scope of IAS 40 and where the fair value model is applied, such property is, therefore, measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. The Group will apply this amendment from 1 January 2009.

- IFRS 3 (Revised), Business Combinations. IFRS 3 continues to apply the acquisition method to business combinations, with some significant changes. It requires that all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply this amendment from 1 January 2010.

**2. Significant Accounting Policies (Continued)**

**(a) Basis of preparation (Continued)**

***Standards, interpretations and amendments to published standards not yet effective (continued)***

- IAS 19 (Amendment), Employee Benefits. IAS 19 states that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment and an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. It amends the definition of return on plan assets to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. It also makes the distinction between short term and long term employee benefits which is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The standard further deletes guidance that states that IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. The Group will apply this amendment from 1 January 2010.

- IAS 39 (Amendment), Financial instruments: Recognition and measurement IAS 39 clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge; or financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. It also amends the definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. It also removes a segment as an example of what may be considered a party external to the reporting entity. When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) be used. The Group will apply this amendment from 1 January 2010.

- IFRS 5 (Amendment), Non-current Assets Held for Sale and Discontinued Operations (and consequential amendment to IFRS 1, First-time adoption). IFRS 5 requires that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. If the subsidiary described above is a disposal group meeting the definition of a discontinued operation, the relevant disclosures should be made. The Group will apply this amendment from 1 January 2010.

- IAS 27 (Revised), Consolidated and Separate Financial Statements. IAS 27 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. It further specifies the accounting when control is lost, requiring that any remaining interest in the entity be re-measured to fair value, and a gain or loss be recognised in profit or loss. The Group will apply this amendment from 1 January 2010.

- IFRIC 17, Distributions of Non-Cash Assets to Owners. IFRIC 17 states that a dividend payable should be recognised when appropriately authorised and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss. The Group will apply this amendment from 1 January 2010.

The Group has concluded that the following standards, interpretations and amendments to existing standards, which are published but not yet effective are relevant to its operations, but will have no material impact on adoption; or are not relevant to its operations and will therefore have no material impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect.

- IAS 16 (Amendment), Property, Plant and Equipment (and consequential amendment to IAS 7, Statement of Cash Flows)
- IAS 20 (Amendment), Accounting for Government Grants and Disclosure of Government Assistance
- IAS 28 (Amendment), Investments in Associates (and consequential amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial Instruments: Disclosures)
- IAS 29 (Amendment), Financial Reporting in Hyperinflationary Economies
- IAS 31 (Amendment), Interests in Joint Ventures (and consequential amendments to IAS 32 and IFRS 7)
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement Amendment to IAS 39, Eligible Hedged Items
- IAS 41 (Amendment), Agriculture
- IFRIC 15, Agreements for the Construction of Real Estate
- IFRIC 18, Transfers of Assets from Customers

# GraceKennedy Limited



**2. Significant Accounting Policies (Continued)**

**(b) Basis of consolidation**

Subsidiaries and special purpose entities, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost over the fair value of net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests results in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

All subsidiaries are wholly-owned unless otherwise indicated. The subsidiaries consolidated are as follows:

**Incorporated and Resident in Jamaica:**

First Global Insurance Consultants Limited
First Global Leasing Limited
GraceKennedy Financial Group Limited and its subsidiaries -
  Allied Insurance Brokers Limited
  Jamaica International Insurance Company Limited
  First Global Holdings Limited and its subsidiaries -
    First Global Bank Limited
    First Global Financial Services Limited
Grace Foods International Limited
Grace Food Processors Limited
GK Foods & Services Limited
GraceKennedy Logistics Services Limited
GraceKennedy Remittance Services Limited and its subsidiaries –
  Grace Kennedy Currency Trading Services Limited
  GraceKennedy Payment Services Limited
Horizon Shipping Limited
Hardware and Lumber Limited (58.1%)
International Communications Limited
Port Services Limited (97.2%)
Versair In-Flite Services (2006) Limited (51.0%)

**Incorporated and Resident outside of Jamaica:**

First Global Insurance Brokers Limited (formerly First Global Insurance Agency Limited), Turks and Caicos Islands
First Global Trinidad & Tobago Limited (formerly One1 Financial Limited), Trinidad and Tobago (90.0%)
Grace Foods Limited, St. Lucia
GraceKennedy (Belize) Limited, Belize (66.6%)
GraceKennedy (Ontario) Inc., Canada and its subsidiary –
  Grace, Kennedy (Caribbean) Limited, Turks and Caicos Islands
Grace, Kennedy (Guyana) Inc., Guyana
GraceKennedy (U.K.) Limited), United Kingdom and its subsidiary –
  W T Foods 100 Limited (formerly Grace Foods (U.K.) Limited), United Kingdom
Grace, Kennedy (U.S.A.) Inc., U.S.A. and its subsidiary –
  Grace Foods (USA) Inc., U.S.A.
GraceKennedy Securities (USA) Inc., U.S.A.
GraceKennedy Trade Finance Limited, Belize

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(b) Basis of consolidation (continued)**

**Incorporated and Resident outside of Jamaica (continued):**

GraceKennedy (St. Lucia) Limited, St. Lucia and its subsidiary –
- GK Foods (UK) Limited, United Kingdom and its subsidiary –
  - WT (Holdings) Limited, United Kingdom and its subsidiaries –
    - WT Tiger 2 Limited
    - WT Tiger 3 Limited
    - Grace Foods UK Limited (formerly WT Foods Limited)
    - Enco Products Limited
    - Funnybones Foodservice Limited
    - Chadha Oriental Foods Limited
    - WTF Services Limited
    - La Mexicana Quality Foods Ltd
    - The Marketing and Advertising Partnership Limited
    - Marlin House Trading Company Limited
    - Rio Pacific Food Services (Holdings) Limited
    - Rio Pacific Food Services Limited
    - Enco Foods Limited
    - Drenning Limited

GraceKennedy Money Services Caribbean SRL, Barbados (75.0%)
GraceKennedy Money Services (Anguilla) Ltd., Anguilla
GraceKennedy Money Services (Antigua & Barbuda) Ltd., Antigua & Barbuda
GraceKennedy Money Services (Montserrat) Ltd., Montserrat
GraceKennedy Money Services (St. Kitts) Ltd., St. Kitts
GraceKennedy Money Services (St. Vincent and the Grenadines) Ltd., St Vincent and the Grenadines
Grace, Kennedy Remittance Services (Guyana) Limited, Guyana
GraceKennedy Remittance Services (Turks and Caicos) Limited, Turks and Caicos Islands
GraceKennedy Remittance Services (USA) Inc., U.S.A.
GraceKennedy Money Services (UK) Ltd. (formerly GraceKennedy Remittance Services (UK) Ltd.), United Kingdom
GraceKennedy Financial Services (USA) Inc., U.S.A.
GraceKennedy (Trinidad & Tobago) Limited, Trinidad and Tobago
Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited, Trinidad and Tobago
Graken Holdings Limited, Turks and Caicos Islands and its subsidiaries –
- First Global (Cayman) Limited, Cayman Islands
- FG Funds Management (Cayman) Limited, Cayman Islands

Knutsford Re, Turks and Caicos Islands

The special purpose entity consolidated is the company's employee investment trust.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(c) Associates**

Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the profit and loss account and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate. In the company's balance sheet, investment in associates is shown at cost.

The Group's associated companies are as follows:

| | Financial Reporting Year-end | Country of Incorporation | Group's percentage interest | |
|---|---|---|---|---|
| | | | 2008 | 2007 |
| Acra Financial Services Inc. | 31 December | Republic of Haiti | 30.0 | 30.0 |
| CSGK Finance Holdings Limited | 30 September | Barbados | 40.0 | 40.0 |
| Dairy Industries (Jamaica) Limited | 31 December | Jamaica | 50.0 | 50.0 |
| EC Global Insurance Company Limited | 31 December | St. Lucia | 30.0 | 30.0 |
| Fidelity Motors Limited | 30 September | Jamaica | 30.0 | 30.0 |
| Trident Insurance Company Limited | 30 June | Barbados | 30.0 | 30.0 |
| Telecommunications Alliance Limited | 31 December | Jamaica | 49.0 | 49.0 |

The results of associates with financial reporting year-ends that are different from the Group are determined by prorating the results for the audited period as well as the period covered by management accounts to ensure that a year's result is accounted for where applicable.

**(d) Foreign currency translation**

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

***Transactions and balances***
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit and loss account as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

**2. Significant Accounting Policies (Continued)**

**(d) Foreign currency translation (continued)**

***Group companies***

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**(e) Fixed assets**

All fixed assets are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation based on biennial valuations by external independent valuers, less subsequent depreciation of buildings. All other fixed assets are carried at cost less accumulated depreciation.

Increases in carrying amounts arising on revaluation are credited to the capital reserve in equity. Decreases that offset previous increases of the same asset are charged against the capital reserve; all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight line basis to allocate assets' cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Freehold buildings and leasehold buildings and improvements | 10 - 60 years |
| Plant, machinery, equipment, furniture and fixtures | 3 - 10 years |
| Vehicles | 3 - 5 years |

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit. When revalued assets are sold, the amounts included in capital and fair value reserves are transferred to retained earnings.

Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

# GraceKennedy Limited



**2. Significant Accounting Policies (Continued)**

**(f) Intangible assets**

***Goodwill***

Goodwill is recorded at cost and represents the excess of the value of consideration paid over the fair value of the net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

***Computer software***

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the software, which is 3 years.

***Distribution channel agreements***

Distribution channel agreements are recorded at cost and represent the value of the consideration paid to acquire rights to distribute beverages in specified routes. These costs are amortised over the estimated useful life of the agreements, which is 10 years.

***Policy contracts***

Policy contracts are amortised over their estimated useful life which is 15 years and are carried at cost less accumulated amortisation. The cost of policy contracts comprises its purchase price, any directly attributable cost of preparing the asset for its intended use and professional fees directly attributed to acquiring the asset.

***Brands***

Brands are recorded at cost and represent the value of the consideration paid to acquire several well established and recognised beverage and ethnic food brands. These costs are amortised over the estimated useful life of the brands, which ranges from 5 to 20 years.

***Customer relationships***

Customer relationships are recorded at cost and represent the value of the consideration paid to acquire customer contracts and the related customer relationships with several outlet operators and insurance clients. These costs are amortised over the estimated useful life of the relationships, which is between 10 to 15 years.

***Exclusive agency agreements***

Exclusive agency agreements are recorded at cost and represent the value of the consideration paid to acquire the exclusive rights to distribute products under several agency agreements. These costs are amortised over the estimated useful life of the agreements, which is 3 years.

**(g) Financial assets**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

***Loans receivable***

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans receivable are classified as such in the balance sheet.

Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category (fair value through profit or loss or available-for-sale), under the provisions of IAS 39 (Amendment). Financial assets which have been reclassified to this category, meet the definition of loans and receivables as a result of the market for these securities becoming inactive during the financial year.

The group has elected to reclassify all financial assets reclassified to loans and receivables, to available-for-sale, once the markets for these securities become active again.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due will not be collected according to the original contractual terms. When a loan has been identified as impaired, the carrying amount of the loan is reduced, by recording specific provisions for credit losses, to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees

# GraceKennedy Limited



**2. Significant Accounting Policies (Continued)**

**(g) Financial assets (continued)**

***Loans receivable (continued)***

and collateral, discounted at the original effective interest rate of the loan.

The provision for credit losses also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The Bank of Jamaica regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS requires the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to credit loss expense in the profit and loss account.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in investment securities on the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans receivable are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in Note 3.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(h) Investments in subsidiaries**
Investments in subsidiaries are stated at cost.

**(i) Impairment of long-lived assets**
Fixed assets and other assets, including goodwill, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**(j) Income taxes**
Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case, deferred tax is also dealt with in equity.

**(k) Employee benefits**

***Pension plan assets***
The Group operates a defined benefit plan. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of Government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

***Other post-employment obligations***
Some Group companies provide post-employment health care benefits, group life, gratuity and supplementary plans for their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

***Equity compensation benefits***
The Group operates an equity-settled, share-based compensation plan. Share options are granted to management and key employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. When options are exercised, the proceeds received net of any transaction costs are credited to share capital.

# GraceKennedy Limited



**2. Significant Accounting Policies (Continued)**

**(k) Employee benefits (continued)**

***Termination benefits***

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

***Incentive plans***

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's equity holders after certain adjustments. The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

**(l) Inventories**

Inventories are stated at the lower of average cost and net realisable value. In the case of the company, cost represents invoiced cost plus direct inventory-related expenses. For the subsidiaries, costs are determined by methods and bases appropriate to their operations. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

**(m) Trade and insurance receivables**

Trade and insurance receivables are carried at original invoice amount (which represents fair value) less provision made for impairment of these receivables. A provision for impairment of these receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the profit and loss account.

**(n) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within bank and other loans on the balance sheet.

**(o) Payables**

Payables are initially recognised at fair value and subsequently stated at amortised cost.

**(p) Insurance business provisions**

***Claims outstanding***

Provision is made to cover the estimated cost of settling claims arising out of events which have occurred by the balance sheet date, including claims incurred but not reported, less amounts already paid in respect of these claims. Provision for reported claims is based on individual case estimates.

***Insurance reserves***

Provision is made for that proportion of premiums written in respect of risks to be borne subsequent to the year end under contracts of insurance entered into on or before the balance sheet date. Provision is also made to cover the estimated amounts in excess of unearned premiums required to meet future claims and expenses on business in force.

***Reinsurance ceded***

The insurance subsidiary cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the balance sheet unless the right of offset exists.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(p) Insurance business provisions (continued)**

***Deferred policy acquisition costs***

The costs of acquiring and renewing insurance contracts, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

**(q) Provisions**

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

**(r) Deposits**

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective yield method.

**(s) Securities purchased/sold under resale/repurchase agreements**

The purchase and sale of securities under resale and repurchase agreements are treated as collateralised lending and borrowing transactions. The related interest income and expense are recorded on the accrual basis.

**(t) Borrowings**

Bank loans and overdrafts are recorded at proceeds received. Finance charges, including direct issue costs are accounted for on an accrual basis in the profit and loss account using the effective yield method and are added to the carrying amount of the loan to the extent that they are not settled in the period in which they arise.

**(u) Leases**

***As lessee***

Leases of fixed assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance charge is charged to the profit and loss account over the lease period. The fixed asset acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

***As lessor***

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as deferred profit. Lease income is recognised over the term of the lease so as to reflect a constant periodic rate of return.

**(v) Share capital**

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

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's equity holders.

**2. Significant Accounting Policies (Continued)**

**(w) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax, returns, rebates and discounts and after eliminating transactions within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales are recognised upon delivery of products and customer acceptance or performance of services. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

In the case of the general insurance subsidiary, Jamaica International Insurance Company Limited, revenues represent gross premiums billed. That portion of premiums written in the current year, which relates to coverage in subsequent years, is deferred. Premium income is recognised over the life of policies written.

For those subsidiaries whose activity is the provision of financial services, revenues represent commissions earned and charges for services rendered.

Interest income and expense are recorded on the accrual basis. Where collection of interest income is considered doubtful or payment is outstanding for more than 3 months, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However such amounts under IFRS are considered to be immaterial.

Fees and commissions are recognised on an accrual basis, on completion of the underlying service or transaction.

Gains and losses arising from dealing in foreign currencies are recognised when realised and are shown net in the profit and loss account.

Dividend income is recognised when the right to receive payment is established.

**(x) Dividends**

Dividends are recorded as a deduction from equity in the period in which they are approved.

**(y) Segment reporting**

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments, and comprise the Group's five operating divisions. Geographical segments provide products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

**(z) Comparative information**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to reflect the requirements of new IFRS, as well as, amendments to and interpretations of existing IFRS.

# GraceKennedy Limited



**3. Insurance and Financial Risk Management**

The Group's activities expose it to a variety of insurance and financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. It provides policies for overall risk management, as well as principles and procedures covering the specific areas of risk. The Board has established committees/departments for managing and monitoring risks, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity, as follows:

(i) Central Treasury Department

The Central Treasury Department is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group. Group treasury identifies, evaluates and manages financial risks in close co-operation with the Group's operating business units.

(ii) Audit Committee

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Group Risk Management and Internal Audit. The Group Risk Management Department establishes a framework within which the opportunities and risks affecting the Group may be measured, assessed, and effectively controlled. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

(iii) Corporate Governance Committee

The Corporate Governance Committee assists the Board in enhancing the Group's system of corporate governance by establishing, monitoring and reviewing the principles of good governance with which the Group and its directors will comply. The Committee promotes high standards of corporate governance based on the principles of openness, integrity and accountability taking into account the Group's existing legal and regulatory requirements. It establishes such procedures, policies and codes of conduct to meet these aims as it considers appropriate. Qualified individuals are identified and recommended by the Committee to become directors. It also leads the Board of Directors in its annual review of the Board's performance.

(iv) Asset and Liability Committee/Investment Committee

The Asset and Liability Committee (ALCO) is responsible for monitoring and formulating investment portfolios and investment strategies within the Insurance, Banking and Investment divisions. The ALCO is also responsible for monitoring adherence to trading limits, policies and procedures that are established to ensure that there is adequate liquidity as well as monitoring and measuring capital adequacy for regulatory and business requirements. To discharge these responsibilities, the ALCO establishes asset and liability pricing policies to protect the liquidity structure as well as assesses the probability of various liquidity shocks and interest rate scenarios. It also establishes and monitors relevant liquidity ratios and balance sheet targets. Overall, the Committee ensures compliance with the policies related to the management of liquidity risk, interest rate risk, and foreign exchange risk.

The most important types of risk are insurance risk, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Group issues contracts that transfer insurance risk. This section summarises the risk and the way the Group manages the risk.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(a) Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore, unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the Group's insurance contracts is, however, concentrated within Jamaica.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Where applicable, contracts are underwritten by reference to the commercial replacement value of the properties or other assets and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for other assets and contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

Management sets policy and retention limits based on guidelines set by the Board of Directors. The policy limit and maximum net retention of any one risk for each class of insurance per customer for the year are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Policy Limit '000** | **Maximum Net Retention '000** | **Policy Limit '000** | **Maximum Net Retention '000** |
| Commercial property – | | | | |
| Fire and consequential loss | 348,975 | 4,230 | 290,812 | 3,525 |
| Boiler and machinery | 141,000 | 2,643 | 141,000 | 2,543 |
| Engineering | 211,500 | 3,966 | 211,500 | 3,965 |
| Burglary, money and goods in transit | 9,375 | 4,688 | 8,812 | 3,525 |
| Glass and other | 3,750 | 1,875 | 3,525 | 1,410 |
| Liability | 225,000 | 11,250 | 211,500 | 10,575 |
| Marine, aviation and transport | 13,200 | 600 | 13,200 | 600 |
| Motor | 225,000 | 11,250 | 211,500 | 10,575 |
| Pecuniary loss – | | | | |
| Fidelity | 9,375 | 4,688 | 8,812 | 3,525 |
| Surety/Bonds | 150 | 30 | 150,000 | 30,000 |
| Personal accident | 11,250 | 5,625 | 10,575 | 4,230 |
| Personal property | 348,975 | 4,230 | 290,812 | 3,525 |

**3. Insurance and Financial Risk Management (Continued)**

**(a) Insurance risk (continued)**

***Sensitivity Analysis of Actuarial Liabilities***

Actuarial liabilities comprise 6% of total insurance liabilities. The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

Actuarial Assumptions

(i) In applying the noted methodologies, the following assumptions were made:

- With respect to the analysis of the incurred claims development history, the level of outstanding claims reserve adequacy is relatively consistent (in inflation adjusted terms) over the experiences period.

- For accident years 1996 and prior, the level of gross outstanding claims reserve adequacy is the same as the level of net outstanding claims reserve adequacy.

- With respect to the analysis of the paid claims development history, the rate of payment of ultimate incurred losses for the recent history is indicative of future settlement patterns. The pattern of net development factors is very stable and there is no evident trend in the factors.

- The claims inflation rate implicit in the valuation is equivalent to the rate which is part of the historical data.

- Claims are expressed at their estimated ultimate undiscounted value, in accordance with the requirement of the Insurance Act, 2001.

(ii) Provision for adverse deviation assumptions
The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin for adverse deviation in each assumption.

Reserves have been calculated on an undiscounted basis as well as on a discounted basis with a risk load added in. Where the undiscounted reserve was larger than the discounted reserve including the calculated provision for adverse deviation, the undiscounted amount was chosen. This assumes that holding reserves at an undiscounted amount includes an implicit risk load.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(a) Insurance risk (continued)**

***Development Claim Liabilities***

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

| | | 2004 | 2004 and prior | 2005 | 2005 and prior | 2006 | 2006 and prior | 2007 | 2007 and prior | 2008 | 2008 and prior |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2004** | Paid during year | 230,713 | 294,927 | | | | | | | | |
| | UCAE, end of year | 170,505 | 434,689 | | | | | | | | |
| | IBNR, end of year | 11,108 | 52,865 | | | | | | | | |
| | Ratio: excess (deficiency) | | | | | | | | | | |
| **2005** | Paid during year | 71,488 | 99,679 | 411,620 | 511,299 | | | | | | |
| | UCAE, end of year | 78,000 | 302,947 | 325,355 | 628,302 | | | | | | |
| | IBNR, end of year | 9,105 | 26,271 | 34,829 | 61,100 | | | | | | |
| | Ratio: excess (deficiency) | | 12.03% | | | | | | | | |
| **2006** | Paid during year | 9,705 | 15,816 | 134,449 | 150,265 | 566,226 | 716,491 | | | | |
| | UCAE, end of year | 59,435 | 153,847 | 153,011 | 306,858 | 479,298 | 786,156 | | | | |
| | IBNR, end of year | 4,406 | 12,236 | 8,508 | 20,744 | 41,046 | 61,790 | | | | |
| | Ratio: excess (deficiency) | | 42.25% | | 30.68% | | | | | | |
| **2007** | Paid during year | 4,909 | 10,224 | 19,682 | 29,906 | 197,103 | 227,009 | 582,914 | 809,923 | | |
| | UCAE, end of year | 50,112 | 135,129 | 133,817 | 268,946 | 286,341 | 555,287 | 438,716 | 994,003 | | |
| | IBNR, end of year | 3,195 | 9,253 | 4,610 | 13,863 | 15,726 | 29,589 | 37,746 | 67,335 | | |
| | Ratio: excess (deficiency) | 23.24% | 44.60% | 18.78% | 32.84% | 4.07% | 4.25% | | | | |
| **2008** | Paid during year | 8,140 | 31,148 | 42,849 | 73,997 | 78,298 | 152,295 | 248,085 | 400,380 | 624,150 | 1,024,530 |
| | UCAE, end of year | 29,762 | 72,818 | 98,010 | 170,828 | 225,159 | 395,987 | 279,103 | 675,090 | 450,997 | 1,126,087 |
| | IBNR, end of year | 580 | 4,969 | 1,854 | 6,823 | 3,866 | 10,689 | 11,195 | 21,884 | 35,203 | 57,087 |
| | Ratio: excess (deficiency) | 31.40% | 51.87% | 17.59% | 37.36% | 3.06% | 7.31% | (13.00%) | (3.39%) | | |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(b) Reinsurance risk**

To limit its exposure to potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programmes used by the Group are summarised below:

a) The retention limit or maximum exposure on insurance policies under the reinsurance treaties range between $1,875,000 and $10,000,000.

b) The Group insures with several reinsurers. Of significance is Munich Reinsurance Company which underwrites the largest share or the various treaties.

c) Excess of Loss reinsurance is also purchased to cover the retained risk in the event of a catastrophe as well as for Large Motor Losses.

d) The amount of reinsurance recoveries recognised during the period is as follows:

| | Group | |
|---|---|---|
| | **2008** | **2007** |
| | **$'000** | **$'000** |
| Property | 292,952 | 295,264 |
| Motor | 3,118 | 8,543 |
| Marine | - | 4,327 |
| Liability | 435 | 6,568 |
| Accident | - | 14,644 |
| | 296,505 | 329,346 |

**(c) Financial risk**

The Group is exposed to financial risk through its financial assets, reinsurance assets and insurance liabilities. The most important components of this financial risk are interest rate risk, market risk, cash flow risk, currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and market risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(i) Credit risk**

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the Group's receivables from customers, the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to similar risks to loans and these are mitigated by the same control policies and processes.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk**

**(i) Credit risk (continued)**

***Credit review process***

The Group has established a credit quality review process and has credit policies and procedures which require regular analysis of the ability of borrowers and other counterparties to meet interest, capital and other repayment obligations.

(a) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit policy states that each customer must be analysed individually for creditworthiness prior to the Group offering them a credit facility. Customers may be required to provide a banker's guarantee and credit limits are assigned to each customer. These limits are reviewed at least twice per year. The Group has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Customer credit risks are monitored according to credit characteristics such as whether it is an individual or company, geographic location, industry, aging profile, and previous financial difficulties. Special negotiated arrangements may extend the credit period to a maximum of 3 months. Trade and other receivables relate mainly to the Group's retail and direct customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The Group's average credit period for the sale of goods is 1 month. The Group has provided fully for all receivables over 6 months based on historical experience which dictates that amounts past due beyond 6 months are generally not recoverable. Trade receivables between 3 and 6 months are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

(b) Loans and leases

The Group assesses the probability of default of individual counterparties using internal ratings. Customers of the Group are segmented into three rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Group's internal rating scale:

| **Group's rating** | **Description of the grade** |
|---|---|
| 1 | Low risk |
| 2 | Standard risk |
| 3 | Sub-Standard |

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

# GraceKennedy Limited



**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

(c) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The committee assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

(d) Premium and other receivables

The committee examines the payment history of significant contract holders with whom they conduct regular business. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis is carried out by the Group Risk Department.

(e) Investments

The Group limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

***Collateral and other credit enhancements***

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

Loans and leases - mortgages over residential and commercial properties, charges over business assets such as premises, inventory and accounts receivable and charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.

Securities lending and reverse repurchase transactions – cash or securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and from individual shareholders for loans to their companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held, during its annual reviews of individual credit facilities as well as during its review of the adequacy of the provision for credit losses.

***Impairment***

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 3 months or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

***Impairment (*continued)**

Individually assessed allowances are provided for financial assets that are above materiality thresholds based on a review conducted at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

Collectively assessed allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

The internal rating systems described above focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

The impairment provision shown in the balance sheet at year-end is derived from each of the three internal rating grades. However, the impairment provision comes from the last rating class (sub-standard). The tables below show the Group's and company's loans, leases, premium and trade receivables and the associated impairment provision for each internal rating class:

**Group's rating**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Loans, Leases, Premium and Trade Receivables | Impairment Provision | Loans, Leases, Premium and Trade Receivables | Impairment Provision |
| | $'000 | $'000 | $'000 | $'000 |
| Low risk | 1,336,444 | - | 1,488,213 | - |
| Standard risk | 16,450,279 | - | 12,095,420 | - |
| Sub-Standard | 616,701 | 446,581 | 533,516 | 450,277 |
| | 18,403,424 | 446,581 | 14,117,149 | 450,277 |

**Company's rating**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Loans and Trade Receivables | Impairment Provision | Loans and Trade Receivables | Impairment Provision |
| | $'000 | $'000 | $'000 | $'000 |
| Low risk | - | - | - | - |
| Standard risk | 894,624 | - | 830,316 | - |
| Sub-Standard | 231,639 | 86,214 | 103,243 | 81,741 |
| | 1,126,263 | 86,214 | 933,559 | 81,741 |

**Maximum exposure to credit risk before collateral held or other credit enhancements**

| | Maximum Exposure | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Credit risk exposures relating to on-balance sheet assets are as follows: | | | | |
| Cash at bank | 4,980,761 | 5,493,422 | 249,629 | 742,251 |
| Deposits | 2,717,638 | 2,616,502 | 577,871 | 3,546,772 |
| Investment securities | 46,780,258 | 39,261,964 | 12,390,246 | 9,692,303 |
| Trade and other receivables | 8,567,839 | 7,919,134 | 983,197 | 821,680 |
| Loans, net of provision for credit losses | 8,919,581 | 5,325,029 | 56,852 | 30,138 |
| Lease receivables | 469,423 | 422,709 | - | - |
| | 72,435,500 | 61,038,760 | 14,257,795 | 14,833,144 |

The above table represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

**Loans and leases**

Credit quality of loans and leases, premium, trade and other receivables are summarised as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Neither past due nor impaired - | | | | |
| Low risk | 1,336,444 | 1,488,213 | - | - |
| Standard risk | 14,040,550 | 9,755,865 | 736,850 | 544,557 |
| | 15,376,994 | 11,244,078 | 736,850 | 544,557 |
| Past due but not impaired | 2,409,729 | 2,339,555 | 157,774 | 285,759 |
| Impaired | 616,701 | 533,516 | 231,639 | 103,243 |
| **Gross** | 18,403,424 | 14,117,149 | 1,126,263 | 933,559 |
| Less: provision for credit losses | (446,581) | (450,277) | (86,214) | (81,741) |
| **Net** | 17,956,843 | 13,666,872 | 1,040,049 | 851,818 |

*Aging analysis of loans and leases, premium and trade receivables that are past due but not impaired:*

Loans and leases, premium and trade receivables that are less than 3 months past due are not considered impaired. As of 31 December 2008, loans and leases, premium and trade receivables of $2,409,729,000 (2007: $2,339,555,000) and $157,774,000 (2007: $285,759,000) for the Group and company respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these loans and leases, premium and trade receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Less than 1 month | 1,231,004 | 1,040,006 | 57,815 | 187,418 |
| Within 1 to 3 months | 550,223 | 901,773 | 99,959 | 98,341 |
| Over 3 months | 628,502 | 397,776 | - | - |
| | 2,409,729 | 2,339,555 | 157,774 | 285,759 |

As of 31 December 2008, loans and leases, premium and trade receivables of $616,701,000 (2007: $533,516,000) and $231,639,000 (2007: $103,243,000) for the Group and company respectively were impaired. The amount of the provision was $446,581,000 (2007: $450,277,000) and $86,214,000 (2007: $81,741,000) for the Group and company respectively. There are no financial assets other than loans, leases, premium and trade receivables that are past due.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

The individually impaired receivables mainly relate to wholesalers who are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The aging of the impaired loans and lease receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| 3 to 6 months | 118,825 | 135,543 | - | - |
| Over 6 months | 93,145 | - | - | - |
| | 211,970 | 135,543 | - | - |

Movements on the provision for impairment of loans and leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At 1 January | 86,222 | 60,422 | - | - |
| Provision for receivables impairment | 99,253 | 35,752 | - | - |
| Receivables written off during the year as uncollectible | (13,326) | (1,218) | - | - |
| Unused amounts reversed | (28,165) | (8,734) | - | - |
| At 31 December | 143,984 | 86,222 | - | - |

The aging of the impaired premium and trade receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| 3 to 6 months | 169,372 | 30,116 | 158,622 | 5,915 |
| Over 6 months | 235,359 | 367,857 | 73,017 | 97,328 |
| | 404,731 | 397,973 | 231,639 | 103,243 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At 1 January | 364,055 | 707,319 | 81,741 | 70,157 |
| Provision for receivables impairment | 151,768 | 197,895 | 36,801 | 15,462 |
| Receivables written off during the year as uncollectible | (205,807) | (522,655) | (25,488) | (1,836) |
| Unused amounts reversed | (7,419) | (18,504) | (6,840) | (2,042) |
| At 31 December | 302,597 | 364,055 | 86,214 | 81,741 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

The overall aging of the impaired loans and leases, premium and trade receivables is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| 3 to 6 months | 288,197 | 165,659 | 158,622 | 5,915 |
| Over 6 months | 328,504 | 367,857 | 73,017 | 97,328 |
| | 616,701 | 533,516 | 231,639 | 103,243 |

Movements on the provision for impairment of loans and leases, premium and trade receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| At 1 January | 450,277 | 767,741 | 81,741 | 70,157 |
| Provision for receivables impairment | 251,021 | 233,647 | 36,801 | 15,462 |
| Receivables written off during the year as uncollectible | (219,133) | (523,873) | (25,488) | (1,836) |
| Unused amounts reversed | (35,584) | (27,238) | (6,840) | (2,042) |
| At 31 December | 446,581 | 450,277 | 86,214 | 81,741 |

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

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

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

*Loans and Leases, Premium and Trade receivables*

The following table summarises the Group's and company's credit exposure for loans and leases, premium and trade receivables at their carrying amounts, as categorised by the customer sector:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Public sector | 1,454,798 | 1,326,496 | - | - |
| Professional and other services | 2,391,982 | 1,757,694 | - | - |
| Personal | 3,442,517 | 2,058,483 | - | - |
| Agriculture, fishing and mining | 161,868 | 106,334 | - | - |
| Construction and real estate | 225,431 | 615,801 | - | - |
| Distribution | 1,166,152 | 324,201 | - | - |
| Manufacturing | 366,991 | 153,805 | 56,204 | 29,761 |
| Transportation | 403,512 | 293,344 | - | - |
| Tourism and entertainment | 849,187 | 440,742 | 154,432 | 132,657 |
| Financial and other money services | 583,448 | 493,055 | - | - |
| Brokers and agents | 1,308,988 | 1,214,511 | - | - |
| Supermarket chains | 610,139 | 707,123 | 242,843 | 266,981 |
| Wholesalers | 553,409 | 582,909 | 130,704 | 83,024 |
| Retail and direct customers | 3,619,558 | 3,205,529 | 398,067 | 251,594 |
| Other | 1,148,696 | 755,229 | 144,013 | 169,542 |
| | 18,286,676 | 14,035,256 | 1,126,263 | 933,559 |
| Less: Provision for credit losses | (446,581) | (450,277) | (86,214) | (81,741) |
| | 17,840,095 | 13,584,979 | 1,040,049 | 851,818 |
| Interest receivable | 116,748 | 81,893 | - | - |
| | 17,956,843 | 13,666,872 | 1,040,049 | 851,818 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(i) Credit risk (continued)**

*Financial assets – individually impaired*

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Loans and leases | 211,970 | 135,543 | - | - |
| Trade and other receivables | 404,731 | 397,973 | 231,639 | 103,243 |

The fair value of collateral that the Group held as security for individually impaired loans was $72,980,000 (2007: $76,100,000).

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

*Renegotiated loans and leases*

The Group and the company did not have any renegotiated loans or leases.

*Repossessed collateral*

The Group and the company had no repossessed assets at the end of each of the last two financial years.

A number of cases are in the Courts awaiting judgments. The impairment provision has not been adjusted for these claims.

*Debt securities*

The following table summarises the Group's and company's credit exposure for debt securities at their carrying amounts, as categorised by issuer:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Government of Jamaica – | | | | |
| Available-for-sale securities | 34,450,961 | 38,220,458 | 2,982,381 | 2,380,765 |
| Loans and receivables (Note 6) | 8,594,791 | - | - | - |
| Corporate - | | | | |
| Available-for-sale securities | 2,848,478 | 934,130 | - | - |
| Loans and receivables (Note 6) | 644,265 | - | - | - |
| | 46,538,495 | 39,154,588 | 2,982,381 | 2,380,765 |

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(ii) Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

**Liquidity risk management process**

The Group's liquidity management process, as carried out within the Group and monitored by the Central Treasury Department, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

(v) Monitoring balance sheet liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;

(vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(ii) Liquidity risk (continued)**

Financial liabilities cash flows

The table below presents the undiscounted cash flows payable (both interest and principal cash flows) of the Group's and company's financial liabilities based on contractual repayment obligations. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No specific Maturity | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **As at 31 December 2008:** | | | | | | |
| Securities sold under agreements to repurchase | 23,573,178 | 3,685,355 | - | - | - | 27,258,533 |
| Deposits | 9,996,624 | 3,946,144 | - | - | - | 13,942,768 |
| Bank and other loans | 8,363,814 | 2,459,463 | 3,892,214 | - | - | 14,715,491 |
| Trade and other payables | 11,991,771 | - | - | - | - | 11,991,771 |
| Other liabilities | 285,647 | - | - | - | 3,702,212 | 3,987,859 |
| **Total financial liabilities (expected contractual dates)** | 54,211,034 | 10,090,962 | 3,892,214 | - | 3,702,212 | 71,896,422 |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No specific Maturity | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **As at 31 December 2007:** | | | | | | |
| Securities sold under agreements to repurchase | 19,026,473 | 3,580,912 | - | - | - | 22,607,385 |
| Deposits | 7,635,931 | 4,210,669 | - | - | - | 11,846,600 |
| Bank and other loans | 3,526,861 | 2,849,662 | 3,633,976 | 15,940 | - | 10,026,439 |
| Trade and other payables | 9,737,925 | - | - | - | - | 9,737,925 |
| Other liabilities | 691,461 | - | - | - | 3,482,982 | 4,174,443 |
| **Total financial liabilities (expected contractual dates)** | 40,618,651 | 10,641,243 | 3,633,976 | 15,940 | 3,482,982 | 58,392,792 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(ii) Liquidity risk (continued)**

Financial liabilities cash flows (continued)

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No specific Maturity | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **As at 31 December 2008:** | | | | | | |
| Bank and other loans | 1,428,446 | 1,282,496 | 1,810,206 | - | - | 4,521,148 |
| Trade and other payables | 1,738,160 | - | - | - | - | 1,738,160 |
| Other liabilities | - | - | - | - | 2,477,434 | 2,477,434 |
| **Total financial liabilities (expected contractual dates)** | 3,166,606 | 1,282,496 | 1,810,206 | - | 2,477,434 | 8,736,742 |

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No specific Maturity | Total |
| **As at 31 December 2007:** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Bank and other loans | 1,939,705 | 2,112,913 | 1,789,460 | - | - | 5,842,078 |
| Trade and other payables | 1,277,942 | - | - | - | - | 1,277,942 |
| Other liabilities | - | - | - | - | 2,229,357 | 2,229,357 |
| **Total financial liabilities (expected contractual dates)** | 3,217,647 | 2,112,913 | 1,789,460 | - | 2,229,357 | 9,349,377 |

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Central Bank balances, items in the course of collection, investment securities and other eligible bills, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions. The Group and the company have the following undrawn committed borrowing facilities:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Floating rate – | | | | |
| Expiring within one year | 4,720,462 | 2,593,472 | 3,101,054 | 706,822 |
| Expiring beyond one year | 962,600 | 824,026 | 721,950 | 694,110 |
| Fixed rate – | | | | |
| Expiring within one year | 15,500 | 85,618 | - | - |
| Expiring beyond one year | 29,191 | 85,385 | - | - |

The facilities expiring within one year are annual facilities subject to review at various dates during the subsequent year. The other facilities have been arranged to help finance the Group's activities.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(ii) Liquidity risk (continued)**

***Off-balance sheet items***
The tables below show the contractual expiry periods of the Group's contingent liabilities and commitments.

| | Group | | | |
|---|---|---|---|---|
| **At 31 December 2008** | **No later than 1 year $'000** | **1 to 5 years $'000** | **Over 5 years $'000** | **Total $'000** |
| Loan commitments | 342,794 | - | - | 342,794 |
| Guarantees, acceptances and other financial facilities | 306,310 | - | - | 306,310 |
| Operating lease commitments | 471,392 | 1,413,693 | 458,489 | 2,343,574 |
| Capital commitments | 325,500 | - | - | 325,500 |
| | 1,445,996 | 1,413,693 | 458,489 | 3,318,178 |
| **At 31 December 2007** | | | | |
| Guarantees, acceptances and other financial facilities | 326,877 | - | - | 326,877 |
| Operating lease commitments | 410,130 | 1,015,975 | 555,915 | 1,982,020 |
| Capital commitments | 14,760 | - | - | 14,760 |
| | 751,767 | 1,015,975 | 555,915 | 2,323,657 |

**(iii) Market risk**

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Group Treasury Department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

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

***Currency risk***
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar and the UK pound.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Currency risk (continued)***

Concentrations of currency risk

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

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **EURO** | **Other** | **Total** |
| | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** |
| **At 31 December 2008:** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and deposits | 3,429,329 | 3,714,927 | 98,984 | 28,877 | 24,941 | 401,341 | 7,698,399 |
| Investment securities | 19,014,219 | 25,247,950 | - | - | 1,432,260 | 1,141,098 | 46,835,527 |
| Trade and other receivables | 3,819,383 | 3,200,545 | 1,179,564 | 154,424 | 2,012 | 211,911 | 8,567,839 |
| Loans receivable | 4,232,421 | 5,156,583 | - | - | - | - | 9,389,004 |
| Total financial assets | 30,495,352 | 37,320,005 | 1,278,548 | 183,301 | 1,459,213 | 1,754,350 | 72,490,769 |
| **Financial Liabilities** | | | | | | | |
| Deposit payable | 3,483,867 | 10,017,974 | 144,720 | 43,406 | 252,801 | - | 13,942,768 |
| Securities sold under agreements to repurchase | 15,234,368 | 10,614,915 | 33,818 | - | 843,863 | 531,569 | 27,258,533 |
| Bank and other loans | 1,845,695 | 11,130,368 | 1,429,621 | 150,694 | 115,905 | 43,208 | 14,715,491 |
| Trade and other payables | 6,670,272 | 3,964,025 | 862,476 | 293,396 | 17,371 | 184,231 | 11,991,771 |
| Total financial liabilities | 27,234,202 | 35,727,282 | 2,470,635 | 487,496 | 1,229,940 | 759,008 | 67,908,563 |
| **Net financial position** | 3,261,150 | 1,592,723 | (1,192,087) | (304,195) | 229,273 | 995,342 | 4,582,206 |

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **EURO** | **Other** | **Total** |
| | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** |
| **At 31 December 2007:** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and deposits | 2,991,047 | 4,278,907 | 258,171 | 60,000 | 148,052 | 373,747 | 8,109,924 |
| Investment securities | 18,949,761 | 18,563,393 | - | - | 1,183,990 | 751,291 | 39,448,435 |
| Trade and other receivables | 5,032,797 | 894,815 | 1,559,845 | 191,927 | - | 239,750 | 7,919,134 |
| Loans receivable | 2,899,303 | 2,848,435 | - | - | - | - | 5,747,738 |
| Total financial assets | 29,872,908 | 26,585,550 | 1,818,016 | 251,927 | 1,332,042 | 1,364,788 | 61,225,231 |
| **Financial Liabilities** | | | | | | | |
| Deposit payable | 2,640,308 | 8,841,604 | 191,384 | 38,976 | 134,328 | - | 11,846,600 |
| Securities sold under agreements to repurchase | 12,696,491 | 8,279,611 | 26,813 | - | 1,154,970 | 449,500 | 22,607,385 |
| Bank and other loans | 2,882,547 | 5,067,720 | 1,878,570 | 180,090 | - | 17,512 | 10,026,439 |
| Trade and other payables | 6,319,588 | 1,977,493 | 1,138,764 | 125,769 | 130 | 176,181 | 9,737,925 |
| Total financial liabilities | 24,538,934 | 24,166,428 | 3,235,531 | 344,835 | 1,289,428 | 643,193 | 54,218,349 |
| **Net financial position** | 5,333,974 | 2,419,122 | (1,417,515) | (92,908) | 42,614 | 721,595 | 7,006,882 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Currency risk (continued)***

Concentrations of currency risk (continued)

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **EURO** | **Other** | **Total** |
| | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** |
| **At 31 December 2008:** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and deposits | 428,309 | 399,191 | - | - | - | - | 827,500 |
| Investment securities | 10,709,946 | 1,680,300 | - | - | - | - | 12,390,246 |
| Trade and other receivables | 983,197 | - | - | - | - | - | 983,197 |
| Loans receivable | 399 | 56,453 | - | - | - | - | 56,852 |
| Total financial assets | 12,121,851 | 2,135,944 | - | - | - | - | 14,257,795 |
| **Financial Liabilities** | | | | | | | |
| Bank and other loans | 886,825 | 3,634,323 | - | - | - | - | 4,521,148 |
| Trade and other payables | 996,877 | 741,283 | - | - | - | - | 1,738,160 |
| Total financial liabilities | 1,883,702 | 4,375,606 | - | - | - | - | 6,259,308 |
| **Net financial position** | 10,238,149 | (2,239,662) | - | - | - | - | 7,998,487 |

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Jamaican$** | **US$** | **GBP** | **CAN$** | **EURO** | **Other** | **Total** |
| | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** | **J$'000** |
| **At 31 December 2007:** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and deposits | 960,956 | 3,328,067 | - | - | - | - | 4,289,023 |
| Investment securities | 8,699,944 | 992,359 | - | - | - | - | 9,692,303 |
| Trade and other receivables | 821,680 | - | - | - | - | - | 821,680 |
| Loans receivable | 399 | 481 | - | 9,398 | - | 19,860 | 30,138 |
| Total financial assets | 10,482,979 | 4,320,907 | - | 9,398 | - | 19,860 | 14,833,144 |
| **Financial Liabilities** | | | | | | | |
| Bank and other loans | 2,132,914 | 3,709,164 | - | - | - | - | 5,842,078 |
| Trade and other payables | 849,774 | 428,168 | - | - | - | - | 1,277,942 |
| Total financial liabilities | 2,982,688 | 4,137,332 | - | - | - | - | 7,120,020 |
| **Net financial position** | 7,500,291 | 183,575 | - | 9,398 | - | 19,860 | 7,713,124 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Currency risk (continued)***

***Foreign currency sensitivity***

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% increase (2007: 5%) and a 5% decrease (2007: 5%) in foreign currency rates . The sensitivity of the profit was as a result of foreign exchange gains/losses on translation of foreign currency denominated loans and lease receivables, cash and deposits, debt securities classified as available for sale and foreign exchange losses/gains on translation of foreign currency denominated borrowings. Profit is more sensitive to movement in currency/US dollar exchange rates in 2008 than 2007 because of the increased amount of foreign currency denominated investment securities. The sensitivity of the equity arose mainly from foreign exchange losses/gains on translation of foreign currency denominated subsidiaries. Equity is more sensitive to movement in foreign currency exchange rate in 2008 than 2007 because of the increase in the net assets of USD denominated foreign subsidiaries. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **% Change in Currency Rate** | **Effect on Net Profit** | **Effect on Equity** | **% Change in Currency Rate** | **Effect on Net Profit** | **Effect on Equity** |
| | **2008** | **2008 $'000** | **2008 $'000** | **2007** | **2007 $'000** | **2007 $'000** |
| **Currency:** | | | | | | |
| USD | +10% | 64,987 | 227,742 | +5% | (30,740) | 92,213 |
| GBP | +10% | (2,208) | (50,223) | +5% | 1,516 | (80,348) |
| CAN | +10% | (528) | 10,459 | +5% | 180 | 8,476 |
| EURO | +10% | 15,935 | 15,935 | +5% | 1,797 | 1,797 |
| USD | -5% | (32,493) | (113,871) | -5% | 30,740 | (92,213) |
| GBP | -5% | 1,104 | 25,112 | -5% | (1,516) | 80,348 |
| CAN | -5% | 264 | (5,229) | -5% | (180) | (8,476) |
| EURO | -5% | (7,968) | (7,968) | -5% | (1,797) | (1,797) |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Currency risk (continued)***

***Foreign currency sensitivity (continued)***

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **% Change in Currency Rate** | **Effect on Net Profit** | **Effect on Equity** | **% Change in Currency Rate** | **Effect on Net Profit** | **Effect on Equity** |
| | **2008** | **2008 $'000** | **2008 $'000** | **2007** | **2007 $'000** | **2007 $'000** |
| **Currency:** | | | | | | |
| USD | +10% | 5,902 | 5,902 | +5% | 31,184 | 31,184 |
| GBP | +10% | (6,590) | (6,590) | +5% | - | - |
| CAN | +10% | - | - | +5% | - | - |
| EURO | +10% | - | - | +5% | - | - |
| USD | -5% | (2,951) | (2,951) | -5% | (31,184) | (31,184) |
| GBP | -5% | 3,295 | 3,295 | -5% | - | - |
| CAN | -5% | - | - | -5% | - | - |
| EURO | -5% | - | - | -5% | - | - |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

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

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

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the Treasury Department.

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

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Within 1 Month** | **1 to 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Over 5 Years** | **Non-Interest Bearing** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **At 31 December 2008:** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits | 2,043,388 | 4,472,802 | - | - | - | 1,182,209 | 7,698,399 |
| Investment securities | - | 12,084,460 | 10,890,376 | 9,002,414 | 14,592,304 | 265,973 | 46,835,527 |
| Loans receivable | 482,616 | 1,604,766 | 1,754,855 | 2,601,888 | 2,881,050 | 63,829 | 9,389,004 |
| Trade and other receivables | - | - | - | - | - | 8,567,839 | 8,567,839 |
| Other assets | - | - | - | - | - | 21,595,829 | 21,595,829 |
| Total financial assets | 2,526,004 | 18,162,028 | 12,645,231 | 11,604,302 | 17,473,354 | 31,675,679 | 94,086,598 |
| **Liabilities** | | | | | | | |
| Deposits | 3,166,523 | 6,830,100 | 3,946,145 | - | - | - | 13,942,768 |
| Securities sold under agreements to repurchase | - | 9,516,088 | 17,742,445 | - | - | - | 27,258,533 |
| Bank loans | 1,012,700 | 7,176,808 | 4,264,151 | 2,261,832 | - | - | 14,715,491 |
| Trade payables | - | - | - | - | - | 11,991,771 | 11,991,771 |
| Other | - | - | - | - | - | 3,987,859 | 3,987,859 |
| Total financial liabilities | 4,179,223 | 23,522,996 | 25,952,741 | 2,261,832 | - | 15,979,630 | 71,896,422 |
| **Total interest repricing gap** | (1,653,219) | (5,360,968) | (13,307,510) | 9,342,470 | 17,473,354 | 15,696,049 | 22,190,176 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Interest rate risk (continued)***

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Within 1 Month** | **1 to 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Over 5 Years** | **Non-Interest Bearing** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **At 31 December 2007:** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits | 3,910,642 | 3,457,222 | - | - | - | 742,060 | 8,109,924 |
| Investment securities | - | 7,594,519 | 10,173,299 | 9,073,111 | 12,287,376 | 320,130 | 39,448,435 |
| Loans receivable | 452,758 | 961,026 | 300,586 | 2,713,441 | 1,262,568 | 57,359 | 5,747,738 |
| Trade and other receivables | - | - | - | - | - | 7,919,134 | 7,919,134 |
| Other assets | - | - | - | - | - | 18,780,531 | 18,780,531 |
| Total financial assets | 4,363,400 | 12,012,767 | 10,473,885 | 11,786,552 | 13,549,944 | 27,819,214 | 80,005,762 |
| **Liabilities** | | | | | | | |
| Deposits | 2,412,584 | 5,235,570 | 4,198,446 | - | - | - | 11,846,600 |
| Securities sold under agreements to repurchase | - | 19,026,474 | 3,580,911 | - | - | - | 22,607,385 |
| Bank loans | 2,189,836 | 3,415,432 | 3,990,190 | 430,981 | - | - | 10,026,439 |
| Trade payables | - | - | - | - | - | 9,737,925 | 9,737,925 |
| Other | - | - | - | - | - | 4,174,443 | 4,174,443 |
| Total financial liabilities | 4,602,420 | 27,677,476 | 11,769,547 | 430,981 | - | 13,912,368 | 58,392,792 |
| **Total interest repricing gap** | (239,020) | (15,664,709) | (1,295,662) | 11,355,571 | 13,549,944 | 13,906,846 | 21,612,970 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Interest rate risk (continued)***

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Over 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
| **At 31 December 2008:** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits | 303,561 | 523,939 | - | - | - | - | 827,500 |
| Investment securities | - | - | 1,854,702 | 325,858 | 801,820 | 9,407,866 | 12,390,246 |
| Loans receivable | - | - | 55,973 | - | - | 879 | 56,852 |
| Trade and other receivables | - | - | - | - | - | 983,197 | 983,197 |
| Other assets | - | - | - | - | - | 9,470,840 | 9,470,840 |
| Total financial assets | 303,561 | 523,939 | 1,910,675 | 325,858 | 801,820 | 19,862,782 | 23,728,635 |
| **Liabilities** | | | | | | | |
| Bank loans | 865,147 | 925,420 | 2,495,605 | 234,976 | - | - | 4,521,148 |
| Trade payables | - | - | - | - | - | 1,738,160 | 1,738,160 |
| Other | - | - | - | - | - | 2,477,434 | 2,477,434 |
| Total financial liabilities | 865,147 | 925,420 | 2,495,605 | 234,976 | - | 4,215,594 | 8,736,742 |
| **Total interest repricing gap** | (561,586) | (401,481) | (584,930) | 90,882 | 801,820 | 15,647,188 | 14,991,893 |

| | Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Over 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
| **At 31 December 2007:** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits | 487,759 | 3,801,264 | - | - | - | - | 4,289,023 |
| Investment securities | - | - | 2,380,765 | - | - | 7,311,538 | 9,692,303 |
| Loans receivable | - | - | 12,500 | - | - | 17,638 | 30,138 |
| Trade and other receivables | - | - | - | - | - | 821,680 | 821,680 |
| Other assets | - | - | - | - | - | 6,867,031 | 6,867,031 |
| Total financial assets | 487,759 | 3,801,264 | 2,393,265 | - | - | 15,017,887 | 21,700,175 |
| **Liabilities** | | | | | | | |
| Bank loans | 1,939,704 | 2,039,712 | 1,605,613 | 257,049 | - | - | 5,842,078 |
| Trade payables | - | - | - | - | - | 1,277,942 | 1,277,942 |
| Other | - | - | - | - | - | 2,229,357 | 2,229,357 |
| Total financial liabilities | 1,939,704 | 2,039,712 | 1,605,613 | 257,049 | - | 3,507,299 | 9,349,377 |
| **Total interest repricing gap** | (1,451,945) | 1,761,552 | 787,652 | (257,049) | - | 11,510,587 | 12,350,798 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk (continued)**

***Interest rate risk (continued)***

***Interest rate sensitivity***

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and company's profit and loss account and equity.

The Group's interest rate risk arises from investment securities, loans receivable, customers' deposits, securities sold under repurchase agreements and borrowings. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate financial assets and floating rate liabilities. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates combined with the effect on net profit. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis.

**Group**

| Change in basis points: | Effect on Net Profit | Effect on Equity | Change in basis points: | Effect on Net Profit | Effect on Equity |
|---|---|---|---|---|---|
| 2008 | 2008 $'000 | 2008 $'000 | 2007 | 2007 $'000 | 2007 $'000 |
| - 500 | 884,198 | 2,553,932 | - 100 | 139,333 | 872,697 |
| + 500 | (884,198) | (1,823,857) | + 100 | (139,333) | (793,769) |

**Company**

| Change in basis points: | Effect on Net Profit | Effect on Equity | Change in basis points: | Effect on Net Profit | Effect on Equity |
|---|---|---|---|---|---|
| 2008 | 2008 $'000 | 2008 $'000 | 2007 | 2007 $'000 | 2007 $'000 |
| - 500 | 66,234 | 377,546 | - 100 | 12,327 | 15,702 |
| + 500 | (66,234) | (261,241) | + 100 | (12,327) | (15,594) |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(d) Capital management**

***Insurance subsidiaries***

The insurance subsidiaries' objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

(i) To comply with the capital requirements set by the Financial Services Commission (FSC) for insurance companies;

(ii) To safeguard their ability to continue as going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of business.

Capital adequacy is managed at the operating company level. For the insurance companies, it is calculated by the Compliance Officer and reviewed by executive management, the Audit Committee and the Board of Directors. In addition, the company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

The primary measure used to assess capital adequacy is the Minimum Asset Test (MAT). This information is required to be filed with the Financial Services Commission on an annual basis. The minimum standard recommended by the regulators for companies is an MAT of 135% (2007- 120%). The MAT for the company as of December 31, 2008 and 2007 is set out below.

| | Insurance | | | |
|---|---|---|---|---|
| | Actual 2008 $'000 | Required 2008 $'000 | Actual 2007 $'000 | Required 2007 $'000 |
| MAT | **132.70%** | **135%** | **136.38%** | **120%** |

The FSC requires each general insurance company to hold the minimum level of regulatory capital of $75,000,000. For the insurance brokerage, the company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements of $10,000,000.

***The banking and investment subsidiaries***

The banking and investment subsidiaries' objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

(i) To comply with the capital requirements set by the regulators of the banking and investment markets where the entities within the Group operate;

(ii) To safeguard their ability to continue as a going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and

(iii) To maintain a strong capital base to support the development of business.

Capital adequacy and the use of regulatory capital are monitored monthly by management and the required information is filed monthly with the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC).

The BOJ requires the banking entity to:

(i) Hold the minimum level of regulatory capital as a percentage of total assets of 8%; and
(ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The FSC requires the investment services entities to:

(i) Hold the minimum level of regulatory capital as a percentage of total assets of 6%; and
(ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 14%.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(d) Capital management (continued)**

***The banking and investment subsidiaries (continued)***
The regulatory capital as managed by the subsidiaries' Risk and Compliance Unit is divided into two tiers:

(i) Tier 1 capital: share capital, retained earnings reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

(ii) Tier 2 capital: collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The tables below summarise the composition of regulatory capital and the ratios of the Group and the company for the years ended 31 December.

| | Banking | | | |
|---|---|---|---|---|
| | **Actual 2008 $'000** | **Required 2008 $'000** | **Actual 2007 $'000** | **Required 2007 $'000** |
| Tier 1 capital | 1,991,426 | 1,394,134 | 2,526,567 | 594,464 |
| Tier 2 capital | 83,192 | - | 49,320 | - |
| Total regulatory capital | 2,074,618 | 1,394,134 | 2,575,887 | 594,464 |
| **Risk-weighted assets:** | | | | |
| On-balance sheet | 13,635,025 | - | 5,617,770 | - |
| Off-balance sheet | 306,310 | - | 326,877 | - |
| Total risk-weighted assets | 13,941,335 | - | 5,944,647 | - |
| Tier one capital ratio | 14% | | 43% | - |
| Total capital ratio | 15% | 10% | 43% | 10% |

| | Investment | | | |
|---|---|---|---|---|
| | **Actual 2008 $'000** | **Required 2008 $'000** | **Actual 2007 $'000** | **Required 2007 $'000** |
| Tier 1 capital | 885,609 | 207,945 | 1,397,063 | 106,207 |
| Tier 2 capital | - | 207,945 | - | 106,207 |
| Total regulatory capital | 885,609 | 415,890 | 1,397,063 | 212,414 |
| **Risk-weighted assets:** | | | | |
| On-balance sheet | 2,281,937 | 2,281,937 | 1,517,424 | 1,517,424 |
| Off-balance sheet | 688,705 | 688,705 | - | - |
| Total risk-weighted assets | 2,970,642 | 2,970,642 | 1,517,424 | 1,517,424 |
| Tier one capital ratio | 100.00% | 50.00% | 100.00% | 50.00% |
| Total capital ratio | 29.81% | 14.00% | 90.20% | 14.00% |
| Actual capital to total assets | 5.30% | 6.00% | 7.18% | 6.00% |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(d) Capital management (continued)**

***Companies not requiring external regulatory capital requirements***

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on equity, which the Group defines as net profit attributable to equity holders of the company divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as debt divided by shareholders equity. Debt is calculated as total borrowings as shown in the consolidated balance sheet. Shareholders equity is calculated as capital and reserves attributable to the company's equity holders as shown in the consolidated balance sheet.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2008 and 2007 were as follows:

| | The Group | |
|---|---|---|
| | **2008** | **2007** |
| | **$000** | **$000** |
| Total borrowings (note 15) | 14,715,491 | 10,026,439 |
| Shareholders equity | 20,416,515 | 20,038,517 |
| Gearing ratio | 72.1% | 50.0% |

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

The company complied with all externally imposed capital requirements to which it is subjected. One of its investment subsidiaries was in breach of the capital to total assets benchmark established by the Financial Services Commission. In order to address the breach, the parent company will inject additional capital into this subsidiary in the first quarter of 2009. One of its insurance subsidiaries was in technical breach of Section 17 (4) of the Insurance (Actuaries) (General Insurance Companies) Regulation 2002.

**4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

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

**Key sources of estimation uncertainty**

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(f). The assessment of goodwill impairment involves the determination of the value in use. Determination of value in use involves the estimation of future cashflows from the business taking into consideration the growth rates, inflation rates and the discount rates. Any changes in these variables would impact the value in use calculations. A change in the discount rate from 11.10% to 13.5% would result in a reduction in the value in use by $1,060,000,000, which would not result in an impairment of goodwill.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Pension plan assets and post employment obligations

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

(iv) Liabilities arising from claims made under insurance contracts

The determination of the liabilities under insurance contracts represents the liability for future claims payable by the company based on contracts for the insurance business in force at the balance sheet date using several methods, including the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. These liabilities represent the amount of future premiums that will, in the opinion of the actuary, be sufficient to pay future claims relating to contracts of insurance in force, as well as meet the other expenses incurred in connection with such contracts. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the company's experience.

Claims are analysed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the company to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 5. Cash and Deposits

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** **$'000** | **2007** **$'000** | **2008** **$'000** | **2007** **$'000** |
| Cash at bank and in hand | 4,980,761 | 5,493,422 | 249,629 | 742,251 |
| Deposits | 2,717,638 | 2,616,502 | 577,871 | 3,546,772 |
| | 7,698,399 | 8,109,924 | 827,500 | 4,289,023 |

Included in deposits is interest receivable of $99,341,000 (2007: $73,109,000) and $9,306,000 (2007: $13,078,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 12.34% (2007: 6.9%) and these deposits have an average maturity of under 3 months.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** **$'000** | **2007** **$'000** | **2008** **$'000** | **2007** **$'000** |
| Cash at bank and in hand | 4,980,761 | 5,493,422 | 249,629 | 742,251 |
| Deposits | 2,717,638 | 2,616,502 | 577,871 | 3,546,772 |
| | 7,698,399 | 8,109,924 | 827,500 | 4,289,023 |
| Bank overdrafts (Note 15) | (1,294,143) | (1,858,137) | (846,007) | (1,939,704) |
| | 6,404,256 | 6,251,787 | (18,507) | 2,349,319 |

### 6. Investment Securities

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** **$'000** | **2007** **$'000** | **2008** **$'000** | **2007** **$'000** |
| Available-for-sale: | | | | |
| Quoted equities | 32,476 | 186,471 | 128 | 128 |
| Government of Jamaica securities | 34,450,961 | 38,220,458 | 2,982,381 | 2,380,765 |
| Corporate bonds | 2,848,478 | 934,130 | - | - |
| Other | 241,763 | 107,376 | 635 | 1,100 |
| | 37,573,678 | 39,448,435 | 2,983,144 | 2,381,993 |
| Loans and Receivables: | | | | |
| Government of Jamaica securities | 8,594,791 | - | - | - |
| Corporate bonds | 644,265 | - | - | - |
| | 9,239,056 | - | - | - |
| Financial assets at fair value through profit or loss: | | | | |
| Quoted equities | 22,793 | - | - | - |
| Subsidiaries | - | - | 9,407,102 | 7,310,310 |
| Total | 46,835,527 | 39,448,435 | 12,390,246 | 9,692,303 |

**6. Investment Securities (Continued)**

Included in the Government of Jamaica securities is interest receivable of $576,313,000 (2007 - $865,727,000) and $80,637,000 (2007 - $82,554,000) for the Group and the company respectively. Included in Government of Jamaica securities are instruments which mature between 3 months and 12 months or which the Group intends to realise within 12 months and have an effective interest rate of 13.58% (2007 - 12.5 %).

Included in Government of Jamaica securities is $1,590,044,000 (2007 - $1,431,070,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 11% (2007 - 9%) of the banking subsidiary's prescribed liabilities. It is not available for investment, lending or other use by the Group or the banking subsidiary.

Investment securities of $28,944,183,000 (2007 - $25,484,036,000) have been pledged by the Group as collateral for securities sold under repurchase agreements.

**Reclassification of investment securities**

On 1 October 2008, the Group reclassified the following investment securities from available-for-sale to loans and receivables, as the market for these securities became inactive. The fair value at the reclassification date became the amortised cost of the newly reclassified loans and receivables. The table below shows the carrying value and the fair value of these securities at 31 December 2008 based on discounted cash flow techniques. There are no comparative disclosures as the amendment to IAS 39 which facilitates the reclassification was implemented in 2008 and is not retrospective.

| | **Group** | |
|---|---|---|
| | **Carrying Value** | **Fair Value** |
| | **$'000** | **$'000** |
| US$ Government of Jamaica Global Bonds | 7,121,084 | 6,277,578 |
| Euro Government of Jamaica Global Bonds | 1,473,707 | 1,312,811 |
| Corporate and other bonds | 644,265 | 444,582 |
| | 9,239,056 | 8,034,971 |

(a) Fair value losses of $448,859,000 exclusive of deferred taxation were recognised in equity in relation to the above investments reclassified during the year.

(b) Additional fair value losses of $2,553,940,000, exclusive of deferred taxation, would have been included in equity at the end of the year had the investments not been reclassified. This amount was estimated on the basis of the prices of the securities as at 31 December 2008. Management does not believe that these prices are necessarily indicative of the prices that would have obtained if an active market for the securities actually existed at that date.

(c) The weighted average effective interest rate of the investments at the date of reclassification was 9.34% for US$ investments and 10.50% for Euro investments. The undiscounted cash flows to be recovered from the investments reclassified, if held to maturity, amount to $12,787,317,000.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**7. Receivables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Trade receivables, less provision for impairment | 4,139,104 | 3,892,580 | 866,307 | 691,579 |
| Insurance receivables, less provision for impairment | 2,990,038 | 2,127,434 | - | - |
| Receivable from associates (Note 34(d)) | 2,772 | 34,509 | 827 | 23,634 |
| Prepayments | 501,779 | 476,567 | 60,251 | 58,967 |
| Other receivables | 934,146 | 1,388,044 | 55,812 | 47,500 |
| | 8,567,839 | 7,919,134 | 983,197 | 821,680 |

The fair values of trade and other receivables approximate carrying values.

**8. Inventories**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Raw materials and spares | 419,029 | 323,645 | - | - |
| Work in process | 2,515 | 1,485 | - | - |
| Finished goods | 912,313 | 1,357,375 | - | - |
| Merchandise | 3,807,305 | 2,713,075 | 859,952 | 508,502 |
| Goods in transit | 441,236 | 622,191 | 297,635 | 394,239 |
| | 5,582,398 | 5,017,771 | 1,157,587 | 902,741 |

**9. Loans Receivable**

(a) Loans receivable comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Finance leases, less deferred profit | 469,423 | 422,709 | - | - |
| Loans and receivables – | | | | |
| Loans to subsidiaries (Note 34 (f)) | - | - | 480 | 29,739 |
| Loans to associated companies (Note 34 (f)) | 191,144 | 13,606 | 55,973 | - |
| Loans to others | 8,669,670 | 5,227,392 | - | - |
| Other receivables | 58,767 | 84,031 | 399 | 399 |
| | 9,389,004 | 5,747,738 | 56,852 | 30,138 |

Loans receivable are due within 5 years from the balance sheet date.

Included in loans receivable is interest receivable of $116,748,000 (2007: $81,893,000) for the Group.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 9. Loans Receivable (Continued)

(b) Finance lease receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Gross receivables from finance leases: | | | | |
| Not later than 1 year | 277,745 | 254,267 | - | - |
| Later than 1 year and not later than 5 years | 287,758 | 245,117 | - | - |
| | 565,503 | 499,384 | - | - |
| Unearned future finance income on finance leases | (96,080) | (76,675) | - | - |
| Net investment in finance leases | 469,423 | 422,709 | - | - |
| The net investment in finance leases is analysed as follows: | | | | |
| Not later than 1 year | 221,407 | 206,783 | - | - |
| Later than 1 year and not later than 5 years | 248,016 | 215,926 | - | - |
| Total | 469,423 | 422,709 | - | - |

### 10. Investments in Associates

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At beginning of year | 763,442 | 657,699 | 219,950 | 219,950 |
| Share of results before tax | 142,916 | 99,941 | - | - |
| Share of tax | (47,064) | (54,854) | - | - |
| Share of results after tax | 95,852 | 45,087 | - | - |
| Additions | - | 67,682 | - | - |
| Movement in other reserves | (7,963) | (7,026) | - | - |
| At end of year | 851,331 | 763,442 | 219,950 | 219,950 |

The assets, liabilities, revenue and net profit of associates are as follows:

| | **2008 $'000** | **2007 $'000** |
|---|---|---|
| Assets | 8,033,871 | 5,256,487 |
| Liabilities | 5,853,165 | 3,596,182 |
| Revenue | 5,372,054 | 3,688,620 |
| Net Profit | 233,929 | 42,845 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**11. Intangible Assets**

| | Brands and Customer Relationships $'000 | Distribution Channel and Exclusive Agency Agreements $'000 | Goodwill $'000 | Computer Software $'000 | Policy Contracts $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| | | | | Group | | |
| **Cost** | | | | | | |
| At 1 January 2007 | - | 119,433 | 305,873 | 648,370 | 589,088 | 1,662,764 |
| Additions | - | - | - | 125,832 | - | 125,832 |
| Acquisition of subsidiaries (Note 36) | 924,127 | 36,692 | 707,837 | - | - | 1,668,656 |
| At 31 December 2007 | 924,127 | 156,125 | 1,013,710 | 774,202 | 589,088 | 3,457,252 |
| Additions | 362,394 | - | - | 243,925 | - | 606,319 |
| Exchange differences | (91,658) | (666) | (79,982) | - | - | (172,306) |
| At 31 December 2008 | 1,194,863 | 155,459 | 933,728 | 1,018,127 | 589,088 | 3,891,265 |
| **Accumulated Amortisation** | | | | | | |
| At 1 January 2007 | - | 37,828 | 99,117 | 501,722 | 39,273 | 677,940 |
| Amortisation charge for the year | 68,887 | 23,334 | - | 64,390 | 39,273 | 195,884 |
| Impairment charge | - | 71,311 | - | - | - | 71,311 |
| At 31 December 2007 | 68,887 | 132,473 | 99,117 | 566,112 | 78,546 | 945,135 |
| Amortisation charge for the year | 71,293 | 12,231 | - | 147,059 | 39,272 | 269,855 |
| Impairment charge | - | - | 189,278 | - | - | 189,278 |
| At 31 December 2008 | 140,180 | 144,704 | 288,395 | 713,171 | 117,818 | 1,404,268 |
| **Net Book Amount** | | | | | | |
| 31 December 2008 | 1,054,683 | 10,755 | 645,333 | 304,956 | 471,270 | 2,486,997 |
| 31 December 2007 | 855,240 | 23,652 | 914,593 | 208,090 | 510,542 | 2,512,117 |

On 1 October 2008, one of the insurance subsidiaries acquired a portfolio of insurance contracts in the Turks and Caicos Islands. During the year the Group recognised an impairment charge of $189,278,000 for goodwill in subsidiaries in the Retail and Trading and Food Trading Divisions.

*Impairment tests for goodwill*
The Group determines whether goodwill is impaired at least on an annual basis or when events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the cash generating unit (CGU) to which the goodwill is allocated. The recoverable amount is usually determined by reference to the value in use. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose an appropriate discount rate in order to calculate the present value of those future cash flows.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**11. Intangible Assets (Continued)**

The allocation of goodwill to the Group's cash generating units (CGUs) identified according to segment is as follows:

| | 2008 $000 |
|---|---|
| Retail & Trading | - |
| Food Trading | 600,241 |
| Banking & Investments | 45,092 |
| | 645,333 |

For the year ended 31 December 2008, management tested for impairment the goodwill allocated to all the CGUs.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value in use calculations:

| | Revenue Growth Rate | EBITDA to Revenue | Capital Expenditure to Revenue | Discount Rate |
|---|---|---|---|---|
| Retail & Trading | 2.5% | 3.91% | 1.67% | 26.95% |
| Food Trading | 4% | 4.61% | 0.65% | 11.10% |
| Banking & Investment | 10% | 10.95% | 0.03% | 10.50% |

| | Computer Software $'000 |
|---|---|
| | **Company** |
| **Cost** | |
| At 1 January 2007 | 161,676 |
| Additions | 4,106 |
| At 31 December 2007 | 165,782 |
| Additions | 40,315 |
| At 31 December 2008 | 206,097 |
| **Accumulated Amortisation** | |
| At 1 January 2007 | 121,252 |
| Amortisation charge for the year | 3,939 |
| At 31 December 2007 | 125,191 |
| Amortisation charge for the year | 16,995 |
| At 31 December 2008 | 142,186 |
| **Net Book Amount** | |
| 31 December 2008 | 63,911 |
| 31 December 2007 | 40,591 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**12. Fixed Assets**

| | Freehold Land and Buildings $'000 | Leasehold Buildings and Improvements $'000 | Plant, Equipment, Fixtures & Vehicles $'000 | Capital Work in Progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | **Group** | | |
| **Cost or Valuation** | | | | | |
| At 1 January 2007 | 939,837 | 695,908 | 2,814,700 | 163,471 | 4,613,916 |
| Additions | 14,870 | 107 | 558,954 | - | 573,931 |
| Acquisition of subsidiaries (Note 36) | - | 289,001 | 649,647 | - | 938,648 |
| Transfers | - | - | 917 | (917) | - |
| Disposals | - | (107,098) | (74,977) | (12,953) | (195,028) |
| At 31 December 2007 | 954,707 | 877,918 | 3,949,241 | 149,601 | 5,931,467 |
| Additions | 2,399 | 29,094 | 357,332 | 725,395 | 1,114,220 |
| Revaluation surplus | 586,060 | - | - | - | 586,060 |
| Transfers | 3,328 | 1,065 | 60,920 | (65,313) | - |
| Disposals | - | (95,097) | (29,912) | (15,807) | (140,816) |
| At 31 December 2008 | 1,546,494 | 812,980 | 4,337,581 | 793,876 | 7,490,931 |
| **Accumulated Depreciation** | | | | | |
| At 1 January 2007 | 12,014 | 421,132 | 1,833,145 | - | 2,266,291 |
| Charge for the year | 9,440 | 9,341 | 377,359 | - | 396,140 |
| Acquisition of subsidiaries (Note 36) | - | 57,436 | 328,806 | - | 386,242 |
| On disposals | - | (46,837) | (63,781) | - | (110,618) |
| At 31 December 2007 | 21,454 | 441,072 | 2,475,529 | - | 2,938,055 |
| Charge for the year | 7,021 | 52,246 | 431,103 | - | 490,370 |
| Revaluation adjustment | (12,228) | - | - | - | (12,228) |
| On disposals | - | (97,645) | (25,988) | - | (123,633) |
| At 31 December 2008 | 16,247 | 395,673 | 2,880,644 | - | 3,292,564 |
| **Net Book Value** | | | | | |
| 31 December 2008 | 1,530,247 | 417,307 | 1,456,937 | 793,876 | 4,198,367 |
| 31 December 2007 | 933,253 | 436,846 | 1,473,712 | 149,601 | 2,993,412 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**12. Fixed Assets (Continued)**

| | Freehold Land and Buildings $'000 | Leasehold Buildings and Improvements $'000 | Plant, Equipment, Fixtures & Vehicles $'000 | Capital Work in Progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | Company | | |
| **Cost or Valuation** | | | | | |
| At 1 January 2007 | 15,000 | 94,857 | 389,405 | - | 499,262 |
| Additions | - | 3,661 | 54,880 | 27,757 | 86,298 |
| Disposals | - | (21,896) | (12,344) | - | (34,240) |
| Transfers | - | (5,893) | 5,893 | - | - |
| At 31 December 2007 | 15,000 | 70,729 | 437,834 | 27,757 | 551,320 |
| Additions | - | 18,081 | 54,095 | 523,705 | 595,881 |
| Disposals | - | - | (1,179) | - | (1,179) |
| Revaluation surplus | 9,000 | - | - | - | 9,000 |
| At 31 December 2008 | 24,000 | 88,810 | 490,750 | 551,462 | 1,155,022 |
| **Accumulated Depreciation** | | | | | |
| At 1 January 2007 | - | 63,365 | 311,911 | - | 375,276 |
| Charge for the year | 262 | 5,662 | 71,032 | - | 76,956 |
| On disposals | - | (8,128) | (8,382) | - | (16,510) |
| Transfers | - | (4,163) | 4,163 | - | - |
| At 31 December 2007 | 262 | 56,736 | 378,724 | - | 435,722 |
| Charge for the year | 263 | 9,300 | 54,056 | - | 63,619 |
| On disposals | - | - | (1,179) | - | (1,179) |
| Revaluation adjustment | (525) | - | - | - | (525) |
| At 31 December 2008 | - | 66,036 | 431,601 | - | 497,637 |
| **Net Book Value** | | | | | |
| 31 December 2008 | 24,000 | 22,774 | 59,149 | 551,462 | 657,385 |
| 31 December 2007 | 14,738 | 13,993 | 59,110 | 27,757 | 115,598 |

(a) The tables above include carrying values of $48,457,000 (2007: $56,324,000) and $36,816,000 (2007: $48,873,000) for the Group and the company, respectively, representing assets being acquired under finance leases.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**12. Fixed Assets (Continued)**

(b) If land and buildings were stated on the historical cost basis, the amounts would be as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Cost | 443,029 | 423,718 | 8,879 | 8,879 |
| Accumulated depreciation | 73,941 | 66,924 | 3,488 | 3,267 |
| Net Book Value | 369,088 | 356,794 | 5,391 | 5,612 |

(c) The Group's land and buildings were last revalued during 2008 by independent valuers. The valuations were done on the basis of open market value. The revaluation surpluses, net of applicable deferred income taxes, were credited to the capital and fair value reserves in equity (Note 19).

(d) Borrowing costs of $24,935,000 (2007 - nil) arising on financing specifically entered into for the construction of a new distribution centre were capitalised during the year and are included in 'additions' in capital work in progress.

A capitalisation rate of 17.4% (2007 - nil) was used, representing the borrowing cost of the loans used to finance the project.

**13. Deferred Income Taxes**

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 ⅓%.

The movement on the deferred income tax account is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At beginning of year | (1,859,452) | (1,861,002) | (1,670,410) | (1,436,786) |
| Profit and loss account charge (Note 27) | (12,348) | (156,192) | (208,470) | (218,361) |
| Tax credited/(charged) to equity | 545,579 | 152,309 | 100,992 | (15,263) |
| Exchange differences | (51,301) | 5,433 | - | - |
| At end of year | (1,377,522) | (1,859,452) | (1,777,888) | (1,670,410) |

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Subject to agreement with the Taxpayer Audit and Assessment Department, the Group has recognised tax losses of $1,255,263,000 (2007: $782,571,000) to carry forward indefinitely against future taxable income.

Deferred income tax assets of $387,898,000 (2007: $459,913,000) have not been established for the withholding and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested; such unremitted earnings totalled $1,163,693,000 (2007: $1,379,738,000).

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**13. Deferred Income Taxes (Continued)**

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | **Fixed Assets $'000** | **Fair Value Gains $'000** | **Unrealised Foreign Exchange Gains $'000** | **Pension Plan Assets $'000** | **Other $'000** | **Total $'000** |
| At 1 January 2007 | 251,381 | 251,627 | 29,422 | 1,936,964 | 214,735 | 2,684,129 |
| (Credited)/charged to net profit | (9,824) | 885 | (487) | 245,921 | (14,619) | 221,876 |
| Charged/(credited) to equity | 4,309 | (152,168) | - | - | - | (147,859) |
| Exchange differences | 1 | - | - | - | 83 | 84 |
| At 31 December 2007 | 245,867 | 100,344 | 28,935 | 2,182,885 | 200,199 | 2,758,230 |
| Charged /(credited) to net profit | 30,207 | (15,490) | 62,252 | 205,497 | 363,991 | 646,457 |
| Charged/(credited) to equity | 132,635 | (84,854) | - | - | - | 47,781 |
| Exchange differences | - | - | - | - | 265 | 265 |
| At 31 December 2008 | 408,709 | - | 91,187 | 2,388,382 | 564,455 | 3,452,733 |

| **Deferred tax assets** | **Fixed Assets $'000** | **Fair Value Losses $'000** | **Unutilised Tax Losses $'000** | **Employee Benefit Obligations $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| At 1 January 2007 | 63,575 | - | 221,144 | 391,857 | 146,551 | 823,127 |
| (Charged)/credited to net profit | (1,546) | - | 34,365 | 66,854 | (33,989) | 65,684 |
| Credited to equity | - | - | - | - | 4,450 | 4,450 |
| Exchange differences | 19 | - | 5,348 | - | 150 | 5,517 |
| At 31 December 2007 | 62,048 | - | 260,857 | 458,711 | 117,162 | 898,778 |
| (Charged)/credited to net profit | (2,352) | - | 209,615 | 94,342 | 332,504 | 634,109 |
| Credited to equity | 2,598 | 590,762 | - | - | - | 593,360 |
| Exchange differences | 272 | - | (52,051) | - | 743 | (51,036) |
| At 31 December 2008 | 62,566 | 590,762 | 418,421 | 553,053 | 450,409 | 2,075,211 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**13. Deferred Income Taxes (Continued)**

| | Company | | | | | |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | **Fixed Assets $'000** | **Fair Value Gains $'000** | **Unrealised Foreign Exchange Gains $'000** | **Pension Plan Asset $'000** | **Other $'000** | **Total $'000** |
| At 1 January 2007 | 19,162 | 52,573 | - | 1,566,044 | 20,684 | 1,658,463 |
| (Credited)/charged to net profit | (83) | - | - | 228,386 | (1,591) | 226,712 |
| Charged to equity | 1,544 | 13,719 | - | - | - | 15,263 |
| At 31 December 2007 | 20,623 | 66,292 | - | 1,794,430 | 19,093 | 1,900,438 |
| (Credited)/charged to net profit | (525) | - | 49,862 | 194,520 | 2,712 | 246,569 |
| Charged/(credited) to equity | 2,958 | (66,292) | - | - | - | (63,334) |
| At 31 December 2008 | 23,056 | - | 49,862 | 1,988,950 | 21,805 | 2,083,673 |

| **Deferred tax assets** | **Fixed Assets $'000** | **Fair Value Losses $'000** | **Unutilised Tax Losses $'000** | **Employee Benefit Obligations $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| At 1 January 2007 | 9,724 | - | 22,483 | 170,278 | 19,192 | 221,677 |
| Credited/(charged) to net profit | 2,167 | - | (12,301) | 13,964 | 4,521 | 8,351 |
| At 31 December 2007 | 11,891 | - | 10,182 | 184,242 | 23,713 | 230,028 |
| Credited/(charged) to net profit | 1,033 | | (10,182) | 46,866 | 382 | 38,099 |
| Credited to equity | - | 37,658 | - | - | - | 37,658 |
| At 31 December 2008 | 12,924 | 37,658 | - | 231,108 | 24,095 | 305,785 |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Deferred tax assets | 659,309 | 241,177 | - | - |
| Deferred tax liabilities | (2,036,831) | (2,100,629) | (1,777,888) | (1,670,410) |
| | (1,377,522) | (1,859,452) | (1,777,888) | (1,670,410) |
| The gross amounts shown in the above tables include the following: | | | | |
| Deferred tax assets to be recovered after more than 12 months | 971,474 | 719,568 | 231,108 | 184,242 |
| Deferred tax liabilities to be settled after more than 12 months | (2,797,091) | (2,428,751) | (1,988,950) | (1,794,430) |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 14. Pensions and Other Post-Employment Obligations

The Group's pension scheme, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5% and employer contributions at 0.5%, as recommended by independent actuaries. Pension at normal retirement age is based on 2% of final 3-year average salary per year of pensionable service, plus any declared bonus pensions.

***Pension benefits***

The amounts recognised in the balance sheet are determined as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Present value of funded obligations | 5,924,104 | 3,275,165 | 2,857,737 | 1,144,593 |
| Fair value of plan assets | (12,640,786) | (13,227,574) | (8,833,872) | (9,253,431) |
| | (6,716,682) | (9,952,409) | (5,976,135) | (8,108,838) |
| Unrecognised actuarial (losses)/gains | (1,780,109) | 2,350,203 | (749,990) | 2,221,815 |
| Limitation on asset due to uncertainty of obtaining economic benefit | 1,331,642 | 1,053,553 | 759,274 | 503,734 |
| Asset in the balance sheet | (7,165,149) | (6,548,653) | (5,966,851) | (5,383,289) |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **$'000** |
| **Beginning of year** | 3,275,165 | 3,160,584 | 1,144,593 | 1,254,726 |
| Current service cost | 345,153 | 267,270 | 104,846 | 75,884 |
| Interest cost | 455,825 | 398,211 | 155,968 | 154,991 |
| Actuarial losses/(gains) | 2,075,912 | (332,044) | 1,551,695 | (262,968) |
| Benefits paid | (227,951) | (218,856) | (99,365) | (78,040) |
| **End of year** | 5,924,104 | 3,275,165 | 2,857,737 | 1,144,593 |

The movement in the fair value of plan assets for the year is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| **Beginning of year** | 13,227,574 | 11,246,524 | 9,253,431 | 7,679,844 |
| Expected return on plan assets | 1,443,263 | 1,224,944 | 1,018,439 | 842,720 |
| Actuarial (losses)/ gains | (2,028,246) | 791,320 | (1,411,899) | 768,377 |
| Contributions | 226,146 | 183,641 | 73,266 | 40,530 |
| Benefits paid | (227,951) | (218,855) | (99,365) | (78,040) |
| **End of year** | 12,640,786 | 13,227,574 | 8,833,872 | 9,253,431 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**14. Pensions and Other Post-Employment Obligations (Continued)**

***Pension benefits (continued)***

The amounts recognised in the profit and loss account are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Current service cost | 133,996 | 95,961 | 35,964 | 38,009 |
| Interest cost | 455,825 | 398,211 | 155,968 | 154,991 |
| Expected return on plan assets | (1,443,263) | (1,224,944) | (1,018,439) | (842,720) |
| Net actuarial gains recognised in year | (59,089) | (39,807) | (55,937) | (10,717) |
| | (912,531) | (770,579) | (882,444) | (660,437) |
| Reduction/(increase) in income due to limitation on asset | 311,025 | 45,149 | 303,267 | (22,065) |
| Total, included in staff costs (Note 26) | (601,506) | (725,430) | (579,177) | (682,502) |

The total credit of $601,506,000 (2007 - $725,430,000) and $579,177,000 (2007 - $682,502,000) for the Group and company respectively was included in administration expenses for both years.

The expected contributions to the plan by the Group for the year ended 31 December 2009 amount to $179,929,000.

The actual return on plan assets was -$590,916,000 (2007 - $2,030,821,000) for the Group.

The plan assets are comprised of :

| | **2008 $'000** | **2007 $'000** |
|---|---|---|
| Equity | 2,399,683 | 3,476,647 |
| Debt | 224,068 | 296,164 |
| Government securities | 6,484,342 | 7,413,764 |
| Other | 3,532,693 | 2,040,999 |
| | 12,640,786 | 13,227,574 |

The pension plan assets include the company's ordinary stock units with a fair value of $655,291,000 (2007: $1,077,087,000), buildings occupied by Group companies with fair values of $513,000,000 (2007: $379,900,000), repurchase agreement investments of $1,078,713,000 (2007: $1,343,509,000), finance lease receivables from Group companies of nil (2007: $3,687,000) and loan receivables from Group companies of nil (2007: $220,195,000).

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The benefit that the company derives from the surplus of the pension plan is limited to the extent of the reduction in future contributions that it will make to the pension scheme.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**14. Pensions and Other Post-Employment Obligations (Continued)**

***Pension benefits (continued)***

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for plan assets and liabilities is as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2006 $'000** | **2005 $'000** | **2004 $'000** |
| Fair value of plan assets | (12,640,788) | (13,227,574) | (11,246,524) | (10,771,720) | (10,198,658) |
| Defined benefit obligation | 5,924,104 | 3,275,165 | 3,160,584 | 2,512,668 | 1,949,894 |
| Surplus | (6,716,684) | (9,952,409) | (8,085,940) | (8,259,052) | (8,248,764) |
| Experience adjustments – | | | | | |
| Fair value of plan assets | (2,028,243) | 791,320 | (584,036) | (648,147) | 1,752,673 |
| Defined benefit obligation | (29,655) | 166,624 | (24,542) | 282,615 | (108,819) |

| | Company | | | | |
|---|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2006 $'000** | **2005 $'000** | **2004 $'000** |
| Fair value of plan assets | (8,833,874) | (9,253,431) | (7,679,844) | (4,392,071) | (7,720,934) |
| Defined benefit obligation | 2,857,737 | 1,144,593 | 1,254,726 | 1,033,342 | 764,439 |
| Surplus | (5,976,137) | (8,108,838) | (6,425,118) | (3,358,729) | (6,956,495) |
| Experience adjustments – | | | | | |
| Fair value of plan assets | (1,430,040) | 768,377 | 2,613,147 | (4,250,865) | 1,823,542 |
| Defined benefit obligation | 642,908 | (117,236) | (12,083) | 169,563 | (2,010) |

***Other post-employment obligations***

The Group operates a number of post-employment benefit schemes, principally in Jamaica. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built up to cover the obligations under these retirement benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long term increase in health costs of 10.5% per year (2007: 10% per year).

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 14. Pensions and Other Post-Employment Obligations (Continued)

***Other post-employment obligations (continued)***

The amounts recognised in the balance sheet were determined as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** **$'000** | **2007** **$'000** | **2008** **$'000** | **2007** **$'000** |
| Present value of unfunded obligations | 1,504,127 | 1,368,518 | 755,673 | 629,833 |
| Unrecognised actuarial gains/(losses) | 155,033 | 7,614 | (62,348) | (77,107) |
| Liability in the balance sheet | 1,659,160 | 1,376,132 | 693,325 | 552,726 |

Movement in the defined benefit obligation is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** **$'000** | **2007** **$'000** | **2008** **$'000** | **2007** |
| **Beginning of year** | 1,368,518 | 1,539,270 | 629,833 | 697,210 |
| Current service cost | 89,149 | 103,088 | 27,347 | 31,136 |
| Interest cost | 188,010 | 191,185 | 85,188 | 82,062 |
| Actuarial (gains)/losses | (90,165) | (350,979) | 40,279 | (91,591) |
| Past service cost - vested benefits | 28,534 | - | 23,190 | - |
| Benefits paid | (79,919) | (114,046) | (50,164) | (88,984) |
| **End of year** | 1,504,127 | 1,368,518 | 755,673 | 629,833 |

The amounts recognised in the profit and loss account were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** **$'000** | **2007** **$'000** | **2008** **$'000** | **2007** **$'000** |
| Current service cost | 89,149 | 103,088 | 27,347 | 31,136 |
| Interest cost | 188,010 | 191,185 | 85,188 | 82,062 |
| Net actuarial losses recognised in year | 57,253 | 20,328 | 55,037 | 17,677 |
| Past service cost – vested benefits | 28,534 | - | 23,190 | - |
| Total, included in staff costs (Note 26) | 362,946 | 314,601 | 190,762 | 130,875 |

The total charge was included in administration expenses.

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **Increase** **$'000** | **Decrease** **$'000** | **Increase** **$'000** | **Decrease** **$'000** |
| Effect on the aggregate of the current service cost and interest cost | 119,001 | 84,339 | 39,779 | 30,212 |
| Effect on the defined benefit obligation | 470,374 | 372,691 | 192,260 | 158,761 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 14. Pensions and Other Post-Employment Obligations (Continued)

***Other post-employment obligations (continued)***

The five-year trend for the defined benefit obligation and experience adjustments is as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2006 $'000 | 2005 $'000 | 2004 $'000 |
| Defined benefit obligation | 1,504,127 | 1,368,518 | 1,539,270 | 1,211,070 | 1,074,656 |
| Experience adjustments | 47,980 | (180,399) | 82,022 | 75,032 | 88,350 |

| | Company | | | | |
|---|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2006 $'000 | 2005 $'000 | 2004 $'000 |
| Defined benefit obligation | 755,673 | 629,833 | 697,210 | 573,828 | 468,244 |
| Experience adjustments | 81,881 | (33,270) | 53,583 | 61,907 | 52,064 |

***Principal actuarial assumptions used in valuing post-employment benefits***

The principal actuarial assumptions used were as follows:

| | 2008 | 2007 |
|---|---|---|
| Discount rate | 16% | 13% |
| Long term inflation rate | 10% | 8.75% |
| Expected return on plan assets | 11% | 12% |
| Future salary increases | 12.50% | 9.50% |
| Future pension increases | 10% | 3.50% |

*Mortality rate*
Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:

| | 2008 | 2007 |
|---|---|---|
| Male | 21.33 | 20.14 |
| Female | 25.09 | 25.17 |

The average expected remaining service life of the employees in the post retirement plans are as follows:

| **Plans** | **2008 Years** | **2007 Years** |
|---|---|---|
| Gratuity Plan | 18.0 | 18.0 |
| Group Life Plan | 18.4 | 21.9 |
| Insured Group Health | 19.4 | 19.2 |
| Pension Plan | 17.9 | 18.2 |
| Self Insured Health Plan | 13.3 | 13.8 |
| Superannuation Plan | 1.0 | 5.7 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**15. Bank and Other Loans**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Secured on assets | 2,488,823 | 3,131,923 | - | - |
| Unsecured | 12,226,668 | 6,894,516 | 4,521,148 | 5,842,078 |
| | 14,715,491 | 10,026,439 | 4,521,148 | 5,842,078 |

(a) Unsecured loans of subsidiaries are supported by promissory notes or letters of comfort from the parent company. Interest rates on these loans range between 3.75% - 21.75% (2007: 6.93% - 19.75%).

(b) Bank and other loans comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Bank overdrafts (Note 5) | 1,294,143 | 1,858,137 | 846,007 | 1,939,704 |
| Bank borrowings | 7,194,249 | 7,391,304 | 3,254,126 | 3,135,562 |
| Finance leases | 995 | 5,695 | 52,173 | 59,330 |
| Customer deposits | 17,588 | 220,836 | - | - |
| Other loans | 6,208,516 | 550,467 | 368,842 | 707,482 |
| Total borrowings | 14,715,491 | 10,026,439 | 4,521,148 | 5,842,078 |

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. All other borrowings are unsecured.

Included in bank borrowings is interest payable of $82,115,000 (2007: $77,057,000) and $9,607,000 (2007: $45,397,000) for the Group and the company, respectively.

Included in customer deposits is interest payable of $326,000 (2007: $219,000) for the Group.

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

(c) Finance lease liabilities – minimum lease payments:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Not later than 1 year | 836 | 5,008 | 28,064 | 27,800 |
| Later than 1 year and not later than 5 years | 205 | 1,117 | 38,791 | 51,262 |
| | 1,041 | 6,125 | 66,855 | 79,062 |
| Future finance charges on finance leases | (46) | (430) | (14,682) | (19,732) |
| Present value of finance lease liabilities | 995 | 5,695 | 52,173 | 59,330 |

The present value of finance lease liabilities is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Between 1 and 2 years | 995 | 5,549 | 38,012 | 35,622 |
| Between 2 and 5 years | - | 146 | 14,161 | 23,708 |
| | 995 | 5,695 | 52,173 | 59,330 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 16. Payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Trade payables | 4,643,439 | 3,817,353 | 652,205 | 320,008 |
| Payable to associates (Note 34(d)) | 334,034 | 239,566 | 277,265 | 211,488 |
| Accruals | 1,381,966 | 1,283,676 | 326,156 | 262,508 |
| Claims outstanding | 2,056,477 | 1,505,525 | - | - |
| Insurance reserves | 1,649,505 | 1,479,065 | - | - |
| Other payables | 1,926,350 | 1,412,740 | 482,534 | 483,938 |
| | 11,991,771 | 9,737,925 | 1,738,160 | 1,277,942 |

### 17. Provisions

Provisions comprise warranties as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At beginning of year | 6,810 | 9,285 | 6,221 | 6,221 |
| Additional provisions | 6,960 | - | - | - |
| Utilised during year | - | (2,475) | - | - |
| At end of year | 13,770 | 6,810 | 6,221 | 6,221 |

This relates to warranties given on roofing, which was undertaken by one of the subsidiary companies. The Group is no longer in this line of business and the warranties expire fully in 2036.

### 18. Share Capital

| | **2008** | **2007** | **2008** | **2007** |
|---|---|---|---|---|
| Authorised - | **'000** | **'000** | **'000** | **'000** |
| Ordinary shares | 400,000 | 400,000 | 400,000 | 400,000 |
| Issued and fully paid - | **'000** | **'000** | **$'000** | **$'000** |
| Ordinary stock units | 331,227 | 329,280 | 721,908 | 654,919 |
| Treasury shares | (2,073) | (3,145) | (168,029) | (235,180) |
| Issued and outstanding | 329,154 | 326,135 | 553,879 | 419,739 |

(a) During the year, the company issued 1,947,000 (2007: 1,472,000) shares to its employees for cash of $66,989,000 (2007: $48,964,000). The shares were issued under the Directors, Senior Managers and Permanent Employees Stock Option Plans.

(b) During the year, the company through its employee investment trust sold 1,072,000 (2007: purchased 585,000) of its own shares at a fair value of $67,151,000 (2007: $34,911,000). The total number of treasury shares held by the company at the end of the year is 2,073,000 at a cost of $168,029,000, (2007: 3,145,000 shares at a cost of $235,180,000).

**18. Share Capital (Continued)**

(c) At the Annual General Meeting held on 25 June 2002, the stockholders passed a resolution for 7,000,000 of the authorised but unissued shares of $1.00 each to be set aside for allocation and sale to the directors of the company. The allocation and sale of these shares are governed by the provisions of the 2002 Stock Option Plan for the Directors of GraceKennedy Limited.

On 1 July 2002, under the rules of the Stock Option Plan, the following allocation was made:

| | No. of Shares |
|---|---|
| Executive directors | 5,973,160 |
| Non-executive-directors | 600,000 |

The options were granted at a subscription price of $32.81, being the mid-market price of the company's shares on the Jamaica Stock Exchange at the grant date, and are exercisable over a period of ten years, at the end of which time unexercised options will expire. One-fifth of the total of the grant to each director will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

As a result of the issue of bonus shares on 18 December 2002, the amount of shares allocated was increased and the option price per share reduced. The new option price has been set at $27.34, with adjusted allocations as follows:

| | No. of Shares |
|---|---|
| Executive directors | 7,167,792 |
| Non-executive-directors | 720,000 |

At a Board Meeting held on 27 January 2006, the directors passed a resolution for 120,000 of the authorised but unissued shares of $1.00 each to be set aside for allocation and sale to the directors of the company. The allocation and sale of these shares are governed by the provisions of the 2002 Stock Option Plan for the Directors of GraceKennedy Limited.

The options were granted at a subscription price of $85.59, being the mid-market price of the company's shares on the Jamaica Stock Exchange at the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-fifth of the total of the grant to each director will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on directors' stock options:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Executive '000 | Non – Executive '000 | Executive '000 | Non – Executive '000 |
| **At 1 January** | 3,859 | 600 | 4,736 | 600 |
| Exercised | (1,047) | (168) | (877) | - |
| **At 31 December** | 2,812 | 432 | 3,859 | 600 |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**18. Share Capital (Continued)**

(d) At the Annual General Meeting held on 29 May 2003, the stockholders passed a resolution for 10,000,000 of the authorised but unissued shares of $1.00 each to be set aside for allocation and sale to the managers of the company. The allocation and sale of these shares will be governed by the provisions of the 2003 Stock Option Plan for the Managers of GraceKennedy Limited.

On 28 August 2003, under the rules of the Stock Option Plan, the following allocation was made:

| | **No. of Shares** |
|---|---|
| Senior managers | 5,999,931 |

The options were granted at a subscription price of $41.92, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-third of the total of the grant to each senior manager will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

| | **2008 '000** | **2007 '000** |
|---|---|---|
| **At 1 January** | 2,353 | 3,311 |
| Exercised | (604) | (596) |
| Forfeited | | (362) |
| **At 31 December** | 1,749 | 2,353 |

(e) A second grant from the Senior Managers 2003 Stock Option Plan was allocated. The allocation and sale of these shares will be governed by the provisions of the 2003 Stock Option Plan for the Managers of GraceKennedy Limited.

On 25 November 2004, under the rules of the Stock Option Plan, the following allocation was made:

| | **No. of Shares** |
|---|---|
| Senior managers | 1,967,291 |

The options were granted at a subscription price of $115.97, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire.

Movement on this option:

| | **2008 '000** | **2007 '000** |
|---|---|---|
| **At 1 January** | 1,162 | 1,621 |
| Forfeited | (51) | (459) |
| **At 31 December** | 1,111 | 1,162 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**18. Share Capital (Continued)**

(f) At the Annual General Meeting held on 28 May 2008, the stockholders passed a resolution for 10,000,000 of the authorised but unissued shares of no par value to be set aside for allocation and sale to the permanent employees of the company. The allocation and sale of these shares will be governed by the provisions of the 2008 Stock Offer Plan for the permanent employees of GraceKennedy Limited.

On 1 October 2008, under the rules of the Stock Offer Plan, the following allocation was made:

| | No. of Shares |
|---|---|
| Permanent employees | 1,524,400 |

The options were granted at a subscription price of $66.43, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the date on which the grant was approved less a 25% discount, and are exercisable over a period of two years, at the end of which time unexercised options will expire. The total of the grant to each permanent employee was fully vested at the date of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Movement on this option:

| | 2008 '000 | 2007 '000 |
|---|---|---|
| **At 1 January** | - | - |
| Granted | 1,524 | |
| Forfeited | (32) | - |
| **At 31 December** | 1,492 | - |

(g) Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Average exercise price in $ per share | Options '000 | Average exercise price in $ per share | Options '000 |
| **At 1 January** | 45.43 | 7,974 | 46.72 | 10,268 |
| Granted | 66.43 | 1,524 | - | - |
| Forfeited | 96.93 | (83) | 83.37 | (821) |
| Exercised | 32.18 | (1,819) | 33.25 | (1,473) |
| **At 31 December** | 52.26 | 7,596 | 45.43 | 7,974 |

Shares totalling 7,524,000 (2007: 7,878,000) are exercisable at the balance sheet date.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| | | 2008 | 2007 |
|---|---|---|---|
| | Exercise price in $ per share | Options '000 | Options '000 |
| 2009 | 41.92 | 1,749 | 2,353 |
| 2010 | 115.97 | 2,603 | 1,162 |
| 2011 | - | - | - |
| 2012 | 28.91 | 3,244 | 4,459 |
| | | 7,596 | 7,974 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 18. Share Capital (Continued)

(h) The fair value of options granted determined using the Binomial valuation model was $246,080,000. The significant inputs into the model were the share prices of $42, $118 and $70 at the grant dates, exercise prices of $41.92, $115.97 and $66.43, standard deviation of expected share price returns of 33.85%, 27.39% and 27.47%, dividend yield of 1.28%, 0.85% and 1.64%, option life of six years and two years and annual risk-free interest rate of 14% and 15.35%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share prices over the term of the options.

The breakdown of the fair value of options granted is as follows:

| | $'000 |
|---|---|
| Fair value of options granted | 246,080 |
| Expensed in 2003 | (19,906) |
| Expensed in 2004 | (53,899) |
| Expensed in 2005 | (75,224) |
| Expensed in 2006 | (35,844) |
| Expensed in 2007 | (11,111) |
| Expensed in 2008 | (34,087) |
| Amount to be expensed in future periods | 16,009 |

### 19. Capital and Fair Value Reserves

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital Reserve | Loan Loss Reserve | Fair Value Reserves | Total | Capital Reserve | Loan Loss Reserve | Fair Value Reserves | Total |
| | 2008 | | | | 2007 | | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Realised gains on disposal of assets | 93,262 | - | - | 93,262 | 93,262 | - | - | 93,262 |
| Capital distributions received | 46,750 | - | - | 46,750 | 46,750 | - | - | 46,750 |
| Realised gain on sale of shares | 141,982 | - | - | 141,982 | 129,304 | - | - | 129,304 |
| Profits capitalised by group companies | 2,457,309 | - | - | 2,457,309 | 2,457,309 | - | - | 2,457,309 |
| Unrealised surplus on the revaluation of fixed assets, net of deferred taxes | - | - | 882,395 | 882,395 | - | - | 469,692 | 469,692 |
| Fair value (losses)/gains, net of deferred taxes | - | - | (2,007,831) | (2,007,831) | - | - | 274,841 | 274,841 |
| Loan loss reserve | - | 83,192 | - | 83,192 | - | 49,321 | - | 49,321 |
| Other | 44,047 | - | - | 44,047 | 43,804 | - | - | 43,804 |
| | 2,783,350 | 83,192 | (1,125,436) | 1,741,106 | 2,770,429 | 49,321 | 744,533 | 3,564,283 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**19. Capital and Fair Value Reserves (Continued)**

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Capital Reserve | Fair Value Reserves | Total | Capital Reserve | Fair Value Reserves | Total |
| | | 2008 | | | 2007 | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Capital distributions received | 24,507 | - | 24,507 | 24,507 | - | 24,507 |
| Bonus shares issued | (41,803) | - | (41,803) | (41,803) | - | (41,803) |
| Unrealised surplus on the revaluation of fixed assets, net of deferred taxes | - | 13,528 | 13,528 | - | 6,367 | 6,367 |
| Fair value gains, net of deferred taxes | - | 66,141 | 66,141 | - | 261,954 | 261,954 |
| | (17,296) | 79,669 | 62,373 | (17,296) | 268,321 | 251,025 |

**20. Reserve Funds**

Reserve funds represent those statutory reserves required to be maintained by the banking subsidiary, First Global Bank Limited, in compliance with the Banking Act of Jamaica.

**21. Minority Interest**

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| **Beginning of year** | 1,574,453 | 773,382 |
| Share of net profit of subsidiaries | 106,411 | 99,684 |
| Dividends paid | - | (10,803) |
| Arising from dilution of Group's interest in subsidiary and business combination | - | 686,941 |
| Revaluation surplus | 68,343 | - |
| Other | 24,454 | 25,249 |
| **End of year** | 1,773,661 | 1,574,453 |

In 2007, the increase in the minority interest arose from the dilution of the Group's interest in a subsidiary and from a business combination. These were the sale of 25% shareholding in GraceKennedy Money Services Caribbean SRL to Western Union Financial Services Inc, (Note 25), and the 10% minority interest in First Global Trinidad & Tobago Limited (formerly One1 Financial Limited), a subsidiary acquired in 2007 by the Group, (Note 36).

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**22. Segment Information**

***Primary reporting format – business segments***

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Food Trading** | **Retail & Trading** | **Banking & Investments** | **Insurance** | **Money Services** | **Unallocated / Elimination** | **Group** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **REVENUE** | | | | | | | |
| External sales | 32,022,862 | 7,846,722 | 6,098,197 | 3,724,874 | 3,769,624 | - | 53,462,279 |
| Inter-segment sales | 88,094 | 17,542 | 77,774 | 306,073 | - | (489,483) | - |
| Total Revenue | 32,110,956 | 7,864,264 | 6,175,971 | 4,030,947 | 3,769,624 | (489,483) | 53,462,279 |
| **Segment result** | 765,060 | (315,827) | 867,534 | 388,441 | 1,057,903 | 75,851 | 2,838,962 |
| Unallocated income | | | | | | 644,933 | 644,933 |
| Profit from operations | | | | | | | 3,483,895 |
| Finance income | 39,470 | 25,737 | 86,916 | 56,284 | 96,013 | 90,872 | 395,292 |
| Finance expense | (238,076) | (161,452) | (30,438) | (3,055) | (4,288) | (133,172) | (570,481) |
| Share of results of associates | 46,480 | 11,158 | 27,666 | 13,545 | (2,997) | - | 95,852 |
| Profit before tax | 612,934 | (440,384) | 951,678 | 455,215 | 1,146,631 | 678,484 | 3,404,558 |
| Income tax expense | | | | | | | (1,006,562) |
| **Net Profit** | | | | | | | 2,397,996 |
| Segment assets | 15,903,437 | 3,162,280 | 56,099,621 | 8,462,918 | 4,283,658 | (5,917,007) | 81,994,907 |
| Investment in associates | 475,795 | 71,045 | 192,008 | 101,370 | 11,113 | - | 851,331 |
| Unallocated assets | | | | | | | 11,240,360 |
| Total Assets | | | | | | | 94,086,598 |
| Segment liabilities | 5,740,546 | 1,380,450 | 53,292,413 | 5,373,427 | 1,398,307 | (6,034,946) | 61,150,197 |
| Unallocated liabilities | | | | | | | 10,746,225 |
| | | | | | | | 71,896,422 |
| **Other segment items** | | | | | | | |
| Capital expenditure | 930,899 | 127,451 | 182,079 | 49,079 | 68,637 | - | 1,358,145 |
| Depreciation | (294,217) | (73,292) | (44,071) | (31,304) | (47,486) | - | (490,370) |
| Amortisation | (103,702) | (54,561) | (43,162) | (50,513) | (17,917) | - | (269,855) |
| Impairment | (36,104) | (153,174) | - | - | - | - | (189,278) |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**22. Segment Information (Continued)**

***Primary reporting format – business segments (continued)***

| | 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Food Trading** | **Retail & Trading** | **Banking & Investments** | **Insurance** | **Money Services** | **Unallocated/ Elimination** | **Group** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **REVENUE** | | | | | | | |
| External sales | 28,129,781 | 7,715,442 | 5,442,127 | 4,002,690 | 3,459,394 | - | 48,749,434 |
| Inter-segment sales | 44,471 | 16,339 | 77,211 | 318,822 | - | (456,843) | - |
| Total Revenue | 28,174,252 | 7,731,781 | 5,519,338 | 4,321,512 | 3,459,394 | (456,843) | 48,749,434 |
| **Segment result** | 768,992 | 374,187 | 1,031,960 | 291,008 | 954,563 | 127,283 | 3,547,993 |
| Unallocated income | | | | | | 1,589,974 | 1,589,974 |
| Profit from operations | | | | | | | 5,137,967 |
| Finance income | 31,910 | 20,924 | 77,645 | 80,426 | 55,898 | 97,020 | 363,823 |
| Finance expense | (265,251) | (91,684) | (28,507) | (945) | (23,672) | (334,644) | (744,703) |
| Share of results of associates | 63,729 | 12,714 | 29,114 | 13,453 | (73,923) | - | 45,087 |
| Profit before tax | 599,380 | 316,141 | 1,110,212 | 383,942 | 912,866 | 1,479,633 | 4,802,174 |
| Income tax expense | | | | | | | (1,266,958) |
| **Net Profit** | | | | | | | 3,535,216 |
| Segment assets | 14,000,517 | 3,287,626 | 46,570,870 | 6,741,178 | 3,685,070 | (6,545,795) | 67,739,466 |
| Investment in associates | 416,324 | 59,886 | 177,133 | 95,988 | 14,111 | - | 763,442 |
| Unallocated assets | | | | | | | 11,502,854 |
| Total Assets | | | | | | | 80,005,762 |
| Segment liabilities | 5,969,644 | 933,103 | 40,711,534 | 3,824,249 | 1,388,993 | (6,552,526) | 46,274,997 |
| Unallocated liabilities | | | | | | | 12,117,795 |
| | | | | | | | 58,392,792 |
| **Other segment items** | | | | | | | |
| Capital expenditure | 210,777 | 209,517 | 167,966 | 41,847 | 69,656 | - | 699,763 |
| Depreciation | (184,844) | (78,116) | (62,650) | (28,871) | (41,661) | - | (396,142) |
| Amortisation | (121,573) | (22,705) | - | (41,769) | (9,837) | - | (195,884) |
| Impairment | (71,311) | - | - | - | - | - | (71,311) |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

## 22. Segment Information (Continued)

***Secondary reporting format – geographical segments***

The Group is organised on a global basis into three main geographical areas.

(a) Jamaica is the home country of the parent company, which is also the main operating company. All principal activities operate in this area.
(b) The Caribbean – mainly food trading, insurance services and money transfer.
(c) Europe, Central & North America – mainly food trading.

| | Sales | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Jamaica | 36,719,709 | 33,931,675 | 72,451,498 | 60,584,751 | 1,290,510 | 645,639 |
| The Caribbean | 2,839,412 | 2,266,905 | 3,117,641 | 1,956,863 | 37,042 | 14,620 |
| Europe, Central & North America | 13,903,158 | 12,550,854 | 6,425,768 | 5,197,852 | 30,593 | 39,504 |
| | 53,462,279 | 48,749,434 | 81,994,907 | 67,739,466 | 1,358,145 | 699,763 |
| Associates | | | 851,331 | 763,442 | | |
| Unallocated assets | | | 11,240,360 | 11,502,854 | | |
| Total assets | | | 94,086,598 | 80,005,762 | | |

## 23. Revenues

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Sales of products and services | 43,639,208 | 39,304,617 | 10,062,660 | 8,629,224 |
| Financial services income | 4,651,209 | 5,091,045 | - | - |
| Interest income – | | | | |
| Available-for-sale securities | 4,222,355 | 3,599,708 | - | - |
| Loans and receivables | 949,507 | 754,064 | - | - |
| | 53,462,279 | 48,749,434 | 10,062,660 | 8,629,224 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**24. Expense by Nature**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Auditors' remuneration | 85,712 | 79,156 | 11,924 | 11,500 |
| Advertising and marketing | 1,097,436 | 957,230 | 377,362 | 323,550 |
| Amortisation of intangibles | 269,855 | 195,884 | 16,995 | 3,939 |
| Cost of inventory recognised as expense | 30,129,332 | 27,604,097 | 8,007,874 | 6,630,110 |
| Depreciation | 490,370 | 396,142 | 63,619 | 76,956 |
| Insurance | 356,197 | 339,058 | 58,372 | 63,091 |
| Interest expense and other financial services expenses | 6,562,502 | 6,452,474 | - | - |
| Legal, professional and other fees | 427,415 | 331,907 | 277,427 | 249,461 |
| Occupancy costs - Lease rental charges, utilities, etc. | 1,202,860 | 934,151 | 188,741 | 128,405 |
| Repairs and maintenance expenditure | 350,091 | 313,342 | 19,372 | 11,487 |
| Staff costs (Note 26) | 5,980,198 | 4,922,138 | 913,544 | 573,620 |
| Transportation | 700,466 | 619,021 | 144,857 | 115,074 |
| Other expenses | 3,573,183 | 2,578,871 | 659,632 | 592,715 |
| | 51,225,617 | 45,723,471 | 10,739,719 | 8,779,908 |

**25. Other Income**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Dividends | 4,159 | 7,815 | 264,478 | 130,750 |
| Net foreign exchange gains/(losses) | 545,410 | 20,145 | 202,207 | (16,589) |
| Change in value of investments | - | (33) | - | - |
| Gain on disposal of investments | 8,282 | 1,384,083 | 2,016,075 | 5,402,362 |
| (Loss)/gain on disposal of fixed assets | (6,690) | 2,400 | 151 | (10,983) |
| Fees and commissions | 148,331 | 191,539 | 1,410,934 | 886,145 |
| Interest income – available-for-sale securities | 357,918 | 267,173 | - | - |
| Rebates, reimbursements and recoveries | 128,923 | 171,623 | 68,274 | 83,597 |
| Miscellaneous | 60,900 | 67,259 | 3,514 | 7,944 |
| | 1,247,233 | 2,112,004 | 3,965,633 | 6,483,226 |

In 2007, the gain on disposal of investments of $1,384,083,000 related to the disposal of a 25% interest in GraceKennedy Money Services Caribbean SRL to Western Union Financial Services Inc. for US$29 million or J$2,056,854,000.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 26. Staff Costs

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Wages and salaries | 5,004,887 | 4,286,211 | 1,052,955 | 945,376 |
| Pension (Note 14) | (601,506) | (725,430) | (579,177) | (682,502) |
| Other post-employment benefits (Note 14) | 362,946 | 314,601 | 190,762 | 130,875 |
| Share options granted to employees | 34,087 | 11,111 | 34,087 | 11,111 |
| Other benefits | 1,179,784 | 1,035,645 | 214,917 | 168,760 |
| | 5,980,198 | 4,922,138 | 913,544 | 573,620 |

### 27. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Current tax | 994,214 | 1,110,766 | 68,975 | - |
| Deferred tax (Note 13) | 12,348 | 156,192 | 208,470 | 218,361 |
| | 1,006,562 | 1,266,958 | 277,445 | 218,361 |

The tax on the Group's and company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the company as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Profit before tax | 3,404,558 | 4,802,174 | 3,317,278 | 6,103,173 |
| Tax calculated at a tax rate of 33⅓% | 1,134,853 | 1,600,725 | 1,105,759 | 2,034,391 |
| Adjusted for the effects of: | | | | |
| Different tax rates in other countries | (55,958) | (76,329) | - | - |
| Income not subject to tax | (52,621) | (426,585) | (822,866) | (1,821,095) |
| Expenses not deductible for tax purposes | 75,667 | 199,489 | 12,316 | 3,939 |
| Adjustment to prior year provision | 1,158 | 4,674 | - | - |
| Share of profits of associates included net of tax | (31,951) | (15,029) | - | - |
| Recognition/utilisation of previously unrecognised tax losses | (69,872) | (15,101) | (20,186) | - |
| Other | 5,286 | (4,886) | 2,422 | 1,126 |
| Tax expense | 1,006,562 | 1,266,958 | 277,445 | 218,361 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 28. Net Profit Attributable to the equity holders of GraceKennedy Limited

Dealt with as follows in the financial statements of:

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| The company | 3,039,833 | 5,884,812 |
| Profit on disposal of subsidiaries within the Group eliminated on consolidation | (2,007,793) | (3,874,105) |
| Adjusted company profit | 1,032,040 | 2,010,707 |
| The subsidiaries | 1,163,693 | 1,379,738 |
| The associates | 95,852 | 45,087 |
| | 2,291,585 | 3,435,532 |

### 29. Dividends

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Paid, | | |
| Interim – 50 cents per stock unit (2007: 45 cents) | 164,363 | 146,763 |
| Final – 65 cents per stock unit ( 2007: 70 cents) | 213,950 | 228,411 |
| | 378,313 | 375,174 |

### 30. Earnings Per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary stock units outstanding during the year.

| | 2008 | 2007 |
|---|---|---|
| Net profit attributable to equityholders ($'000) | 2,291,585 | 3,435,532 |
| Weighted average number of stock units outstanding ('000) | 328,445 | 325,761 |
| Basic earnings per stock unit ($) | 6.98 | 10.55 |

The diluted earnings per stock unit is calculated by adjusting the weighted average number of ordinary stock units outstanding to assume conversion of all dilutive potential ordinary stock units.

(a) 3,244,001 (2007: 4,459,381) ordinary stock units for the full year in respect of the Stock Option Plan for directors (Note 18),
(b) 1,749,311 (2007: 2,352,945) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18),
(c) 1,110,555 (2007: 1,161,809) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18), and
(d) 1,492,400 (2007: nil) ordinary stock units for the full year in respect of the Stock Option Plan for permanent employees (Note 18).

| | 2008 | 2007 |
|---|---|---|
| Net profit attributable to equityholders ($'000) | 2,291,585 | 3,435,532 |
| Weighted average number of stock units outstanding ('000) | 328,445 | 325,761 |
| Adjustment for share options ('000) | 2,856 | 3,153 |
| | 331,301 | 328,914 |
| Diluted earnings per stock unit ($) | 6.92 | 10.45 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Net profit | 2,397,996 | 3,535,216 | 3,039,833 | 5,884,812 |
| Items not affecting cash: | | | | |
| Depreciation | 490,370 | 396,140 | 63,619 | 76,957 |
| Amortisation | 269,855 | 195,884 | 16,995 | 3,939 |
| Impairment charge | 189,278 | 71,311 | - | - |
| Loss/(gain) on disposal of fixed assets | 6,690 | (2,400) | (151) | 10,983 |
| Share options – value of employee services expensed | 34,087 | 11,111 | 34,087 | 11,111 |
| Profit on disposal of investments | (8,282) | (1,384,083) | (2,016,075) | (5,402,362) |
| Exchange (gain)/loss on foreign balances | (595,959) | 420,495 | 372,568 | 230,864 |
| Interest income – non financial services | (395,292) | (363,823) | (432,549) | (369,786) |
| Interest income – financial services | (5,457,326) | (4,620,945) | - | - |
| Interest expense – non financial services | 570,481 | 744,703 | 403,845 | 599,155 |
| Interest expense – financial services | 3,587,607 | 2,945,080 | - | - |
| Taxation expense | 1,006,562 | 1,266,958 | 277,445 | 218,362 |
| Unremitted equity income in associates | (74,897) | (38,061) | - | - |
| Pension plan surplus | (616,496) | (737,763) | (583,562) | (685,157) |
| Other post-employment obligations | 283,028 | 200,555 | 140,599 | 41,891 |
| | 1,687,702 | 2,640,378 | 1,316,654 | 620,769 |
| Changes in non-cash working capital components: | | | | |
| Inventories | (564,627) | (766,690) | (254,846) | (287,379) |
| Receivables | (648,705) | (790,703) | (161,517) | 69,304 |
| Loans receivables, net | (3,622,533) | (1,113,712) | - | - |
| Payables | 2,253,846 | 696,671 | 460,218 | 157,532 |
| Deposits | 1,125,530 | 1,618,788 | - | - |
| Securities sold under repurchase agreements | 3,478,133 | (709,016) | - | - |
| Subsidiaries | - | - | (1,239,260) | (904,286) |
| Provisions | 6,960 | (2,475) | - | - |
| Total provided by/(used in) operating activities | 3,716,306 | 1,573,241 | 121,249 | (344,060) |

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**31. Cash Flows from Operating Activities (Continued)**

Reconciliation of net profit to cash generated from operating activities:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Total provided by/(used in) operating activities | 3,716,306 | 1,573,241 | 121,249 | (344,060) |
| Interest received – financial services | 5,710,591 | 4,408,056 | - | - |
| Interest paid – financial services | (3,728,131) | (2,873,917) | - | - |
| Translation gains | 281,358 | 73,517 | - | - |
| Taxation paid | (1,355,306) | (928,911) | (30,009) | (32,394) |
| Cash provided by/(used in) operating activities | 4,624,818 | 2,251,986 | 91,240 | (376,454) |

**32. Commitments**

(a) Future lease payments under operating leases at 31 December 2008 were as follows:

| | | **$'000** |
|---|---|---|
| In financial year | 2009 | 471,392 |
| | 2010 | 385,996 |
| | 2011 | 351,301 |
| | 2012 and beyond | 1,134,885 |

(b) At 31 December 2008, the Group had $325,500,000 (2007: $14,760,000) in authorised capital expenditure for which it had established contracts.

**33. Contingent Liabilities**

Various companies in the Group are involved in certain legal proceedings incidental to the normal conduct of business. The management of these companies believes that none of these proceedings, individually or in aggregate, will have a material effect on the Group.

# GraceKennedy Limited

Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**34. Related Party Transactions and Balances**

The following transactions were carried out with related parties:

| | Group | | Company | |
|---|---|---|---|---|
| **(a) Sales of goods and services** | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Sales of goods | 358 | 318 | 392,555 | 293,932 |
| Sales of services | 95,700 | 59,376 | 1,429,276 | 909,515 |

| | Group | | Company | |
|---|---|---|---|---|
| **(b) Purchases of goods and services** | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Purchases of goods | 1,631,102 | 1,363,889 | 3,796,020 | 3,263,171 |
| Purchases of services | 280 | 1,222 | 37,468 | 12,036 |

The following transactions were carried out with other related parties:

| | The Group and Company | |
|---|---|---|
| **(c) Key management compensation** | **2008 $'000** | **2007 $'000** |
| Salaries and other short-term employee benefits | 179,937 | 133,275 |
| Statutory contributions | 16,259 | 12,043 |
| Termination benefits | - | 89,240 |
| Post-employment benefits | (167,368) | 54,740 |
| Share-based payments | 941 | 899 |
| | 29,769 | 290,197 |
| The following amounts are in respect of Directors' emoluments – | | |
| Fees | 13,958 | 13,661 |
| Management remuneration (included in staff costs) | 128,645 | 99,296 |
| Termination benefits | - | 70,000 |
| Pensions | 2,746 | 5,615 |
| | 145,349 | 188,572 |

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

**34. Related Party Transactions and Balances (Continued)**

**(d) Year-end balances arising from sales/purchases of goods and services**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Receivable from subsidiaries | - | - | 1,347,618 | 108,358 |
| Receivable from associates (Note 7) | 2,772 | 34,509 | 827 | 23,634 |
| Payable to associates (Note 16) | 334,034 | 239,566 | 277,265 | 211,488 |

**(e) Loans from related companies**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At beginning of year | - | - | 546,724 | 502,263 |
| Additions | - | - | 47,977 | 39,385 |
| Repayment | - | - | (227,400) | (15,153) |
| Exchange adjustment | - | - | 53,714 | 20,229 |
| At end of year | - | - | 421,015 | 546,724 |

| | The Group and Company | |
|---|---|---|
| Loan from GraceKennedy Limited Pension Scheme: | **2008 $'000** | **2007 $'000** |
| At beginning of year | 220,195 | 220,195 |
| Repayment | (220,195) | - |
| At end of year | - | 220,195 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| Leases from GraceKennedy Limited Pension Scheme: | | | | |
| At beginning of year | 3,687 | 15,848 | - | - |
| Repayment | (3,687) | (12,161) | - | - |
| At end of year | - | 3,687 | - | - |

The loan from GraceKennedy Limited Pension Scheme attracts interest at 13.75% for the first six months and thereafter at the Treasury bill rate plus 1.75%. The loan was repaid in 2008. The leases attract interest at 19.5% - 23% (2007: 19.5% - 23%) and were repaid in 2008.

**34. Related Party Transactions and Balances (Continued)**

**(f) Loans to related companies**

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 $'000** | **2007 $'000** | **2008 $'000** | **2007 $'000** |
| At beginning of year | 13,606 | 9,220 | 30,138 | 186,120 |
| Loans advanced during year | 327,650 | 20,041 | 49,737 | - |
| Loan repayments received | (157,589) | (15,655) | (29,658) | (155,982) |
| Exchange adjustment | 7,477 | - | 6,236 | - |
| At end of year (Note 9) | 191,144 | 13,606 | 56,453 | 30,138 |

The related interest income was $12,937,000 (2007: $497,000). The loans are due in 2009 and bear interest at 7.5% - 12.5% (2007: 12.5%). No provision was required in 2008 and 2007 for loans made to associates.

**(g) Loans to directors and key management**

| | Group | |
|---|---|---|
| | **2008 $'000** | **2007 $'000** |
| Beginning of the year | 9,736 | 10,643 |
| Loan repayments received | (726) | (1,042) |
| Interest charged | 1,086 | 1,354 |
| Interest received | (1,003) | (1,219) |
| End of the year | 9,093 | 9,736 |

These loans attract interest at 13% (2007: 13%) and are repayable in the years 2009 – 2016. These loans are secured and are made on terms similar to those offered to other employees.

No provision has been required in 2007 and 2008 for the loans made to directors and senior managers.

**(h) Share options granted to directors**

The outstanding number of share options granted to the directors of the company at the end of the year was 3,244,001 (2007: 4,459,381).

## 35. Fair Values of Financial Instruments

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

**Investments**
Fair value of debt instruments is based upon projected cash flows discounted at an estimated current market rate of interest. Fair value of equity instruments is determined based on quoted market prices for these instruments. When quoted market prices are not available, an approximation of fair value is based on the net underlying assets of the investee. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

**Loans receivable**
The carrying value of loans and leases approximates fair value because these loans and leases are contracted at market rates.

**Bank and other loans**
Bank and other loans reflect the Group's contractual obligations and are carried at amortised cost, which is deemed to approximate the fair value of these liabilities because these liabilities are subject to such terms and conditions as are available in the market for similar transactions.

## 36. Business Combinations

On 28 February 2007, the Group acquired 100% of the share capital of WT (Holdings) Limited, a leading ethnic and specialty foods supplier operating in the UK. On 19 July 2007, the Group acquired 90% of the share capital of One1 Financial Limited, a financial services company specialising in structured finance, securities trading, capital raising and financial advisory services operating in the Republic of Trinidad & Tobago. The acquired businesses contributed revenues of $7,886,776,000 and net profit of $41,241,000 to the Group since being acquired. If the acquisitions had occurred on 1 January 2007, Group revenue would have been $50,160,613,000, and net profit would have been $3,598,768,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill for the 28 February 2007 acquisition are as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 3,192,065 |
| Direct costs relating to the acquisition | 210,018 |
| Total purchase consideration | 3,402,083 |
| Fair value of net assets acquired | (2,739,338) |
| Goodwill (Note 11) | 662,745 |

The goodwill is attributable to company specific synergies including the internalisation of distribution of GraceKennedy products, new customer relationships and the workforce in place.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 36. Business Combinations (Continued)

The assets and liabilities as of 28 February 2007 arising from the acquisition are as follows:

| | Fair Value $'000 | Acquiree's Carrying Amount $'000 |
|---|---|---|
| Cash and cash equivalents | 44,188 | 44,188 |
| Fixed assets (Note 12) | 550,900 | 550,900 |
| Brands (included in intangibles) (Note 11) | 721,469 | - |
| Customer relations (included in intangibles) (Note 11) | 202,658 | - |
| Exclusive agency agreements (included in intangibles) (Note 11) | 36,692 | - |
| Investment securities | 25,908 | 25,908 |
| Inventories | 705,162 | 705,162 |
| Trade and other receivables | 1,292,622 | 1,292,622 |
| Trade and other payables | (840,261) | (840,261) |
| Net assets acquired | 2,739,338 | 1,778,519 |

| | $'000 |
|---|---|
| Purchase consideration settled in cash | 3,402,083 |
| Cash and cash equivalents in subsidiary acquired | (44,188) |
| **Cash outflow on acquisition** | 3,357,895 |

Details of net assets acquired and goodwill for the 19 July 2007 acquisition are as follows:

| | $'000 |
|---|---|
| Purchase consideration: | |
| Cash paid | 172,827 |
| Total purchase consideration | 172,827 |
| Fair value of net assets acquired | (127,735) |
| Goodwill (Note 11) | 45,092 |

The goodwill is attributable to the workforce in place.

# GraceKennedy Limited

## Notes to the Financial Statements
**31 December 2008**
(expressed in Jamaican dollars unless otherwise indicated)

### 36. Business Combinations (Continued)

The assets and liabilities as of 19 July 2007 arising from the acquisition are as follows:

| | Fair Value $'000 | Acquiree's Carrying Amount $'000 |
|---|---|---|
| Cash and cash equivalents | 2,874 | 2,874 |
| Fixed assets (Note 12) | 1,506 | 1,506 |
| Investment securities | 564,919 | 564,919 |
| Trade and other receivables | 28,100 | 28,100 |
| Trade and other payables | (455,471) | (455,471) |
| Net assets | 141,928 | 141,928 |
| Minority interest (10%) | (14,193) | |
| Net assets acquired | 127,735 | |
| Purchase consideration settled in cash | | 172,827 |
| Cash and cash equivalents in subsidiary acquired | | (2,874) |
| **Cash outflow on acquisition** | | 169,953 |
| **Total cash outflow on all acquisitions** | | 3,527,848 |

There were no acquisitions during the current year.