

**GRACEKENNEDY LIMITED**

**Financial Statements**  
**31 December 2010**

# GraceKennedy Limited

Index

31 December 2010

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## 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 and its associates ("the Group"), set out on pages 1 to 94, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying statement of financial position of GraceKennedy Limited standing alone as of 31 December 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2010, 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

1 March 2011

Kingston, Jamaica

# GraceKennedy Limited

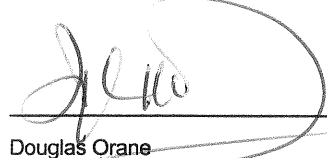
## Consolidated Statement of Financial Position

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Assets</b>			
Cash and deposits	5	13,609,782	10,608,376
Investment securities	6	41,049,236	43,420,747
Receivables	7	7,580,739	7,780,765
Inventories	8	5,727,961	5,501,746
Loans receivable	9	10,401,441	11,191,055
Taxation recoverable		1,339,110	1,001,844
Investments in associates	10	725,826	699,257
Intangible assets	11	2,042,293	2,491,055
Fixed assets	12	6,692,471	6,231,744
Deferred tax assets	13	923,572	1,202,078
Pension plan asset	14	7,973,705	7,438,584
<b>Total Assets</b>		<b>98,066,136</b>	<b>97,567,251</b>
<b>Liabilities</b>			
Deposits		13,033,915	11,980,676
Securities sold under agreements to repurchase		26,521,041	27,380,505
Bank and other loans	15	13,764,164	17,227,287
Payables	16	11,785,359	11,377,084
Taxation		361,824	437,067
Provisions	17	8,037	6,986
Deferred tax liabilities	13	2,541,777	2,367,502
Other post-employment obligations	14	2,206,862	1,945,132
<b>Total Liabilities</b>		<b>70,222,979</b>	<b>72,722,239</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the company's owners</b>			
Share capital	18	574,216	573,976
Capital and fair value reserves	19	4,443,059	2,781,614
Retained earnings		17,459,342	17,305,066
Banking reserves	20	2,222,315	627,685
Other reserves		1,998,873	2,409,301
		26,697,805	23,697,642
<b>Non - Controlling interest</b>	21	<b>1,145,352</b>	<b>1,147,370</b>
<b>Total Equity</b>		<b>27,843,157</b>	<b>24,845,012</b>
<b>Total Equity and Liabilities</b>		<b>98,066,136</b>	<b>97,567,251</b>

Approved for issue by the Board of Directors on 1 March 2011 and signed on its behalf by:



Douglas Orane

Chairman



Fay McIntosh

Chief Financial Officer

# GraceKennedy Limited

## Consolidated Income Statement

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Revenues</b>	23	55,318,408	57,406,415
<b>Expenses</b>	24	52,716,657	55,232,080
		2,601,751	2,174,335
Other income	25	1,056,456	1,488,561
<b>Profit from Operations</b>		3,658,207	3,662,896
Interest income – non-financial services		396,794	474,589
Interest expense – non-financial services		(902,092)	(627,661)
Share of results of associated companies	10	106,739	144,043
<b>Profit before Taxation</b>		3,259,648	3,653,867
Taxation	27	(863,392)	(931,044)
<b>NET PROFIT</b>		2,396,256	2,722,823
<b>Attributable to:</b>			
Owners of GraceKennedy Limited	28	2,250,176	2,574,955
Non- Controlling interests	21	146,080	147,868
		2,396,256	2,722,823
<b>Earnings per Stock Unit for profit attributable to the owners of the company during the year:</b>	30		
<b>Basic</b>		\$6.83	\$7.82
<b>Diluted</b>		\$6.79	\$7.79

# GraceKennedy Limited

Consolidated Statement of Comprehensive Income  
**Year ended 31 December 2010**  
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Profit for the year</b>		2,396,256	2,722,823
<b>Other comprehensive income:</b>			
Foreign currency translation adjustments		(186,920)	560,081
Revaluation surplus/(loss)		73,688	(52,852)
Fair value gains		1,288,256	1,227,905
Share of other comprehensive income of associated companies		21,962	-
<b>Other comprehensive income for the year, net of tax</b>		1,196,986	1,735,134
<b>Total comprehensive income for the year</b>		3,593,242	4,457,957
<b>Attributable to:</b>			
Owners of GraceKennedy Limited		3,442,829	4,255,966
Non - Controlling interests	21	150,413	201,991
		3,593,242	4,457,957

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27.

# GraceKennedy Limited

## Consolidated Statement of Changes in Equity

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Attributable to owners of the parent					Non-Controlling Interest	Total Equity
		Number of Stock Units '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Banking Reserves \$'000	Other Reserves \$'000	\$'000
Balance at 1 January 2009		329,154	553,879	1,741,106	14,827,191	776,884	1,900,345	21,573,066
Total comprehensive income for 2009		-	-	1,173,067	2,574,955	-	507,944	4,457,957
Transactions with owners								
Issue of shares	18 (a)	479	20,097	-	-	-	-	20,097
Employee share option scheme:								
Value of services received	18 (h)	-	-	-	-	-	1,012	1,012
Transfers between reserves:								
To capital reserves		-	-	22,972	(22,972)	-	-	-
To retained earnings		-	-	(155,531)	304,730	(149,199)	-	-
Decrease in non-controlling interests	21	-	-	-	-	-	-	(277,376)
Dividends paid by subsidiary to non-controlling interests	21	-	-	-	-	-	-	(550,906)
Dividends paid	29	-	-	-	(378,838)	-	-	(378,838)
Total transactions with owners		479	20,097	(132,559)	(97,080)	(149,199)	1,012	(1,186,011)
<b>Balance at 31 December 2009</b>		<b>329,633</b>	<b>573,976</b>	<b>2,781,614</b>	<b>17,305,066</b>	<b>627,685</b>	<b>2,409,301</b>	<b>24,845,012</b>
Balance at 1 January 2010		329,633	573,976	2,781,614	17,305,066	627,685	2,409,301	24,845,012
Total comprehensive income for 2010		-	-	1,371,998	2,250,176	-	(179,345)	3,593,242
Transactions with owners								
Issue of shares	18 (a)	5	319	-	-	-	-	319
Purchase of treasury shares	18 (b)	(2)	(79)	1,088	-	-	-	1,009
Employee share option scheme:								
Value of services received	18 (h)	-	-	-	-	-	1,013	1,013
Transfers between reserves:								
To capital reserves		-	-	288,359	(288,359)	-	-	-
To retained earnings		-	-	-	232,096	-	(232,096)	-
To banking reserves		-	-	-	(1,594,630)	1,594,630	-	-
Dividends paid by subsidiary to non-controlling interests	21	-	-	-	-	-	-	(152,431)
Dividends paid	29	-	-	-	(445,007)	-	-	(445,007)
Total transactions with owners		3	240	289,447	(2,095,900)	1,594,630	(231,083)	(595,097)
<b>Balance at 31 December 2010</b>		<b>329,636</b>	<b>574,216</b>	<b>4,443,059</b>	<b>17,459,342</b>	<b>2,222,315</b>	<b>1,998,873</b>	<b>27,843,157</b>

# GraceKennedy Limited

## Consolidated Statement of Cash Flows

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>SOURCES/(USES) OF CASH:</b>			
<b>Operating Activities</b>	31	6,247,147	(2,259,201)
<b>Financing Activities</b>			
Loans received		6,993,153	12,835,608
Loans repaid		(9,962,340)	(12,704,210)
Dividends paid by subsidiary to non-controlling interests	21	(152,431)	(550,906)
Purchase of treasury shares	18	(79)	-
Issue of shares	18	319	20,097
Interest paid – non financial services		(891,456)	(518,138)
Dividends	29	(445,007)	(378,838)
		(4,457,841)	(1,296,387)
<b>Investing Activities</b>			
Additions to fixed assets <sup>(a)</sup>	12	(1,055,993)	(2,681,711)
Proceeds from disposal of fixed assets		18,943	158,027
Additions to investments <sup>(b)</sup>		(2,721,329)	(4,684,200)
Proceeds from sale of investments <sup>(b)</sup>		4,879,752	12,283,827
Additions to intangibles	11	(166,833)	(186,770)
Interest received – non financial services		533,329	423,272
		1,487,869	5,312,445
Increase in cash and cash equivalents		3,277,175	1,756,857
Cash and cash equivalents at beginning of year		8,798,668	6,691,504
Exchange and translation (losses)/gains on net foreign cash balances		(157,796)	350,307
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	5	11,918,047	8,798,668

The principal non-cash transactions include:

<sup>(a)</sup> Acquisition of fixed assets under finance lease of \$Nil (2009: \$9,333,000), (Note 12).

<sup>(b)</sup> Investments exchanged under the Jamaica Debt Exchange transaction of \$21,373,789,000 (2009: \$Nil).

# GraceKennedy Limited


## Company Statement of Financial Position

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Assets</b>			
Cash and deposits	5	1,738,389	2,331,079
Investment securities	6	3,370,379	3,045,149
Receivables	7	925,135	918,331
Inventories	8	1,180,251	1,119,822
Loans receivable	9	775,006	800,520
Subsidiaries	34	1,706,813	3,201,811
Taxation recoverable		115,137	95,701
Investments in associates	10	185,173	185,173
Investments in subsidiaries		10,498,561	10,178,042
Intangible assets	11	38,402	56,909
Fixed assets	12	186,874	130,343
Pension plan asset	14	7,515,978	6,812,290
<b>Total Assets</b>		<b>28,236,098</b>	<b>28,875,170</b>
<b>Liabilities</b>			
Bank and other loans	15	4,134,471	7,231,098
Payables	16	1,522,609	1,394,659
Provisions	17	6,221	6,221
Deferred tax liabilities	13	2,291,979	2,060,751
Other post-employment obligations	14	902,526	809,473
<b>Total Liabilities</b>		<b>8,857,806</b>	<b>11,502,202</b>
<b>Equity</b>			
Share capital	18	574,216	573,976
Capital and fair value reserves	19	331,588	57,868
Other reserves		-	133,413
Retained earnings		18,472,488	16,607,711
<b>Total Equity</b>		<b>19,378,292</b>	<b>17,372,968</b>
<b>Total Equity and Liabilities</b>		<b>28,236,098</b>	<b>28,875,170</b>

Approved for issue by the Board of Directors on 1 March 2011 and signed on its behalf by:



Douglas Orane

Chairman



Fay McIntosh

Chief Financial Officer

# GraceKennedy Limited

## Company Income Statement

**Year ended 31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>Turnover</b>	23	11,322,627	10,927,313
Cost of goods sold	24	(8,768,749)	(8,572,246)
<b>Gross Profit</b>		2,553,878	2,355,067
Other income	25	3,370,160	3,544,300
Administration expenses		(3,538,644)	(2,905,508)
<b>Profit from Operations</b>		2,385,394	2,993,859
Interest income		408,636	700,062
Interest expense		(395,471)	(516,732)
<b>Profit before Taxation</b>		2,398,559	3,177,189
Taxation	27	(181,398)	(336,210)
<b>NET PROFIT</b>	28	<b>2,217,161</b>	<b>2,840,979</b>

# GraceKennedy Limited

## Company Statement of Comprehensive Income

**Year ended 31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

	<b>2010 \$'000</b>	<b>2009 \$'000</b>
<b>Profit for the year</b>	2,217,161	2,840,979
<b>Other comprehensive income:</b>		
Revaluation (loss)/gain	(2,370)	2,330
Fair value gains/(losses)	233,199	(6,835)
<b>Other comprehensive income for the year, net of tax</b>	230,829	(4,505)
<b>Total comprehensive income for the year</b>	<b>2,447,990</b>	<b>2,836,474</b>

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27.

# GraceKennedy Limited

## Company Statement of Changes in Equity

**Year ended 31 December 2010**

(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 2009		329,154	553,879	62,373	230,071	14,145,570	14,991,893
Total comprehensive income for 2009		-	-	(4,505)	-	2,840,979	2,836,474
Transactions with owners							
Issue of shares	18 (a)	479	20,097	-	-	-	20,097
Employee share option scheme:							
Value of services received	18 (h)	-	-	-	(96,658)	-	(96,658)
Dividends paid	29	-	-	-	-	(378,838)	(378,838)
Total transactions with owners		479	20,097	-	(96,658)	(378,838)	(455,399)
<b>Balance at 31 December 2009</b>		<b>329,633</b>	<b>573,976</b>	<b>57,868</b>	<b>133,413</b>	<b>16,607,711</b>	<b>17,372,968</b>
Balance at 1 January 2010		329,633	573,976	57,868	133,413	16,607,711	17,372,968
Total comprehensive income for 2010		-	-	230,829	-	2,217,161	2,447,990
Transactions with owners							
Issue of shares	18 (a)	5	319	-	-	-	319
Purchase of treasury shares	18 (b)	(2)	(79)	1,088	-	-	1,009
Employee share option scheme:							
Value of services received	18 (h)	-	-	-	1,013	-	1,013
Transfers between reserves:							
To capital reserves		-	-	41,803		(41,803)	-
To retained earnings		-	-	-	(134,426)	134,426	-
Dividends paid	29	-	-	-	-	(445,007)	(445,007)
Total transactions with owners		3	240	42,891	(133,413)	(352,384)	(442,666)
<b>Balance at 31 December 2010</b>		<b>329,636</b>	<b>574,216</b>	<b>331,588</b>	<b>-</b>	<b>18,472,488</b>	<b>19,378,292</b>

# GraceKennedy Limited

## Company Statement of Cash Flows

Year ended 31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2010 \$'000	2009 \$'000
<b>SOURCES/(USES) OF CASH:</b>			
<b>Operating Activities</b>	31	3,142,363	663,790
<b>Financing Activities</b>			
Loans received		3,498,619	4,155,931
Loans repaid		(5,766,856)	(2,476,605)
Purchase of treasury shares	18	(79)	-
Issue of shares	18	319	20,097
Interest paid		(411,982)	(499,844)
Dividends	29	(445,007)	(378,838)
		(3,124,986)	820,741
<b>Investing Activities</b>			
Additions to fixed assets <sup>(a)</sup>	12	(123,816)	(495,330)
Proceeds from disposal of fixed assets		5,978	7,285
Additions to investments		(428,975)	(1,139,378)
Loans receivable, net		25,514	86,133
Proceeds from sale of investments <sup>(b)</sup>		117,815	324,486
Additions to intangibles		(25,849)	(62,932)
Interest received		492,052	608,940
		62,719	(670,796)
Increase in cash and cash equivalents		80,096	813,735
Cash and cash equivalents at beginning of year		911,250	(18,507)
Exchange and translation (losses)/gains on net foreign cash balances		(2,374)	116,022
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	5	988,972	911,250

The principal non-cash transactions include:

<sup>(a)</sup> Acquisition of fixed assets under finance lease of \$7,013,000 (2009: \$6,274,000), (Note 12).

<sup>(b)</sup> Investments exchanged under the Jamaica Debt Exchange transaction of \$2,026,476,000 (2009: \$Nil).

<sup>(c)</sup> Gain on sale of subsidiary within the Group of \$320,789,000 (2009: \$Nil), (Note 31).

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 listing on the Trinidad and Tobago Stock Exchange. During the year the company delisted from the Barbados 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, and hardware and lumber.

**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 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 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 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The adoption of this standard did not have any effect on the Group and company as there were no transactions to which it applied.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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)*

- IAS 27 (revised), 'Consolidated and separate financial statements', (effective for annual periods beginning on or after 1 July 2009). The revised standard 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. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The adoption of this standard did not have any effect on the Group as there were no transactions with non-controlling interests relating to purchase or sale of additional interest in any entity.
- IFRS 3 (revised), 'Business combinations' (effective for annual periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be 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 interests in the acquiree at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of this standard did not have any effect on the Group as there was no acquisition of subsidiaries during the year.
- IAS 38 (amendment), 'Intangible Assets'. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment did not result in a material impact on the Group's financial statements.
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption'). 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 adoption of this standard did not have any effect on the Group and company as there were no transactions to which it applied.
- IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The adoption of this standard did not have any effect on the Group and company as there were no transactions to which it applied.
- IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. The adoption of this standard did not have any effect on the Group and company as there were no transactions to which it applied.
- IAS 39 (Amendment), Financial instruments: Recognition and measurement (effective for annual periods beginning on or after 1 July 2009). Clarification 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.
  - Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. 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. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring 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) are used. The Group adopted this amendment from 1 January 2010.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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)*

- IFRS 3 (Amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and Separate Financial Statements', IAS 28, 'Investments in Associates' and IAS 31, 'Interests in Joint Ventures' (effective for annual periods beginning on or after 1 July 2009). These amendments introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and the future reported results. Also, under the amended standards, a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. The adoption of this standard did not have any effect on the Group as there was no acquisition of subsidiaries during the year.
- IAS 19 (Amendment), 'Employee benefits' (effective for annual periods beginning on or after 1 July 2009). This amendment clarifies that a plan amendment that result in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service give rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets amended 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. The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. There is also the deletion of guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. The Group adopted this amendment from 1 January 2010.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The adoption of this standard did not have any effect on the Group and company as there were no transactions to which it applied.
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety. The adoption of this standard did not have any effect on the Group and company as there were no transactions to which it applied.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.
- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (Continued)

#### ***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group***

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRS 9, Financial instruments part 1: Classification and measurement (effective for annual periods beginning on or after 1 January 2013) was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The group will apply the amended standard from 1 January 2011.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the group or the parent entity's financial statements.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The group will apply these amendments for the financial reporting period commencing on 1 January 2011.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (Continued)

***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)***

- IFRS 3, 'Business combinations' (a) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS (effective for annual periods beginning on or after 1 July 2010). Clarifies that the amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 32, 'Financial instruments: Presentation', and IAS 39, 'Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). (b) Measurement of non-controlling interests. The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. (c) Un-replaced and voluntarily replaced sharebased payment awards. The application guidance in IFRS 3 applies to all sharebased payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. The Group will apply this standard from 1 January 2011.
- IFRS 7, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2011). Retrospective application required. Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.
- IAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2011). Retrospective application required. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- IAS 27, 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2010). Retrospective application required. Clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when IAS 27 is applied earlier.
- IAS 34, 'Interim financial reporting' (effective for annual periods beginning on or after 1 January 2011). Retrospective application required. Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:
  - The circumstances likely to affect fair values of financial instruments and their classification;
  - Transfers of financial instruments between different levels of the fair value hierarchy;
  - Changes in classification of financial assets; and
  - Changes in contingent liabilities and assets
- IFRIC 13, 'Customer loyalty programmes (effective 1 January 2011). The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.
- The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss. This is effective for annual periods beginning on or after 1 January 2013). Key features are as follows:

The requirements in IAS 39 regarding the classification and measurement of financial liabilities have been retained, including the related application and implementation guidance. This means that there continues to be two measurement categories for financial liabilities: fair value through profit or loss (FVTPL) and amortised cost. The criteria for designating a financial liability at FVTPL also remain unchanged.

Entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract. The separated embedded derivative continues to be measured at FVTPL, and the residual debt host continues to be measured at amortised cost.

Under the new standard, entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (Continued)

***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)***

However, if presenting the change in fair value attributable to the credit risk of the liability in OCI would create an accounting mismatch in profit or loss, all fair value movements are recognised in profit or loss. An entity is required to determine whether an accounting mismatch is created when the financial liability is first recognised, and this determination is not reassessed.

#### (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 treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

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%)

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

### (b) Basis of consolidation (continued)

#### **Incorporated and Resident outside of Jamaica:**

FG Funds Management (Cayman) Limited, Cayman Islands  
 First Global Insurance Brokers Limited, Turks and Caicos Islands  
 First Global Trinidad & Tobago 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, United Kingdom  
 Grace, Kennedy (U.S.A.) Inc., U.S.A. and its subsidiary –  
     Grace Foods (USA) Inc., U.S.A.  
 GraceKennedy Trade Finance Limited, Belize  
 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  
             Enco Products Limited  
             Funnybones Foodservice Limited  
             Chadha Oriental Foods Limited  
             WTF Services Limited  
 GraceKennedy Money Services Caribbean SRL, Barbados (75.0%)  
 GraceKennedy Money Services (Anguilla) Limited, Anguilla  
 GraceKennedy Money Services (Antigua & Barbuda) Limited, Antigua & Barbuda  
 GraceKennedy Money Services (Montserrat) Limited, Montserrat  
 GraceKennedy Money Services (St. Kitts) Limited, St. Kitts  
 GraceKennedy Money Services (St. Vincent and the Grenadines) Limited, 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) Limited, United Kingdom  
 GraceKennedy (Trinidad & Tobago) Limited, Trinidad and Tobago  
 Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited, Trinidad and Tobago  
 Graken Holdings Limited, Turks and Caicos Islands  
 Knutsford Re, Turks and Caicos Islands

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

The Group liquidated La Mexicana Quality Foods Limited during 2010.

#### Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (b) Basis of consolidation (continued)

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

#### (c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the company's statement of financial position, 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	
			2010	2009
Acra Financial Services Inc.	31 December	Republic of Haiti	-	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
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.

The Group disposed of its 30% interest in Acra Financial Services Inc. during 2010.

#### (d) Segment reporting

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

#### (e) 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 income statement.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (e) Foreign currency translation (continued)

Foreign exchange gains and losses are presented in the income statement within 'other income'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

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 income statement 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.

#### **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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement 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.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement 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.

#### (f) 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 income statement.

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 statement of financial position date.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

**(f) Fixed assets (continued)**

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 income statement 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.

**(g) 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. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

***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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (h) 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 accounting policy for trade and insurance receivables is dealt with in Note 2 (o). 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.

##### ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as such in the statement of financial position.

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 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 statement of financial position 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 bank 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 income statement.

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 statement of financial position.

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 income statement. 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 and receivables are carried at amortised cost using the effective interest method.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (h) Financial assets (continued)

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 income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement 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 statement of financial position 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### (i) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives to manage its own exposure to foreign exchange risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each statement of financial position date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group only applies fair value hedge accounting for hedging foreign exchange risk. The gain or loss relating to the hedging of foreign exchange risk is recognised in the income statement within 'other income'.

Gains and losses from the changes in the fair value of derivatives that do not qualify for hedge accounting are included in the income statement.

#### (j) Investments in subsidiaries

Investments in subsidiaries are stated at cost.

#### (k) 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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (l) Income taxes

Taxation expense in the income statement 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 statement of financial position 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 income statement, except where it relates to items charged or credited to equity, in which case, deferred tax is also dealt with in equity.

#### (m) Employee benefits

##### *Pension obligations*

The Group participates in a defined contribution plan whereby it pays contributions to a privately administered fund. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

##### *Pension plan assets*

The Group also 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 statement of financial position 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.

##### *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 statement of financial position date are discounted to present value.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (m) Employee benefits (continued)

##### *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 owners after certain adjustments. The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

#### (n) 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.

#### (o) 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 income statement. 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 income statement. Impairment testing of trade receivables is described in Note 3.

#### (p) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position 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 statement of financial position.

#### (q) Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are initially recognised at fair value and subsequently stated at amortised cost.

#### (r) 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 statement of financial position 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 statement of financial position 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 statement of financial position unless the right of offset exists.

##### *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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

**(s) 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.

**(t) 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.

**(u) 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.

**(v) Borrowings**

Bank loans and overdrafts are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

**(w) 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 income statement 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 income statement 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.

**(x) 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 owners 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 owners.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (y) 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 sales 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 when specific criteria have been met for each of the Group's activities as described below. 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.

##### (a) Sales of goods – wholesale

The Group manufactures and sells a range of general and food items in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied. The general and food items are often sold with volume discounts; customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

##### (b) Sales of goods – retail

The Group operates a chain of retail outlets for selling general and food items, hardware and agro products. Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit. It is the Group's policy to sell its products to the retail customer with a right to return within 30 days. Accumulated experience is used to estimate and provide for such returns at the time of sale. The Group does not operate any loyalty programmes.

##### (c) Sales of services

The Group sells insurance and financial services to the general public. These services are provided on a time and fixed-price contract, with contract terms generally ranging from less than one year to three years. Revenue is generally recognised at the contractual rates. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Fees and commission income are recognised on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

##### (d) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

##### (e) Dividend income

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

#### (z) Dividends

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

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 liquidity risk, as follows:

(i) 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 Committee 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.

(ii) 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.

(iii) Asset and Liability Committees/Investment Committees

The Asset and Liability Committees (ALCO) are management committees responsible for monitoring and formulating investment portfolios and investment strategies within the Insurance, Banking and Investment, and Corporate 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 statement of financial position targets. Overall, the Committee ensures compliance with the policies related to the management of liquidity risk, interest rate risk, and foreign exchange risk.

(iv) Corporate Finance Department

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

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.

In February 2010, the Group participated in the Jamaica Debt Exchange (JDX) transaction. Under this transaction the Group exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the Group under the election options contained in the agreement. The JDX transaction resulted in lower interest rates and longer maturities for locally issued Government of Jamaica securities.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (a) Insurance risk

The Group issues contracts that transfer insurance risk. This section summarises the risk and the way it is managed by the Group.

Insurance risk for the Group attributable to policies sold by its general insurance underwriting subsidiary, is borne by that subsidiary. 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 of the subsidiary. The policy limit and maximum net retention of any one risk for each class of insurance per customer for the year are as follows:

	2010		2009	
	Policy Limit \$'000	Maximum Net Retention \$'000	Policy Limit \$'000	Maximum Net Retention \$'000
Commercial property:				
Fire and consequential loss	423,225	2,565	438,075	3,983
Boiler and machinery	192,375	3,607	199,125	3,734
Engineering	256,500	4,809	265,500	4,978
Burglary, money and goods in transit	10,688	5,344	11,063	5,532
Glass and other	4,275	2,138	4,425	2,213
Liability	171,000	12,825	265,500	13,275
Marine, aviation and transport	22,500	2,813	22,500	1,875
Motor	5,000	5,000	5,000	5,000
Pecuniary loss:				
Fidelity	10,688	5,344	11,063	5,532
Surety/Bonds	50,000	10,000	50,000	10,000
Personal accident	19,238	9,619	19,913	9,956
Personal property	423,225	2,565	438,075	3,983

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (a) Insurance risk (continued)

##### *Sensitivity Analysis of Actuarial 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 2010

(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 table below illustrates how the Group's estimate of the ultimate claims liability for accident years 2006 - 2009 has changed at successive year-ends, up to 2010. Updated unpaid claims and adjustment expenses (UCAE) and claims incurred but not reported (IBNR) estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations.

		2006 and prior \$'000	2007 and prior \$'000	2008 and prior \$'000	2009 and prior \$'000	2010 and prior \$'000
		2006 \$'000	2007 \$'000	2008 \$'000	2009 \$'000	2010 \$'000
<b>2006</b>	Paid during year	566,226	716,491			
	UCAE, end of year	479,298	786,156			
	IBNR, end of year	41,046	61,790			
	Ratio: excess (deficiency)					
<b>2007</b>	Paid during year	197,103	227,009	582,914	809,923	
	UCAE, end of year	286,341	555,287	438,716	994,003	
	IBNR, end of year	15,726	29,589	37,746	67,335	
	Ratio: excess (deficiency)		4.25%			
<b>2008</b>	Paid during year	78,298	152,295	248,085	400,380	624,150
	UCAE, end of year	225,159	395,987	279,103	675,090	450,997
	IBNR, end of year	3,866	10,689	11,195	21,884	35,203
	Ratio: excess (deficiency)	3.06%	7.31%	(13.00%)	(3.39%)	
<b>2009</b>	Paid during year	66,232	138,610	77,807	216,417	282,651
	UCAE, end of year	142,402	258,127	189,307	447,434	298,876
	IBNR, end of year	-	500	-	500	4,367
	Ratio: excess (deficiency)	6.98%	8.42%	(8.13%)	(0.32%)	(20.50%)
<b>2010</b>	Paid during year	46,872	92,376	65,732	158,108	73,157
	UCAE, end of year	100,086	180,939	146,245	327,184	238,919
	IBNR, end of year	-	-	-	-	-
	Ratio: excess (deficiency)	6.10%	6.69%	(12.89%)	(3.84%)	(22.32%)

# GraceKennedy Limited

## Notes to the Financial Statements

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(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:

- The retention limit or maximum exposure on insurance policies under the reinsurance treaties range between \$2,137,000 and \$10,000,000.
- The Group utilises reinsurance treaties to reduce its net retained risk. The risk is spread over several reinsurers all of whom are AM Best or S&P rated at A or better.
- 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.
- The amount of reinsurance recoveries recognised during the period is as follows:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Property	247,695	793,272
Motor	3,939	6,372
Marine	3,285	2,056
Liability	1,037	3,541
Pecuniary loss	3,442	1,295
Accident	206	400
	<b>259,604</b>	<b>806,936</b>

#### (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 exposures arise principally from the Group's receivables from customers, agents, 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-statement of financial position 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.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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, ageing 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	– Excellent credit history
2	Standard risk	– Generally abides by credit terms
3	Sub-Standard	– Late paying with some level of impairment

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

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 insurance subsidiary's Risk and Reinsurance Department 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 respective credit committees within the Group examine 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 insurance subsidiary's Risk and Reinsurance 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, equipment, 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 owners 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, infringement of the original terms of the contract, or impairment of collateral.

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

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 statement of financial position 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 statement of financial position 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 2010

(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 statement of financial position 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

	2010		2009	
	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000
Low risk	478,161	-	645,812	-
Standard risk	16,378,544	-	17,508,410	-
Sub-Standard	1,150,003	546,359	879,817	666,598
	18,006,708	546,359	19,034,039	666,598

#### Company's rating

	2010		2009	
	Loans and Trade Receivables \$'000	Impairment Provision \$'000	Loans and Trade Receivables \$'000	Impairment Provision \$'000
Low risk	-	-	-	-
Standard risk	1,599,191	-	1,525,997	-
Sub-Standard	159,182	101,767	207,041	81,880
	1,758,373	101,767	1,733,038	81,880

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

	Maximum Exposure			
	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Credit risk exposures relating to on-statement of financial position assets are as follows:				
Cash at bank	4,499,111	7,792,473	398,143	330,228
Deposits	9,110,671	2,815,903	1,340,246	2,000,851
Investment securities	40,839,553	43,376,702	3,305,267	3,044,386
Trade and other receivables	7,058,908	7,176,386	881,600	850,638
Loans, net of provision for credit losses	10,057,549	10,734,149	399	399
Lease receivables	343,892	456,906	-	-
	71,909,684	72,352,519	5,925,655	6,226,502

The above table represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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, premiums and trade receivables

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

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Neither past due nor impaired -				
Low risk	478,161	645,812	-	-
Standard risk	14,307,102	14,917,925	1,477,676	1,498,839
	14,785,263	15,563,737	1,477,676	1,498,839
Past due but not impaired	2,071,442	2,590,485	121,515	27,158
Impaired	1,150,003	879,817	159,182	207,041
<b>Gross</b>	18,006,708	19,034,039	1,758,373	1,733,038
Less: provision for credit losses	(546,359)	(666,598)	(101,767)	(81,880)
<b>Net</b>	17,460,349	18,367,441	1,656,606	1,651,158

*Ageing 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 2010, loans and leases, premium and trade receivables of \$2,071,442,000 (2009: \$2,590,485,000) and \$121,515,000 (2009: \$27,158,000) 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 ageing analysis of these loans and leases, premium and trade receivables is as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Less than 1 month	898,929	1,499,946	-	13,792
Within 1 to 3 months	714,021	652,829	95,869	13,366
Over 3 months	458,492	437,710	25,646	-
	2,071,442	2,590,485	121,515	27,158

As of 31 December 2010, loans and leases, premium and trade receivables of \$1,150,003,000 (2009: \$879,817,000) and \$159,182,000 (2009: \$207,041,000) for the Group and company respectively were impaired. The amount of the provision was \$546,359,000 (2009: \$666,598,000) and \$101,767,000 (2009: \$81,880,000) 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 2010**

(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 ageing of the impaired loans and lease receivables is as follows:

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	298,844	160,627	-	-
Over 6 months	449,183	374,574	-	-
	748,027	535,201	-	-

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

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At 1 January	361,105	143,984	-	-
Provision for receivables impairment	960	260,669	-	-
Receivables written off during the year as uncollectible	395	-	-	-
Unused amounts reversed	(247,114)	(43,548)	-	-
At 31 December	115,346	361,105	-	-

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

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	65,993	160,665	57,416	138,359
Over 6 months	335,983	183,951	101,766	68,682
	401,976	344,616	159,182	207,041

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

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At 1 January	305,493	302,597	81,880	86,214
Provision for receivables impairment	172,857	151,908	45,168	47,047
Receivables written off during the year as uncollectible	(36,082)	(87,640)	(21,073)	(45,973)
Unused amounts reversed	(11,255)	(61,372)	(4,208)	(5,408)
At 31 December	431,013	305,493	101,767	81,880

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (c) Financial risk (continued)

##### (i) Credit risk (continued)

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

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	364,837	321,292	57,416	138,359
Over 6 months	785,166	558,525	101,766	68,682
	1,150,003	879,817	159,182	207,041

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

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At 1 January	666,598	446,581	81,880	86,214
Provision for receivables impairment	173,817	412,577	45,168	47,047
Receivables written off during the year as uncollectible	(35,687)	(87,640)	(21,073)	(45,973)
Unused amounts reversed	(258,369)	(104,920)	(4,208)	(5,408)
At 31 December	546,359	666,598	101,767	81,880

The creation and release of provision for impaired receivables have been included in expenses in the income statement. 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 2010**

(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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Public sector	665,935	1,258,004	-	-
Professional and other services	1,518,849	2,106,023	-	-
Personal	3,703,628	3,934,426	-	-
Agriculture, fishing and mining	122,414	99,326	-	-
Construction and real estate	541,159	622,119	-	-
Distribution	1,239,960	1,174,188	774,127	799,641
Manufacturing	943,928	732,612	1,908	-
Transportation	1,333,694	1,084,982	-	-
Tourism and entertainment	1,574,369	1,247,614	177,362	119,511
Financial and other money services	609,757	587,153	-	-
Brokers and agents	803,180	994,720	-	-
Supermarket chains	663,218	621,471	254,224	198,924
Wholesalers	782,983	838,284	173,221	157,814
Retail and direct customers	2,443,784	3,019,273	236,449	374,616
Other	985,230	587,451	141,082	82,532
	17,932,088	18,907,646	1,758,373	1,733,038
Less: Provision for credit losses	(546,359)	(666,598)	(101,767)	(81,880)
	17,385,729	18,241,048	1,656,606	1,651,158
Interest receivable	74,620	126,393	-	-
	17,460,349	18,367,441	1,656,606	1,651,158

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Loans and leases	748,027	535,201	-	-
Trade and other receivables	401,976	344,616	159,182	207,041

The fair value of collateral that the Group held as security for individually impaired loans was \$633,952,000 (2009: \$335,857,000).

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

###### *Reposessed collateral*

The Group and the company obtained assets by taking possession of collateral held as security. Reposessed collateral are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Government of Jamaica:				
Available-for-sale securities	36,907,650	31,288,771	3,305,267	3,044,386
Loans and receivables (Note 6)	-	8,649,188	-	-
Corporate:				
Available-for-sale securities	3,351,501	2,568,213	-	-
Loans and receivables (Note 6)	-	609,411	-	-
Other (Note 6)	385,556	34,461	-	-
	40,644,707	43,150,044	3,305,267	3,044,386

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 through the ALCOs and treasury departments, 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 statement of financial position 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 2010**

(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	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 31 December 2010:</b>					
Securities sold under agreements to repurchase	22,840,025	3,858,631	-	-	26,698,656
Deposits	10,646,945	2,643,597	-	-	13,290,542
Bank and other loans	4,606,710	6,134,462	3,110,023	1,574,279	15,425,474
Trade and other payables	11,785,359	-	-	-	11,785,359
<b>Total financial liabilities (expected contractual dates)</b>	<b>49,879,039</b>	<b>12,636,690</b>	<b>3,110,023</b>	<b>1,574,279</b>	<b>67,200,031</b>

	Group				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 31 December 2009:</b>					
Securities sold under agreements to repurchase	24,159,418	3,369,052	-	-	27,528,470
Deposits	9,355,932	2,806,796	-	-	12,162,728
Bank and other loans	6,926,943	3,590,332	6,860,460	1,843,008	19,220,743
Trade and other payables	11,377,084	-	-	-	11,377,084
<b>Total financial liabilities (expected contractual dates)</b>	<b>51,819,377</b>	<b>9,766,180</b>	<b>6,860,460</b>	<b>1,843,008</b>	<b>70,289,025</b>

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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	Total
	\$'000	\$'000	\$'000	\$'000
<b>As at 31 December 2010:</b>				
Bank and other loans	1,642,443	1,941,872	668,864	4,253,179
Trade and other payables	1,522,609	-	-	1,522,609
<b>Total financial liabilities</b>				
<b>(expected contractual dates)</b>	3,165,052	1,941,872	668,864	5,775,788

	Company			
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
	\$'000	\$'000	\$'000	\$'000
<b>As at 31 December 2009:</b>				
Bank and other loans	4,049,629	1,855,296	1,596,361	7,501,286
Trade and other payables	1,394,659	-	-	1,394,659
<b>Total financial liabilities</b>				
<b>(expected contractual dates)</b>	5,444,288	1,855,296	1,596,361	8,895,945

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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Floating rate –				
Expiring within one year	5,927,855	2,464,418	3,343,902	1,184,878
Expiring beyond one year	713,978	1,161,263	701,929	-

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 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (c) Financial risk (continued)

##### (ii) Liquidity risk (continued)

#### *Off-statement of financial position items*

The table below shows the contractual expiry periods of the Group's contingent liabilities and commitments.

	Group			
	No later than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>At 31 December 2010</b>				
Loan commitments	137,740	-	-	137,740
Operating lease commitments	754,986	2,449,212	121,737	3,325,935
	892,726	2,449,212	121,737	3,463,675
<b>At 31 December 2009</b>				
Loan commitments	105,998	-	-	105,998
Operating lease commitments	632,945	2,087,675	305,479	3,026,099
	738,943	2,087,675	305,479	3,132,097

##### (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 research and treasury departments which carry out extensive research and monitor the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

#### *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 2010

(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\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	EURO J\$'000	Other J\$'000	Total J\$'000
<b>At 31 December 2010:</b>							
<b>Financial Assets</b>							
Cash and deposits	10,057,643	2,713,234	510,945	75,044	80,499	172,417	13,609,782
Investment securities	18,081,469	21,259,460	115,769	-	1,126,322	466,216	41,049,236
Trade and other receivables	3,693,041	2,004,984	1,010,988	175,419	200	174,276	7,058,908
Loans receivable	4,333,121	6,068,320	-	-	-	-	10,401,441
<b>Total financial assets</b>	<b>36,165,274</b>	<b>32,045,998</b>	<b>1,637,702</b>	<b>250,463</b>	<b>1,207,021</b>	<b>812,909</b>	<b>72,119,367</b>
<b>Financial Liabilities</b>							
Deposit payable	4,627,716	8,067,895	251,358	45,479	41,467	-	13,033,915
Securities sold under agreements to repurchase	12,372,117	13,107,688	2,469	-	664,466	374,301	26,521,041
Bank and other loans	5,106,733	6,959,706	1,379,473	89,085	210,554	18,613	13,764,164
Trade and other payables	7,765,923	2,800,594	755,433	257,052	29,018	177,339	11,785,359
<b>Total financial liabilities</b>	<b>29,872,489</b>	<b>30,935,883</b>	<b>2,388,733</b>	<b>391,616</b>	<b>945,505</b>	<b>570,253</b>	<b>65,104,479</b>
<b>Net financial position</b>	<b>6,292,785</b>	<b>1,110,115</b>	<b>(751,031)</b>	<b>(141,153)</b>	<b>261,516</b>	<b>242,656</b>	<b>7,014,888</b>
	Group						
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	EURO J\$'000	Other J\$'000	Total J\$'000
<b>At 31 December 2009:</b>							
<b>Financial Assets</b>							
Cash and deposits	5,953,819	3,499,903	584,953	30,729	56,905	482,067	10,608,376
Investment securities	20,379,613	20,738,873	44,600	-	1,307,479	950,182	43,420,747
Trade and other receivables	3,537,604	2,239,316	1,018,775	203,632	-	177,059	7,176,386
Loans receivable	3,915,054	7,276,001	-	-	-	-	11,191,055
<b>Total financial assets</b>	<b>33,786,090</b>	<b>33,754,093</b>	<b>1,648,328</b>	<b>234,361</b>	<b>1,364,384</b>	<b>1,609,308</b>	<b>72,396,564</b>
<b>Financial Liabilities</b>							
Deposit payable	3,380,060	8,239,383	218,565	42,218	100,450	-	11,980,676
Securities sold under agreements to repurchase	13,199,240	12,732,218	57,792	-	740,747	650,508	27,380,505
Bank and other loans	6,120,248	9,351,219	1,486,213	132,709	110,445	26,453	17,227,287
Trade and other payables	6,056,190	3,601,463	1,160,187	250,562	109,969	198,713	11,377,084
<b>Total financial liabilities</b>	<b>28,755,738</b>	<b>33,924,283</b>	<b>2,922,757</b>	<b>425,489</b>	<b>1,061,611</b>	<b>875,674</b>	<b>67,965,552</b>
<b>Net financial position</b>	<b>5,030,352</b>	<b>(170,190)</b>	<b>(1,274,429)</b>	<b>(191,128)</b>	<b>302,773</b>	<b>733,634</b>	<b>4,431,012</b>

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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\$ J\$'000	US\$ J\$'000	GBP J\$'000	Total J\$'000
<b>At 31 December 2010:</b>				
<b>Financial Assets</b>				
Cash and deposits	678,352	1,060,037	-	1,738,389
Investment securities	2,235,346	1,135,033	-	3,370,379
Trade and other receivables	881,600	-	-	881,600
Loans receivable	775,006	-	-	775,006
Subsidiaries	331,221	1,632,889	-	1,964,110
<b>Total financial assets</b>	<b>4,901,525</b>	<b>3,827,959</b>	<b>-</b>	<b>8,729,484</b>
<b>Financial Liabilities</b>				
Bank and other loans	1,543,097	2,591,374	-	4,134,471
Trade and other payables	1,076,479	446,130	-	1,522,609
Subsidiaries	-	-	257,297	257,297
<b>Total financial liabilities</b>	<b>2,619,576</b>	<b>3,037,504</b>	<b>257,297</b>	<b>5,914,377</b>
<b>Net financial position</b>	<b>2,281,949</b>	<b>790,455</b>	<b>(257,297)</b>	<b>2,815,107</b>

	Company			
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	Total J\$'000
<b>At 31 December 2009:</b>				
<b>Financial Assets</b>				
Cash and deposits	442,519	1,888,560	-	2,331,079
Investment securities	1,860,710	1,184,439	-	3,045,149
Trade and other receivables	850,638	-	-	850,638
Loans receivable	800,520	-	-	800,520
Subsidiaries	1,394,957	2,087,164	-	3,482,121
<b>Total financial assets</b>	<b>5,349,344</b>	<b>5,160,163</b>	<b>-</b>	<b>10,509,507</b>
<b>Financial Liabilities</b>				
Bank and other loans	2,008,858	5,222,240	-	7,231,098
Trade and other payables	829,507	565,152	-	1,394,659
Subsidiaries	-	-	280,310	280,310
<b>Total financial liabilities</b>	<b>2,838,365</b>	<b>5,787,392</b>	<b>280,310</b>	<b>8,906,067</b>
<b>Net financial position</b>	<b>2,510,979</b>	<b>(627,229)</b>	<b>(280,310)</b>	<b>1,603,440</b>

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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 sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% increase (2009: 2% and 5%) and a 5% decrease (2009: 2%) 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 less sensitive to movement in currency/US dollar exchange rates in 2010 than 2009 because of the net foreign currency exposure has declined. 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 2010 \$'000	% Change in Currency Rate	Effect on Net Profit 2009 \$'000
	2010		2009	
<b>Currency:</b>				
USD	+5%	19,096	+5%	(21,582)
GBP	+5%	261	+2%	1,175
CAN	+5%	98	+2%	(560)
EURO	+5%	9,285	+2%	3,895
USD	-5%	(19,096)	-2%	8,633
GBP	-5%	(261)	-2%	(1,633)
CAN	-5%	(98)	-2%	560
EURO	-5%	(9,285)	-2%	(3,895)

Company				
	% Change in Currency Rate	Effect on Net Profit 2010 \$'000	% Change in Currency Rate	Effect on Net Profit 2009 \$'000
	2010		2009	
<b>Currency:</b>				
USD	+5%	23,106	+5%	(19,953)
GBP	+5%	(8,319)	+2%	(3,737)
USD	-5%	(23,106)	-2%	7,981
GBP	-5%	8,319	-2%	3,737

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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 manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and also manages the maturities of interest bearing financial assets and liabilities. The respective boards within the Group set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the ALCOs.

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
<b>At 31 December 2010:</b>							
<b>Assets</b>							
Cash and deposits	5,735,610	6,401,714	-	-	-	1,472,458	13,609,782
Investment securities	7,256,761	3,581,760	1,520,907	14,012,190	14,292,175	385,443	41,049,236
Loans receivable	1,811,072	263,271	171,227	3,937,842	4,217,222	807	10,401,441
Trade and other receivables	-	-	-	-	-	7,058,908	7,058,908
Total financial assets	14,803,443	10,246,745	1,692,134	17,950,032	18,509,397	8,917,616	72,119,367
<b>Liabilities</b>							
Deposits	7,960,520	2,643,501	2,429,894	-	-	-	13,033,915
Securities sold under agreements to repurchase	11,168,474	11,710,083	3,642,484	-	-	-	26,521,041
Bank loans	1,945,787	2,608,235	3,478,255	4,521,034	1,210,853	-	13,764,164
Trade payables	-	-	-	-	-	11,785,359	11,785,359
Total financial liabilities	21,074,781	16,961,819	9,550,663	4,521,034	1,210,853	11,785,359	65,104,479
<b>Total interest repricing gap</b>	<b>(6,271,338)</b>	<b>(6,715,074)</b>	<b>(7,858,499)</b>	<b>13,428,998</b>	<b>17,298,544</b>	<b>(2,867,743)</b>	<b>7,014,888</b>

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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
<b>At 31 December 2009:</b>							
<b>Assets</b>							
Cash and deposits	3,619,609	4,207,749	-	-	-	2,781,018	10,608,376
Investment securities	-	10,505,201	10,706,743	10,495,597	11,423,093	290,113	43,420,747
Loans receivable	2,038,176	1,673,514	3,016,110	4,462,448	-	807	11,191,055
Trade and other receivables	-	-	-	-	-	7,176,386	7,176,386
Total financial assets	5,657,785	16,386,464	13,722,853	14,958,045	11,423,093	10,248,324	72,396,564
<b>Liabilities</b>							
Deposits	3,821,794	5,534,138	2,607,031	17,713	-	-	11,980,676
Securities sold under agreements to repurchase	-	24,300,260	3,080,245	-	-	-	27,380,505
Bank loans	1,767,224	5,032,668	3,564,220	4,551,711	2,311,464	-	17,227,287
Trade payables	-	-	-	-	-	11,377,084	11,377,084
Total financial liabilities	5,589,018	34,867,066	9,251,496	4,569,424	2,311,464	11,377,084	67,965,552
<b>Total interest repricing gap</b>	68,767	(18,480,602)	4,471,357	10,388,621	9,111,629	(1,128,760)	4,431,012

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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	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
<b>At 31 December 2010:</b>							
<b>Assets</b>							
Cash and deposits	420,937	994,727	-	-	-	322,725	1,738,389
Investment securities	-	-	967,284	1,032,761	1,305,222	65,112	3,370,379
Loans receivable	-	-	-	25,513	-	749,493	775,006
Trade and other receivables	-	-	-	-	-	881,600	881,600
Total financial assets	420,937	994,727	967,284	1,058,274	1,305,222	2,018,930	6,765,374
<b>Liabilities</b>							
Bank loans	1,186,809	386,376	2,157,767	403,519	-	-	4,134,471
Trade payables	-	-	-	-	-	1,522,609	1,522,609
Total financial liabilities	1,186,809	386,376	2,157,767	403,519	-	1,522,609	5,657,080
<b>Total interest repricing gap</b>	<b>(765,872)</b>	<b>608,351</b>	<b>(1,190,483)</b>	<b>654,755</b>	<b>1,305,222</b>	<b>496,321</b>	<b>1,108,294</b>

	Company						
	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
<b>At 31 December 2009:</b>							
<b>Assets</b>							
Cash and deposits	329,866	2,000,851	-	-	-	362	2,331,079
Investment securities	-	-	1,246,876	786,506	1,011,004	763	3,045,149
Loans receivable	-	-	-	51,027	-	749,493	800,520
Trade and other receivables	-	-	-	-	-	850,638	850,638
Total financial assets	329,866	2,000,851	1,246,876	837,533	1,011,004	1,601,256	7,027,386
<b>Liabilities</b>							
Bank loans	1,439,422	2,548,086	2,670,500	566,185	-	6,905	7,231,098
Trade payables	-	-	-	-	-	1,394,659	1,394,659
Total financial liabilities	1,439,422	2,548,086	2,670,500	566,185	-	1,401,564	8,625,757
<b>Total interest repricing gap</b>	<b>(1,109,556)</b>	<b>(547,235)</b>	<b>(1,423,624)</b>	<b>271,348</b>	<b>1,011,004</b>	<b>199,692</b>	<b>(1,598,371)</b>

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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 income statement 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, each variable has to be evaluated on an individual basis.

#### Group

Change in basis points:	Effect on Net Profit	Effect on Other Components of Equity	Change in basis points:	Effect on Net Profit	Effect on Other Components of Equity
2010	2010	2010	2009	2009	2009
JMD / USD	\$'000	\$'000	JMD / USD	\$'000	\$'000
-100 / -50	77,220	346,801	-600 / -200	262,135	1,160,724
+200 / +50	(88,748)	(505,277)	+200 / +200	(213,803)	(1,373,213)

#### Company

Change in basis points:	Effect on Net Profit	Effect on Equity	Change in basis points:	Effect on Net Profit	Effect on Equity
2010	2010	2010	2009	2009	2009
JMD / USD	\$'000	\$'000	JMD / USD	\$'000	\$'000
-100 / -50	(245)	48,679	-600 / -200	26,779	162,621
+200 / +50	4,032	(62,791)	+200 / +200	(49,872)	(98,357)

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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 statement of financial position, 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 a MAT of 150% (2009: 135%). The MAT for the company as of December 31, 2010 and 2009 is set out below.

	Insurance			
	Actual 2010	Required 2010	Actual 2009	Required 2009
MAT	136%	150%	143%	135%

The FSC has indicated that the MAT will be replaced by a Minimum Capital Test (MCT) for 2011. The FSC's stated rationale for the change to the MCT is based on its superiority over the MAT in that:

- (i) It relates capital required to the risks assumed unlike the MAT which assumes similar risk for all items within each class of statement of financial position items;
- (ii) It is consistent with the approaches used in the supervision of other areas of the financial sector.

The ratio will be initially set at 200%.

As the original intention of the FSC was to have the MCT implemented for 2010, they have decided to allow all the general insurance companies to file both the MAT and MCT. Further, they have clearly indicated that no action will be taken against companies that fail to meet the MAT capital requirement of 150% but satisfy the MCT capital requirement of 200%.

	Insurance			
	Actual 2010	Required 2010	Actual 2009	Required 2009
MCT	211%	200%	-	-

The FSC requires each general insurance company to hold the minimum level of regulatory capital of \$90,000,000. For the insurance brokerage, the company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements of \$10,000,000.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (d) Capital management (continued)

##### *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 statement of financial position, 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 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%.

One of the investment services entities based overseas is required by the Trinidad and Tobago Securities and Exchange Commission to hold a minimum regulatory capital of \$66,950,000 (TT\$5,000,000).

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 and 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-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

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

	Banking			
	Actual 2010 \$'000	Required 2010 \$'000	Actual 2009 \$'000	Required 2009 \$'000
Tier 1 capital	4,352,560	1,709,141	3,707,347	1,459,334
Tier 2 capital	341,324	-	182,417	-
Total regulatory capital	4,693,884	1,709,141	3,889,764	1,459,334
<b>Risk-weighted assets:</b>				
On-statement of financial position	15,295,196	-	12,487,307	-
Off-statement of financial position	1,796,217	-	2,106,036	-
Total risk-weighted assets	17,091,413	-	14,593,343	-
Tier one capital ratio	25%	-	25%	-
Total capital ratio	27%	10%	27%	10%

	Investment			
	Actual 2010 \$'000	Required 2010 \$'000	Actual 2009 \$'000	Required 2009 \$'000
Tier 1 capital	3,105,962	992,857	2,255,096	367,709
Tier 2 capital	-	-	-	-
Total regulatory capital	3,105,962	991,772	2,255,096	367,709
<b>Risk-weighted assets:</b>				
On-statement of financial position	6,407,792	-	2,034,109	-
Off-statement of financial position	684,045	-	590,382	-
Total risk-weighted assets	7,091,837	-	2,624,491	-
Tier one capital ratio	100.00%	100.00%	100.00%	100.00%
Total capital ratio	43.80%	14.00%	85.93%	14.00%
Actual capital to total assets	11.60%	6.00%	9.42%	6.00%

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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 owners 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 owners of the company divided by total owners' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to equity owners.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as debt divided by owners equity. Debt is calculated as total borrowings as shown in the consolidated statement of financial position. Owners' equity is calculated as capital and reserves attributable to the company's owners as shown in the consolidated statement of financial position.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2010 and 2009 were as follows:

	The Group	
	2010 \$000	2009 \$000
Total borrowings (note 15)	13,764,164	17,227,287
Owners equity	26,697,805	23,697,642
Gearing ratio	51.6%	72.7%

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

The parent company complied with all externally imposed capital requirements to which it is subjected.

One of its investment subsidiaries was in breach of the capital adequacy benchmark established by the Trinidad and Tobago Securities and Exchange Commission. In order to address the breach, the parent company will inject additional capital into this subsidiary in the first quarter of 2011.

One of its insurance subsidiaries was in technical breach of Section 17 (4) of the Insurance (Actuaries) (General Insurance Companies) Regulation 2002 of Jamaica. Having satisfied the MCT capital requirement as previously noted, the regulator has indicated that no action is required by the insurance subsidiary.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

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### 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(g). The assessment of goodwill impairment involves the determination of the value in use. Determination of value in use involves the estimation of future cash flows 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 11.1% to 12.1% would result in a reduction in the value in use and an increase in impairment of goodwill by \$330,091,000.

#### (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 appropriate discount rate is determined 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 interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid are considered, 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. 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 statement of financial position 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 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Cash and Deposits

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash at bank and in hand	4,499,111	7,792,473	398,143	330,228
Deposits	9,110,671	2,815,903	1,340,246	2,000,851
	13,609,782	10,608,376	1,738,389	2,331,079

Included in deposits is interest receivable of \$7,584,000 (2009: \$317,700,000) and \$6,775,000 (2009: \$161,817,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 7.19% (2009: 9.31%) 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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash at bank and in hand	4,499,111	7,792,473	398,143	330,228
Deposits	9,110,671	2,815,903	1,340,246	2,000,851
	13,609,782	10,608,376	1,738,389	2,331,079
Bank overdrafts (Note 15)	(1,691,735)	(1,809,708)	(749,417)	(1,419,829)
	11,918,047	8,798,668	988,972	911,250

### 6. Investment Securities

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Available-for-sale:				
Quoted equities	191,021	28,923	64,777	128
Government of Jamaica securities	36,907,650	31,288,771	3,305,267	3,044,386
Corporate bonds	3,351,501	2,568,213	-	-
Other debt securities	385,556	34,461	-	-
Other	194,846	226,658	335	635
	41,030,574	34,147,026	3,370,379	3,045,149
Loans and Receivables:				
Government of Jamaica securities	-	8,649,188	-	-
Corporate bonds	-	609,411	-	-
	-	9,258,599	-	-
Financial assets at fair value through profit or loss:				
Quoted equities	18,662	15,122	-	-
Total	41,049,236	43,420,747	3,370,379	3,045,149

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 6. Investment Securities (Continued)

Included in the Government of Jamaica securities is interest receivable of \$867,351,000 (2009: \$1,456,670,000) and \$95,786,000 (2009: \$19,222,000) 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 10.12% (2009: 15.81%).

Included in Government of Jamaica securities is \$1,607,667,000 (2009: \$1,938,464,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2009: 14%) for Jamaican dollar cash reserves and 9% (2009: 11%) for United States dollar cash reserves 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 \$27,160,065,000 (2009: \$27,716,703,000) have been pledged by the Group as collateral for securities sold under repurchase agreements.

Included in investment securities for the company is \$399,284,000 (2009: \$608,876,000) which matures in the next 12 months.

#### 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.

In accordance with its accounting policy detailed in Note 2(h), on 1 December 2010, the Group reclassified these financial assets from loans and receivables back to the available-for-sale category as the markets for these securities were deemed to be active again. From that date, therefore, the bonds are being carried at their fair value.

The table below shows the carrying value and the fair value of these securities at 30 November 2010 (just prior to being reclassified back to the available-for-sale category) and at the prior year end:

	Group			
	30 November 2010		31 December 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000
US\$ Government of Jamaica Global Bonds	7,121,259	7,501,833	7,469,714	5,877,789
Euro Government of Jamaica Global Bonds	1,086,291	1,120,192	1,245,677	1,060,627
Corporate and other bonds	587,225	592,069	673,525	496,212
	8,794,775	9,214,094	9,388,916	7,434,628

- (a) In 2008, fair value losses of \$448,859,000 exclusive of deferred taxation were recognised in equity in relation to the above reclassified investments.
- (b) On 1 December 2010 fair value gains of \$419,319,000, exclusive of deferred taxation, were recognised in equity and transferred back to the carrying value of the financial assets. In the prior year fair value losses of \$1,954,288,000 as at 31 December 2009, 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 2009. Management does not believe that these prices were necessarily indicative of the prices that would have obtained if an active market for the securities actually existed at that date.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 7. Receivables

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables, less provision for impairment	3,629,918	3,824,637	798,286	765,771
Insurance receivables, less provision for impairment	2,524,868	2,452,630	-	-
Receivable from associates (Note 34(e))	11,056	9,614	9,470	7,809
Prepayments	521,831	604,379	43,535	67,693
Other receivables	893,066	889,505	73,844	77,058
	7,580,739	7,780,765	925,135	918,331

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

### 8. Inventories

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Raw materials and spares	470,749	540,100	-	-
Work in process	6,494	2,426	-	-
Finished goods	922,713	946,423	-	-
Merchandise	3,481,543	3,215,886	814,654	828,502
Goods in transit	846,462	796,911	365,597	291,320
	5,727,961	5,501,746	1,180,251	1,119,822

### 9. Loans Receivable

(a) Loans receivable comprise:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Finance leases, less deferred profit	343,892	456,906	-	-
Loans and receivables:				
Loans to subsidiaries (Note 34 (e))	-	-	774,607	800,121
Loans to others	10,056,743	10,733,343	-	-
Other receivables	806	806	399	399
	10,401,441	11,191,055	775,006	800,520

Loans receivable are due within 10 years from the statement of financial position date.

Included in loans receivable is interest receivable of \$74,620,000 (2009: \$126,393,000) for the Group.

Included in loans receivable for the company is \$25,513,000 (2009: \$25,513,000) which matures in the next 12 months.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 9. Loans Receivable (Continued)

	Group	
	2010 \$'000	2009 \$'000
Gross receivables from finance leases:		
Not later than 1 year	211,547	278,827
Later than 1 year and not later than 5 years	205,228	290,120
	416,775	568,947
Unearned future finance income on finance leases	(72,883)	(112,041)
Net investment in finance leases	343,892	456,906
The net investment in finance leases is analysed as follows:		
Not later than 1 year	174,858	218,213
Later than 1 year and not later than 5 years	169,034	238,693
Total	343,892	456,906

### 10. Investments in Associates

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
At beginning of year	699,257	851,331	185,173	219,950
Share of results before tax	185,354	208,349	-	-
Share of tax	(78,615)	(64,306)	-	-
Share of results after tax	106,739	144,043	-	-
Disposals	-	(73,996)	-	(34,777)
Movement in other reserves	(80,170)	(222,121)	-	-
At end of year	725,826	699,257	185,173	185,173

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

	2010 \$'000	2009 \$'000
Assets	11,054,986	9,768,163
Liabilities	9,207,620	7,907,568
Revenue	4,625,953	5,138,664
Net Profit	144,768	324,157

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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
<b>Group</b>						
<b>Cost</b>						
At 1 January 2009	1,194,863	155,459	933,728	1,018,127	589,088	3,891,265
Additions	-	-	-	186,770	-	186,770
Exchange differences	244,300	2,086	130,962	126	-	377,474
At 31 December 2009	1,439,163	157,545	1,064,690	1,205,023	589,088	4,455,509
Additions	-	-	-	166,833	-	166,833
Retirement of assets	-	(157,545)	(306,836)	24,753	-	(439,628)
Exchange differences	(73,771)	-	(39,036)	(258)	-	(113,065)
At 31 December 2010	1,365,392	-	718,818	1,396,351	589,088	4,069,649
<b>Accumulated Amortisation</b>						
At 1 January 2009	140,180	144,704	288,395	713,171	117,818	1,404,268
Amortisation charge for the year	97,613	12,841	-	214,034	39,272	363,760
Impairment charge	-	-	196,426	-	-	196,426
At 31 December 2009	237,793	157,545	484,821	927,205	157,090	1,964,454
Amortisation charge for the year	94,243	-	-	211,860	39,272	345,375
Retirement of assets	-	(157,545)	(306,836)	24,753	-	(439,628)
Impairment charge	-	-	157,155	-	-	157,155
At 31 December 2010	332,036	-	335,140	1,163,818	196,362	2,027,356
<b>Net Book Amount</b>						
31 December 2010	1,033,356	-	383,678	232,533	392,726	2,042,293
31 December 2009	1,201,370	-	579,869	277,818	431,998	2,491,055

#### *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.

The Group recognised an impairment charge of \$157,155,000 (2009: \$196,426,000) for goodwill in subsidiaries in the Food Trading Division (2009: Banking and Investments and Food Trading Divisions).

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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:

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Food Trading	383,678	579,869
	383,678	579,869

For the year ended 31 December 2010, 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:

	<b>Revenue Growth Rate</b>	<b>EBITDA to Revenue</b>	<b>Capital Expenditure to Revenue</b>	<b>Discount Rate</b>
Food Trading	4%	2.76%	0.56%	11.10%

**Computer  
Software  
\$'000**

**Company**

#### **Cost**

At 1 January 2009 206,097

Additions 62,932

At 31 December 2009 269,029

Additions 25,849

At 31 December 2010 294,878

#### **Accumulated Amortisation**

At 1 January 2009 142,186

Amortisation charge for the year 69,934

At 31 December 2009 212,120

Amortisation charge for the year 44,356

At 31 December 2010 256,476

#### **Net Book Amount**

31 December 2010 38,402

31 December 2009 56,909

# GraceKennedy Limited

## Notes to the Financial Statements

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### 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
<b>Group</b>					
<b>Cost or Valuation</b>					
At 1 January 2009	1,546,494	812,980	4,337,581	793,876	7,490,931
Additions	123,636	70,462	380,273	2,116,673	2,691,044
Revaluation surplus	(34,029)	-	-	-	(34,029)
Transfers	13,618	-	88,193	(101,811)	-
Disposals	(1,998)	(83,220)	(415,364)	(17,778)	(518,360)
Exchange differences	35	3,117	35,896	-	39,048
At 31 December 2009	1,647,756	803,339	4,426,579	2,790,960	9,668,634
Additions	49,871	211,927	467,770	326,425	1,055,993
Revaluation surplus	71,427	-	-	-	71,427
Transfers	2,555,913	20,577	345,648	(2,922,138)	-
Disposals	-	(33,356)	(386,228)	-	(419,584)
Exchange differences	(171)	(14,009)	(22,807)	-	(36,987)
At 31 December 2010	4,324,796	988,478	4,830,962	195,247	10,339,483
<b>Accumulated Depreciation</b>					
At 1 January 2009	16,247	395,673	2,880,644	-	3,292,564
Charge for the year	14,997	99,229	386,390	-	500,616
Revaluation adjustment	(830)	-	-	-	(830)
On disposals	-	(28,712)	(326,748)	-	(355,460)
At 31 December 2009	30,414	466,190	2,940,286	-	3,436,890
Charge for the year	49,741	80,520	497,990	-	628,251
Revaluation adjustment	(29,722)	-	-	-	(29,722)
On disposals	-	(25,428)	(362,979)	-	(388,407)
At 31 December 2010	50,433	521,282	3,075,297	-	3,647,012
<b>Net Book Value</b>					
31 December 2010	4,274,363	467,196	1,755,665	195,247	6,692,471
31 December 2009	1,617,342	337,149	1,486,293	2,790,960	6,231,744

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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
<b>Company</b>					
<b>Cost or Valuation</b>					
At 1 January 2009	24,000	88,810	490,750	551,462	1,155,022
Additions	-	3,180	53,585	444,839	501,604
Disposals	-	(5,106)	(36,440)	(996,301)	(1,037,847)
At 31 December 2009	24,000	86,884	507,895	-	618,779
Additions	31,532	12,042	87,255	-	130,829
Revaluation surplus	(3,532)	-	-	-	(3,532)
Disposals	-	(20,177)	(89,843)	-	(110,020)
At 31 December 2010	52,000	78,749	505,307	-	636,056
<b>Accumulated Depreciation</b>					
At 1 January 2009	-	66,036	431,601	-	497,637
Charge for the year	375	4,018	12,997	-	17,390
On disposals	-	(314)	(26,277)	-	(26,591)
At 31 December 2009	375	69,740	418,321	-	488,436
Charge for the year	-	3,295	60,134	-	63,429
On disposals	-	(15,183)	(87,125)	-	(102,308)
Revaluation adjustment	(375)	-	-	-	(375)
At 31 December 2010	-	57,852	391,330	-	449,182
<b>Net Book Value</b>					
31 December 2010	52,000	20,897	113,977	-	186,874
31 December 2009	23,625	17,144	89,574	-	130,343

- (a) The tables above include carrying values of \$Nil (2009: \$33,212,000) and \$13,026,000 (2009: \$19,454,000) for the Group and the company, respectively, representing assets being acquired under finance leases.

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cost	3,164,318	583,729	40,411	8,879
Accumulated depreciation	145,344	83,762	4,720	3,710
Net Book Value	3,018,974	499,967	35,691	5,169

(c) The Group's land and buildings were last revalued during 2010 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 \$Nil (2009: \$286,733,000) 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 Nil% (2009: 16.8%) 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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
At beginning of year	(1,165,424)	(1,068,967)	(2,060,751)	(1,777,888)
Income statement credit/(charge) (Note 27)	57,891	63,327	(115,417)	(288,577)
Tax (charge)/credit relating to components of other comprehensive income (Note 27)	(486,353)	(225,230)	(115,811)	5,714
Exchange differences	(24,319)	65,446	-	-
At end of year	(1,618,205)	(1,165,424)	(2,291,979)	(2,060,751)

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 \$2,485,911,000 (2009: \$2,793,258,000) to carry forward indefinitely against future taxable income. The Group also has unrecognised tax losses of \$Nil (2009: \$327,306,000) in respect of some subsidiaries.

Deferred income tax liabilities of \$185,971,000 (2009: \$111,841,000) have not been established for the withholding taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are permanently reinvested; such unremitted earnings totalled \$557,912,000 (2009: \$335,523,000).

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

(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					
	Fixed Assets	Fair Value	Unrealised Foreign	Pension Plan	Other	Total
Deferred tax liabilities	\$'000	Gains \$'000	Exchange Gains \$'000	Assets \$'000	\$'000	\$'000
At 1 January 2009	408,709	-	91,187	2,388,382	564,455	3,452,733
(Credited)/charged to the income statement	(21,145)	23,760	45,253	91,146	100,331	239,345
Charged/(credited) to other comprehensive income	15,496	2,548	-	-	(35,536)	(17,492)
Exchange differences	-	-	-	-	236	236
At 31 December 2009	403,060	26,308	136,440	2,479,528	629,486	3,674,822
Charged /(credited) to the income statement	38,705	(42,933)	(76,572)	178,372	(473,966)	(376,394)
Charged/(credited) to other comprehensive income	27,461	113,104	-	-	-	140,565
Exchange differences	-	-	-	-	(58)	(58)
At 31 December 2010	469,226	96,479	59,868	2,657,900	155,462	3,438,935

	Fixed Assets	Fair Value	Unutilised	Employee Benefit	Other	Total
Deferred tax assets	\$'000	Losses \$'000	Tax Losses \$'000	Obligations \$'000	\$'000	\$'000
At 1 January 2009	62,566	590,762	726,976	553,053	450,409	2,383,766
Credited/(charged) to the income statement	71,369	34,903	141,706	95,324	(40,630)	302,672
(Charged)/credited to other comprehensive income	-	(243,076)	-	-	354	(242,722)
Exchange differences	2,461	-	62,404	-	817	65,682
At 31 December 2009	136,396	382,589	931,086	648,377	410,950	2,509,398
(Charged)/credited to the income statement	(66,227)	(36,801)	(82,521)	87,242	(220,196)	(318,503)
Charged to other comprehensive income	-	(345,788)	-	-	-	(345,788)
Exchange differences	(4,219)	-	(19,928)	-	(230)	(24,377)
At 31 December 2010	65,950	-	828,637	735,619	190,524	1,820,730

# GraceKennedy Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 13. Deferred Income Taxes (Continued)

	Company					
	Fixed Assets \$'000	Fair Value Gains \$'000	Unrealised Foreign Exchange Gains \$'000	Pension Plan Asset \$'000	Other \$'000	Total \$'000
<b>Deferred tax liabilities</b>						
At 1 January 2009	23,056	-	49,862	1,988,950	21,805	2,083,673
(Credited)/charged to the income statement	(1,281)	-	18,634	281,813	23,927	323,093
Credited to other comprehensive income	(2,330)	-	-	-	-	(2,330)
At 31 December 2009	19,445	-	68,496	2,270,763	45,732	2,404,436
(Credited)/charged to the income statement	(8,413)	-	(63,107)	234,563	(25,139)	137,904
(Credited)/charged to other comprehensive income	(788)	75,557	-	-	-	74,769
At 31 December 2010	10,244	75,557	5,389	2,505,326	20,593	2,617,109

	Employee Benefit Obligations					Total \$'000
	Fixed Assets \$'000	Fair Value Losses \$'000			Other \$'000	
<b>Deferred tax assets</b>						
At 1 January 2009	12,924	37,658	231,108	24,095		305,785
Credited/(charged) to the income statement	297	-	38,716	(4,497)		34,516
Credited to other comprehensive income	-	3,384	-	-		3,384
At 31 December 2009	13,221	41,042	269,824	19,598		343,685
Credited/(charged) to the income statement	438		31,018	(8,969)		22,487
Credited to other comprehensive income	-	(41,042)	-	-		(41,042)
At 31 December 2010	13,659	-	300,842	10,629		325,130

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 statement of financial position:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Deferred tax assets	923,572	1,202,078	-	-
Deferred tax liabilities	(2,541,777)	(2,367,502)	(2,291,979)	(2,060,751)
	(1,618,205)	(1,165,424)	(2,291,979)	(2,060,751)

The gross amounts shown in the above tables include the following:

Deferred tax assets to be recovered after more than 12 months	1,564,256	1,579,463	300,842	269,824
Deferred tax liabilities to be settled after more than 12 months	(3,127,205)	(2,873,360)	(2,505,326)	(2,270,763)

# GraceKennedy Limited

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

In addition to a defined benefit pension scheme described below; the Group started a new defined contribution pension scheme during the year open to Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The Group's contribution for the year was \$6,420,000.

The Group's defined benefit 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. This scheme was closed to new members as at 31 March 2010.

#### *Pension benefits*

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

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Present value of funded obligations	8,988,665	6,348,877	4,081,547	2,997,034
Fair value of plan assets	(16,394,884)	(14,158,424)	(11,817,994)	(10,654,922)
	(7,406,219)	(7,809,547)	(7,736,447)	(7,657,888)
Unrecognised actuarial (losses)/gains	(873,526)	(207,085)	(85,571)	267,550
Limitation on asset due to uncertainty of obtaining economic benefit	306,040	578,048	306,040	578,048
Asset in the statement of financial position	(7,973,705)	(7,438,584)	(7,515,978)	(6,812,290)

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

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Beginning of year</b>	6,348,877	5,924,104	2,997,034	2,857,737
Current service cost	575,564	543,988	206,465	192,970
Interest cost	1,049,603	939,871	503,937	450,446
Actuarial losses/(gains)	1,262,034	(756,092)	481,894	(380,956)
Benefits paid	(247,423)	(302,994)	(107,783)	(123,163)
<b>End of year</b>	8,988,665	6,348,877	4,081,547	2,997,034

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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

#### *Pension benefits (continued)*

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

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Beginning of year</b>	14,158,424	12,640,786	10,654,922	8,833,872
Expected return on plan assets	1,663,422	1,611,191	1,251,082	1,209,544
Actuarial (losses)/gains	596,318	(28,230)	216,829	652,364
Contributions	244,143	237,671	92,944	82,305
Benefits paid	(247,423)	(302,994)	(107,783)	(123,163)
Adjustment to plan assets	(20,000)	-	(290,000)	-
<b>End of year</b>	16,394,884	14,158,424	11,817,994	10,654,922

The amounts recognised in the income statement are as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current service cost	349,350	323,041	121,384	116,594
Interest cost	1,049,613	939,871	503,937	450,446
Expected return on plan assets	(1,663,422)	(1,611,191)	(1,251,082)	(1,209,544)
Net actuarial gains/(losses) recognised in year	19,275	845,162	201,944	(48,714)
	(245,184)	496,883	(423,817)	(691,218)
Increase in income due to limitation on asset	(272,008)	(753,594)	(272,008)	(148,292)
Total, included in staff costs (Note 26)	(517,192)	(256,711)	(695,825)	(839,510)

The total credit of \$517,192,000 (2009: \$256,711,000) and \$695,825,000 (2009: \$839,510,000) 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 2011 amount to \$159,599,000.

The actual return on plan assets was \$2,259,740,000 (2009: \$2,682,500,000) for the Group.

The plan assets are comprised of :

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Equity	2,583,534	2,261,951	1,862,300	1,702,232
Debt	469,184	150,697	338,205	113,407
Government securities	10,322,886	8,045,052	7,441,089	6,054,303
Other	3,019,280	3,700,724	2,176,400	2,784,980
	16,394,884	14,158,424	11,817,994	10,654,922

# GraceKennedy Limited

## Notes to the Financial Statements

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

#### *Pension benefits (continued)*

The pension plan assets include the company's ordinary stock units with a fair value of \$759,234,000 (2009: \$610,098,000), buildings occupied by Group companies with fair values of \$697,823,000 (2009: \$655,377,000), and repurchase agreement investments of \$2,767,810,000 (2009: \$2,081,843,000). There were no finance lease receivables or loan receivables from Group companies at the end of 2010 and 2009.

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 statement of financial position 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.

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				
	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Fair value of plan assets	(16,394,884)	(14,158,424)	(12,640,788)	(13,227,574)	(11,246,524)
Defined benefit obligation	8,988,665	6,348,877	5,924,104	3,275,165	3,160,584
Surplus	(7,406,219)	(7,809,547)	(6,716,684)	(9,952,409)	(8,085,940)
Experience adjustments –					
Fair value of plan assets	596,319	1,033,172	(2,028,243)	791,320	(584,036)
Defined benefit obligation	(1,042,535)	(380,117)	(29,655)	166,624	(24,542)
	Company				
	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Fair value of plan assets	(11,817,994)	(10,654,922)	(8,833,874)	(9,253,431)	(7,679,844)
Defined benefit obligation	4,081,547	2,997,034	2,857,737	1,144,593	1,254,726
Surplus	(7,736,447)	(7,657,888)	(5,976,137)	(8,108,838)	(6,425,118)
Experience adjustments –					
Fair value of plan assets	216,830	826,200	(1,430,040)	768,377	2,613,147
Defined benefit obligation	(487,381)	(207,117)	642,908	(117,236)	(12,083)

#### *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 10.0% per year (2009: 12.5% per year).

# GraceKennedy Limited

## Notes to the Financial Statements

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

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

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

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Present value of unfunded obligations	2,620,878	1,818,887	1,118,185	823,956
Unrecognised actuarial (losses)/gains	(414,016)	126,245	(215,659)	(14,483)
Liability in the statement of financial position	2,206,862	1,945,132	902,526	809,473

Movement in the defined benefit obligation is as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Beginning of year</b>	1,818,887	1,504,127	823,956	755,673
Current service cost	113,394	93,533	30,922	28,138
Interest cost	298,704	245,289	131,623	114,456
Actuarial losses	503,845	109,654	196,152	32,417
Past service cost - vested benefits	(16,812)	-	-	(34,747)
Benefits paid	(97,140)	(133,716)	(64,468)	(71,981)
<b>End of year</b>	2,620,878	1,818,887	1,118,185	823,956

The amounts recognised in the income statement were as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current service cost	113,394	93,533	30,922	28,138
Interest cost	298,704	245,289	131,623	114,456
Net actuarial (gains)/losses recognised in year	(36,416)	80,866	(5,024)	80,282
Past service cost – vested benefits	(16,812)	-	-	(34,747)
Total, included in staff costs (Note 26)	358,870	419,688	157,521	188,129

The total charge was included in administration expenses.

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Gratuity Plan	1,067,701	867,051	385,959	290,139
Group Life Plan	81,124	67,038	30,198	24,716
Insured Group Health	235,617	191,565	70,982	60,338
Self Insured Health Plan	519,187	480,837	182,624	187,020
Supplementary Pension Plan	303,233	338,641	232,763	247,260
Liability in the statement of financial position	2,206,862	1,945,132	902,526	809,473

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

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

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

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	154,913	111,104	50,025	38,254
Effect on the defined benefit obligation	1,335,012	936,635	445,118	335,246

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

	Group				
	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Defined benefit obligation	2,637,690	1,818,887	1,504,127	1,368,518	1,539,270
Experience adjustments	(88,145)	(30,187)	47,980	(180,399)	82,022

	Company				
	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Defined benefit obligation	1,118,185	823,956	755,673	629,833	697,210
Experience adjustments	(11,373)	(55,991)	81,881	(33,270)	53,583

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

The principal actuarial assumptions used were as follows:

	2010	2009
Discount rate	11%	16%
Long term inflation rate	7%	10%
Expected return on plan assets	10%	11%
Future salary increases	8.5%	12.5%
Future pension increases	7%	10%

#### *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 statement of financial position date is as follows:

	2010	2009
Male	21.33	21.33
Female	25.09	25.09

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

Plans	2010 Years	2009 Years
Gratuity Plan	17.8	17.8
Group Life Plan	18.1	18.2
Insured Group Health	18.6	18.7
Pension Plan	17.9	18.1
Self Insured Health Plan	12.0	12.7

# GraceKennedy Limited

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### 15. Bank and Other Loans

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Secured on assets	5,769,665	7,881,681	-	-
Unsecured	7,994,499	9,345,606	4,134,471	7,231,098
	13,764,164	17,227,287	4,134,471	7,231,098

(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 2.51% - 17.75% (2009: 2.50% - 21.75%).

(b) Bank and other loans comprise:

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts (Note 5)	1,691,735	1,809,708	749,417	1,419,829
Bank borrowings	10,692,629	14,353,681	2,225,388	5,380,039
Finance leases	-	264	35,747	62,163
Customer deposits	59,937	59,902	-	-
Derivative financial instruments	11,280	-	-	-
Other loans	1,308,583	1,003,732	1,123,919	369,067
Total borrowings	13,764,164	17,227,287	4,134,471	7,231,098

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Certain bank borrowings are secured on the assets of subsidiaries that have the loans. All other borrowings are unsecured. Included in bank borrowings is interest payable of \$174,019,000 (2009: \$202,260,000) and \$9,987,000 (2009: \$26,498,000) for the Group and the company, respectively.

Included in customer deposits is interest payable of \$490,000 (2009: \$785,000) for the Group.

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were \$814,548,000 (2009: \$Nil). The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses on forward foreign exchange contracts as of 31 December 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

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	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Not later than 1 year	-	276	20,125	33,463
Later than 1 year and not later than 5 years	-	-	26,226	43,235
		276	46,351	76,698
Future finance charges on finance leases	-	(12)	(10,604)	(14,535)
Present value of finance lease liabilities	-	264	35,747	62,163

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 15. Bank and Other Loans (Continued)

(c) Finance lease liabilities – minimum lease payments (continued):

The present value of finance lease liabilities is as follows:

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Between 1 and 2 years	-	264	24,492	51,715
Between 2 and 5 years	-	-	11,255	10,448
	-	264	35,747	62,163

### 16. Payables

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trade payables	4,435,645	4,640,547	639,784	576,279
Payable to associates (Note 34(e))	193,294	159,000	156,479	62,160
Accruals	1,335,121	1,502,829	447,149	436,105
Claims outstanding	1,846,316	1,776,390	-	-
Insurance reserves	1,993,948	1,632,969	-	-
Other payables	1,981,035	1,665,349	279,197	320,115
	11,785,359	11,377,084	1,522,609	1,394,659

### 17. Provisions

Provisions comprise warranties as follows:

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
At beginning of year	6,986	13,770	6,221	6,221
Additional provisions	1,051	-	-	-
Utilised during year	-	(6,784)	-	-
At end of year	8,037	6,986	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

	2010	2009	2010	2009
	'000	'000	'000	'000
Authorised -				
Ordinary shares	400,000	400,000	400,000	400,000
Issued and fully paid -				
Ordinary stock units	331,711	331,706	742,324	742,005
Treasury shares	(2,075)	(2,073)	(168,108)	(168,029)
Issued and outstanding	329,636	329,633	574,216	573,976

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Share Capital (Continued)

- (a) During the year, the company issued 5,000 (2009: 479,000) shares to its employees for cash of \$319,000 (2009: \$20,097,000). 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 purchased 2,000 of its own shares at a fair value of \$79,000. The total number of treasury shares held by the company at the end of the year was 2,075,000 (2009: 2,073,000) at a cost of \$168,108,000 (2009: \$168,029,000).
- (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:

	<b>No. of Shares</b>
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:

	<b>No. of Shares</b>
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:

	<b>2010</b>		<b>2009</b>	
	<b>Executive '000</b>	<b>Non – Executive '000</b>	<b>Executive '000</b>	<b>Non – Executive '000</b>
<b>At 1 January</b>	2,812	432	2,812	432
Exercised	-	-	-	-
<b>At 31 December</b>	2,812	432	2,812	432

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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:

	<b>No. of Shares</b>
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:

	<b>2010 '000</b>	<b>2009 '000</b>
<b>At 1 January</b>	-	1,749
Exercised	-	(479)
Forfeited	-	(1,270)
<b>At 31 December</b>	-	-

- (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:

	<b>No. of Shares</b>
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:

	<b>2009 '000</b>	<b>2008 '000</b>
<b>At 1 January</b>	806	1,111
Forfeited	(806)	(305)
<b>At 31 December</b>	-	806

# GraceKennedy Limited

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**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Share Capital (Continued)

- (f) At the Annual General Meeting held on 28 May 2009, 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 2009 Stock Offer Plan for the permanent employees of GraceKennedy Limited.

On 1 October 2009, under the rules of the Stock Offer Plan, the following allocation was made:

	<b>No. of Shares</b>
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.

<b>Movement on this option:</b>	<b>2010 '000</b>	<b>2009 '000</b>
<b>At 1 January</b>	1,020	1,492
Exercised	(5)	-
Forfeited	(1,015)	(472)
<b>At 31 December</b>	-	1,020

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

	<b>2010</b>		<b>2009</b>	
	<b>Average exercise price in \$ per share</b>	<b>Options '000</b>	<b>Average exercise price in \$ per share</b>	<b>Options '000</b>
<b>At 1 January</b>	50.67	5,070	52.26	7,596
Granted	-	-	-	-
Forfeited	88.36	(1,821)	58.58	(2,047)
Exercised	66.43	(5)	41.94	(479)
<b>At 31 December</b>	29.49	3,244	50.67	5,070

Shares totalling 3,220,000 (2009: 5,022,000) are exercisable at the statement of financial position date.

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

	<b>2010</b>		<b>2009</b>
	<b>Exercise price in \$ per share</b>	<b>Options '000</b>	<b>Options '000</b>
2009	41.92	-	-
2010	88.31	-	1,826
2012	29.49	3,244	3,244
		3,244	5,070

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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:

	<b>\$'000</b>
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)
Expensed in 2009	(1,012)
Expensed in 2010	(1,013)
Amount to be expensed in future periods	13,984

### 19. Capital and Fair Value Reserves

	Group				Group			
	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total
	2010				2009			
	\$'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	143,070	-	-	143,070	141,982	-	-	141,982
Profits capitalised by Group companies	2,302,248	-	-	2,302,248	2,302,248	-	-	2,302,248
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	-	911,391	911,391	-	-	827,645	827,645
Fair value losses, net of deferred taxes	-	-	508,238	508,238	-	-	(780,014)	(780,014)
Loan loss reserve	-	341,324	-	341,324	-	106,164	-	106,164
Catastrophe reserve	11,396	-	-	11,396	-	-	-	-
Other	85,380	-	-	85,380	43,577	-	-	43,577
	2,682,106	341,324	1,419,629	4,443,059	2,627,819	106,164	47,631	2,781,614

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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

	Company					
	Capital Reserve	Fair Value Reserves	Total	Capital Reserve	Fair Value Reserves	Total
	2010			2009		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Capital distributions received	24,507	-	24,507	24,507	-	24,507
Bonus shares issued	-	-	-	(41,803)	-	(41,803)
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	13,488	13,488	-	15,858	15,858
Fair value gains, net of deferred taxes	-	293,593	293,593	-	59,306	59,306
	24,507	307,081	331,588	(17,296)	75,164	57,868

### 20. Banking Reserves

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

### 21. Non - Controlling Interests

	2010 \$'000	2009 \$'000
<b>Beginning of year</b>	1,147,370	1,773,661
Share of total comprehensive income:		
Share of net profit of subsidiaries	146,080	147,868
Revaluation surplus	11,905	1,898
Fair value gain	3	88
Other	(7,575)	52,137
	150,413	201,991
Dividends paid	(152,431)	(550,906)
Disposal	-	(277,376)
<b>End of year</b>	1,145,352	1,147,370

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

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### 22. Segment Information

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Group has five reportable segments which are based on the different types of products and services that it offers. These products and services are described in its principal activities (Note 1). The reportable segments derive their revenue primarily from food trading and financial services as well as retail trading. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (Note 2). The Group evaluates performance on the basis of profit or loss before tax expense not including post-employment benefits, share-based payments and net corporate central office costs which are shown in unallocated income.

The segment information provided to management for the reportable segments is as follows:

#### Operating segments

	2010						
	Food Trading \$'000	Retail & Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Unallocated/ Elimination \$'000	Group \$'000
<b>REVENUE</b>							
External sales	34,466,003	5,721,065	5,984,487	4,790,922	4,355,931	-	55,318,408
Inter-segment sales	169,316	7,922	37,697	317,517	-	(532,452)	-
<b>Total Revenue</b>	<b>34,635,319</b>	<b>5,728,987</b>	<b>6,022,184</b>	<b>5,108,439</b>	<b>4,355,931</b>	<b>(532,452)</b>	<b>55,318,408</b>
Operating results	770,726	197,451	515,023	288,343	1,135,708	86,073	2,993,324
Unallocated income						664,883	664,883
Profit from operations							3,658,207
Finance income	26,277	1,234	68,949	27,702	63,264	209,368	396,794
Finance expense	(434,227)	(95,041)	(92,684)	(7,448)	(3,506)	(269,186)	(902,092)
Share of results of associates	124,983	-	54,022	(71,776)	(490)	-	106,739
<b>Profit before taxation</b>	<b>487,759</b>	<b>103,644</b>	<b>545,310</b>	<b>236,821</b>	<b>1,194,976</b>	<b>691,138</b>	<b>3,259,648</b>
Taxation							(863,392)
<b>Net Profit</b>							<b>2,396,256</b>
Operating assets	21,449,418	2,669,271	54,465,107	8,421,906	4,424,015	(4,325,794)	87,103,923
Investment in associates	427,885	-	265,522	22,286	10,133	-	725,826
Unallocated assets						10,236,387	10,236,387
<b>Total assets</b>	<b>21,877,303</b>	<b>2,669,271</b>	<b>54,730,629</b>	<b>8,444,192</b>	<b>4,434,148</b>	<b>5,910,593</b>	<b>98,066,136</b>
Operating liabilities	13,104,615	1,792,881	48,498,885	4,942,570	1,332,049	(4,558,484)	65,112,516
Unallocated liabilities						5,110,463	5,110,463
<b>Total liabilities</b>	<b>13,104,615</b>	<b>1,792,881</b>	<b>48,498,885</b>	<b>4,942,570</b>	<b>1,332,049</b>	<b>551,979</b>	<b>70,222,979</b>
<b>Other segment items</b>							
Additions to non-current assets <sup>(b)</sup>	756,894	50,812	248,155	68,684	98,281	-	1,222,826
Depreciation	(428,233)	(51,428)	(60,426)	(33,903)	(54,261)	-	(628,251)
Amortisation	(136,826)	(32,618)	(77,360)	(76,544)	(22,027)	-	(345,375)
Impairment	(157,155)	-	(494,169)	-	-	-	(651,324)

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2010

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### 22. Segment Information (Continued)

#### Operating segments (continued)

	2009						
	Food Trading	Retail & Trading	Banking & Investments	Insurance	Money Services	Unallocated/ Elimination	Group
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>REVENUE</b>							
External sales	34,430,955	6,545,376	7,965,009	3,941,427	4,523,648	-	57,406,415
Inter-segment sales	180,352	5,036	255,428	352,367	-	(793,183)	-
<b>Total Revenue</b>	<b>34,611,307</b>	<b>6,550,412</b>	<b>8,220,437</b>	<b>4,293,794</b>	<b>4,523,648</b>	<b>(793,183)</b>	<b>57,406,415</b>
Operating results	774,034	70,892	4,902	429,253	1,331,128	227,632	2,837,841
Unallocated income						825,055	825,055
Profit from operations							3,662,896
Finance income	23,891	23,696	86,725	51,266	78,043	210,968	474,589
Finance expense	(159,815)	(186,369)	(37,590)	(7,803)	(889)	(235,195)	(627,661)
Share of results of associates	85,646	8,951	50,912	(977)	(489)	-	144,043
<b>Profit before taxation</b>	<b>723,756</b>	<b>(82,830)</b>	<b>104,949</b>	<b>471,739</b>	<b>1,407,793</b>	<b>1,028,460</b>	<b>3,653,867</b>
Taxation							(931,044)
<b>Net Profit</b>							<b>2,722,823</b>
Operating assets	23,786,822	2,546,183	54,583,992	7,767,629	4,531,558	(5,990,696)	87,225,488
Investment in associates	365,940	-	228,632	94,062	10,623	-	699,257
Unallocated assets						9,642,506	9,642,506
<b>Total assets</b>	<b>24,152,762</b>	<b>2,546,183</b>	<b>54,812,624</b>	<b>7,861,691</b>	<b>4,542,181</b>	<b>3,651,810</b>	<b>97,567,251</b>
Operating liabilities	16,528,948	1,800,867	49,643,598	4,574,934	1,468,956	(6,044,765)	67,972,538
Unallocated liabilities						4,749,701	4,749,701
<b>Total liabilities</b>	<b>16,528,948</b>	<b>1,800,867</b>	<b>49,643,598</b>	<b>4,574,934</b>	<b>1,468,956</b>	<b>(1,295,064)</b>	<b>72,722,239</b>
<b>Other segment items</b>							
Additions to non-current assets <sup>(b)</sup>	2,466,758	36,127	273,505	46,873	54,551	-	2,877,814
Depreciation	(283,539)	(66,907)	(71,313)	(33,598)	(45,259)	-	(500,616)
Amortisation	(165,998)	(32,920)	(72,114)	(75,642)	(17,086)	-	(363,760)
Impairment	(151,334)	-	(45,092)	-	-	-	(196,426)

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 22. Segment Information (Continued)

#### *Operating segments (continued)*

The profit or loss, assets and liabilities for reportable segments are reconciled to the totals for profit or loss, assets and liabilities as follows:

	Profit before taxation		Assets		Liabilities	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Total for reportable segments	2,568,510	2,625,407	92,155,543	93,915,441	69,671,000	74,017,303
Inter-segment eliminations	-	-	(4,325,794)	(5,990,696)	(4,558,484)	(6,044,765)
<b>Unallocated amounts:</b>						
Corporate central office results	418,760	800,336	-	-	-	-
Post-employment benefits	273,391	229,136	-	-	-	-
Share-based payments	(1,013)	(1,012)	-	-	-	-
Taxation recoverable	-	-	1,339,110	1,001,844	-	-
Deferred tax assets	-	-	923,572	1,202,078	-	-
Pension plan asset	-	-	7,973,705	7,438,584	-	-
Taxation	-	-	-	-	361,824	437,067
Deferred tax liabilities	-	-	-	-	2,541,777	2,367,502
Other post-employment obligations	-	-	-	-	2,206,862	1,945,132
Total unallocated	691,138	1,028,460	10,236,387	9,642,506	5,110,463	4,749,701
Total per financial statements	3,259,648	3,653,867	98,066,136	97,567,251	70,222,979	72,722,239

#### *Geographical information*

	Revenue <sup>(a)</sup>		Non-current assets <sup>(b)</sup>	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Jamaica	37,396,067	39,761,869	7,347,556	6,785,295
United Kingdom	7,531,002	7,703,977	1,389,640	1,823,196
United States of America	3,678,132	3,826,831	539	426
Canada	2,730,718	2,526,835	4,811	6,315
Other Caribbean countries	3,499,055	3,163,993	718,044	806,824
Other countries	483,434	422,910	-	-
Total	55,318,408	57,406,415	9,460,590	9,422,056

<sup>(a)</sup> Revenue is attributed to countries on the basis of the customer's location.

<sup>(b)</sup> For the purposes of segment information, non-current assets exclude financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

# GraceKennedy Limited

## Notes to the Financial Statements

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### 23. Revenues

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Sales of products and services	44,542,999	45,499,979	11,322,627	10,927,313
Financial services income	5,654,422	4,846,632	-	-
Interest income on investments classified as –				
Available-for-sale securities	3,617,469	5,511,292	-	-
Loans and receivables	1,503,518	1,548,512	-	-
	55,318,408	57,406,415	11,322,627	10,927,313

### 24. Expense by Nature

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Auditors' remuneration	118,133	107,507	14,097	12,927
Advertising and marketing	1,573,156	1,762,883	560,302	778,581
Amortisation of intangibles	345,375	363,760	44,356	69,934
Cost of inventory recognised as expense	30,161,097	30,154,921	8,768,749	8,572,246
Depreciation	628,251	500,616	63,429	17,390
Impairment	651,324	196,426	-	-
Insurance	431,399	401,196	75,611	73,915
Interest expense and other financial services expenses	6,542,580	7,789,894	-	-
Legal, professional and other fees	651,617	537,300	461,568	271,086
Loss on trading of investment securities	-	841,839	-	-
Occupancy costs - Lease rental charges, utilities, etc.	1,638,371	1,246,421	749,974	205,355
Repairs and maintenance expenditure	364,378	331,048	21,223	15,321
Staff costs (Note 26)	5,817,688	6,526,743	766,770	595,710
Transportation	885,938	681,797	163,384	155,690
Other expenses	2,907,350	3,789,729	617,930	709,599
	52,716,657	55,232,080	12,307,393	11,477,754

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 25. Other Income

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Dividends	6,255	25,786	1,121,935	1,685,307
Net foreign exchange gains	208,058	611,728	91,222	166,119
Change in value of investments	-	(35,209)	-	-
Gain/(loss) on disposal of investments	171,252	(17,150)	438,604	50,024
(Loss)/gain on disposal of fixed assets	(12,234)	(4,874)	(1,734)	136
Fees and commissions	95,763	175,452	1,298,929	1,565,028
Interest income – available-for-sale securities	348,522	497,444	-	-
Rebates, reimbursements and recoveries	147,384	169,986	416,701	75,643
Miscellaneous	91,456	65,398	4,503	2,043
	1,056,456	1,488,561	3,370,160	3,544,300

### 26. Staff Costs

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Wages and salaries	4,876,194	5,144,800	1,079,998	1,106,402
Pension (Note 14)	(517,192)	(256,711)	(695,825)	(839,510)
Pension contributions to defined contribution scheme (Note 14)	6,420	-	874	-
Other post-employment benefits (Note 14)	358,870	419,688	157,521	188,129
Share options granted to employees	1,013	1,012	1,013	(96,685)
Other costs	1,092,383	1,217,954	223,189	237,374
	5,817,688	6,526,743	766,770	595,710

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 27. Taxation

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

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current tax	921,283	994,371	65,981	47,633
Deferred tax (Note 13)	(57,891)	(63,327)	115,417	288,577
	863,392	931,044	181,398	336,210

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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit before tax	3,259,648	3,653,867	2,398,559	3,177,189
Tax calculated at a tax rate of 33⅓%	1,086,549	1,217,956	799,520	1,059,063
Adjusted for the effects of:				
Different tax rates in other countries	(84,822)	(99,367)	-	-
Income not subject to tax	(328,114)	(205,626)	(615,662)	(680,874)
Expenses not deductible for tax purposes	343,364	95,770	915	(30,653)
Adjustment to prior year provision	(5,005)	(54,204)	(1,813)	(21,498)
Share of profits of associates included net of tax	(35,580)	(48,014)	-	-
Recognition/utilisation of previously unrecognised tax losses	(105,514)	(12,758)	-	-
Other	(7,486)	37,287	(1,562)	10,172
Tax expense	863,392	931,044	181,398	336,210

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 27. Taxation (Continued)

The tax (charge)/credit relating to components of other comprehensive income is as follows:

Group						
	2010			2009		
	Before tax \$'000	Tax (charge) credit \$'000	After tax \$'000	Before tax \$'000	Tax (charge) credit \$'000	After tax \$'000
Foreign currency translation adjustments	(186,920)	-	(186,920)	560,081	-	560,081
Revaluation surplus	101,149	(27,461)	73,688	(33,290)	(19,562)	(52,852)
Fair value gains/(losses)	1,747,148	(458,892)	1,288,256	1,433,573	(205,668)	1,227,905
Share of other comprehensive income of associated companies	21,962	-	21,962	-	-	-
Other comprehensive income	1,683,339	(486,353)	1,196,986	1,960,364	(225,230)	1,735,134
Deferred tax (Note 13)		(486,353)			(225,230)	

Company						
	2010			2009		
	Before tax \$'000	Tax (charge) credit \$'000	After tax \$'000	Before tax \$'000	Tax (charge) credit \$'000	After tax \$'000
Revaluation surplus	(3,158)	788	(2,370)	-	2,330	2,330
Fair value gains/(losses)	349,798	(116,599)	233,199	(10,219)	3,384	(6,835)
Other comprehensive income	346,640	(115,811)	230,829	(10,219)	5,714	(4,505)
Deferred tax (Note 13)		(115,811)			5,714	

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(expressed in Jamaican dollars unless otherwise indicated)

### 28. Net Profit Attributable to the owners of GraceKennedy Limited

Dealt with as follows in the financial statements of:

	2010 \$'000	2009 \$'000
The company	2,217,161	2,840,979
Intra-group dividends and gain on disposal of subsidiaries within the Group eliminated on consolidation	(1,442,395)	(1,691,526)
Adjusted company profit	774,766	1,149,453
The subsidiaries	1,368,671	1,281,459
The associates	106,739	144,043
	2,250,176	2,574,955

### 29. Dividends

	2010 \$'000	2009 \$'000
Paid,		
Interim – 50 cents per stock unit (2009: 50 cents)	164,816	164,577
Interim – 40 cents per stock unit (2009: Nil cents)	131,855	-
Final – 45 cents per stock unit (2009: 65 cents)	148,336	214,261
	445,007	378,838

### 30. Earnings Per Stock Unit

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

	2010	2009
Net profit attributable to owners (\$'000)	2,250,176	2,574,955
Weighted average number of stock units outstanding ('000)	329,633	329,253
Basic earnings per stock unit (\$)	6.83	7.82

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 (2009: 3,244,001) ordinary stock units for the full year in respect of the Stock Option Plan for directors (Note 18),
- (b) Nil (2009: 806,241) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18), and
- (c) Nil (2009: 1,019,600) ordinary stock units for the full year in respect of the Stock Option Plan for permanent employees (Note 18).

	2010	2009
Net profit attributable to owners (\$'000)	2,250,176	2,574,955
Weighted average number of stock units outstanding ('000)	329,633	329,253
Adjustment for share options ('000)	1,577	1,141
	331,210	330,394
Diluted earnings per stock unit (\$)	6.79	7.79

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

		Group		Company	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
	Note				
Net profit		2,396,256	2,722,823	2,217,161	2,840,979
Items not affecting cash:					
Depreciation	12	628,251	500,616	63,429	17,390
Amortisation	11	345,375	363,760	44,356	69,934
Impairment charge		651,324	196,426	-	-
Change in value of investments		-	35,209	-	-
Loss/(gain) on disposal of fixed assets		12,234	4,874	1,734	(136)
(Gain)/loss on disposal of investments <sup>(c)</sup>		(171,252)	17,150	(117,815)	(50,024)
Share options – value of employee services expensed	18	1,013	1,012	1,013	(96,658)
Exchange (gain)/loss on foreign balances		(246,683)	404,571	(96,497)	325,425
Interest income – non financial services		(396,794)	(474,589)	(408,636)	(700,062)
Interest income – financial services		(5,469,509)	(6,664,954)	-	-
Interest expense – non financial services		902,092	627,661	395,471	516,732
Interest expense – financial services		2,656,317	3,936,438	-	-
Taxation expense	27	863,392	931,044	181,398	336,210
Unremitted equity income in associates		(4,607)	78,078	-	-
Pension plan surplus		(535,121)	(273,435)	(703,688)	(845,439)
Other post-employment obligations		261,730	285,972	93,053	116,148
		1,894,018	2,692,656	1,670,979	2,530,499
Changes in non-cash working capital components:					
Inventories		(226,215)	80,652	(60,429)	37,765
Receivables		200,026	787,074	2,666	64,866
Loans receivable, net		621,108	(1,684,997)	-	-
Payables		408,275	(614,687)	119,566	(343,501)
Deposits		1,418,000	(2,857,786)	-	-
Securities sold under repurchase agreements		33,140	(1,510,131)	-	-
Subsidiaries		-	-	1,494,998	(1,540,044)
Provisions		1,051	(6,784)	-	-
Total provided by/(used in) operating activities		4,349,403	(3,114,003)	3,227,780	749,585

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

(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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Total provided by/(used in) operating activities	4,349,403	(3,114,003)	3,227,780	749,585
Interest received – financial services	6,186,590	5,709,527	-	-
Interest paid – financial services	(3,015,629)	(3,620,045)	-	-
Translation gains	60,575	(49,712)	-	-
Taxation paid	(1,333,792)	(1,184,968)	(85,417)	(85,795)
Cash provided by/(used in) operating activities	6,247,147	(2,259,201)	3,142,363	663,790

### 32. Commitments

Future lease payments under operating leases at 31 December 2010 were as follows:

		\$'000
In financial year	2011	754,986
	2012	698,346
	2013	643,607
	2014 and beyond	1,228,996

### 33. Contingent Liabilities

- (a) In 2000, a suit was filed jointly against a subsidiary, GraceKennedy Remittance Services Limited ("GKRS") and a software developer by Paymaster (Jamaica) Limited (Paymaster), a bills payment company. The suit claimed damages arising out of the use by the subsidiary of certain software, to which Paymaster alleged it owned the copyright.

In the judgment handed down by the Supreme Court on 30 April 2010, the court ruled in favour of GKRS and the software developer on all claims. Accordingly, the Court awarded damages to be paid by Paymaster to GKRS and the software developer. On 10 June 2010, Paymaster filed an appeal against the decision of the Supreme Court in the Court of Appeal and applied for a stay of execution, pending the appeal. On 18 January 2011 the Court of Appeal refused Paymaster's application for a stay of execution. GKRS may therefore proceed to pursue the recovery of costs against Paymaster and also proceed to assessment of damages. Management has considered the advice of the company's attorneys and is of the opinion that Paymaster's appeal is unlikely to succeed.

- (b) 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 2010**

(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	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Sales of goods	4,864	2,039	370,383	465,320
Sales of services	176,391	98,170	1,742,013	1,581,558
	Group		Company	
(b) Purchases of goods and services	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Purchases of goods	1,805,583	1,578,666	4,147,538	4,209,171
Purchases of services	-	-	75,611	36,806
	Group		Company	
(c) Interest	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Interest income	293	8,832	72,818	394,280
Interest expense	11,826	14,246	48,921	65,790

### (d) Key management compensation

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid to key management for services is shown below:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Salaries and other short-term employee benefits	206,415	214,741	140,813	172,990
Fees paid to non-executive directors	20,607	15,314	20,607	15,314
Post-employment benefits	(58,391)	(4,044)	(51,360)	(4,174)
Share-based payments	1,013	1,012	1,013	1,012
	169,644	227,023	111,073	185,142

The following amounts are in respect of directors' emoluments:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Fees	20,607	15,314	20,607	15,314
Management remuneration	150,780	157,535	113,594	142,501
	171,387	172,849	134,201	157,815

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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

#### (e) Year-end balances with related parties

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Receivable from subsidiaries	-	-	1,706,813	3,201,811
Receivable from associates (Note 7)	11,056	9,614	9,470	7,809
Loans receivable from subsidiaries (Note 9)	-	-	774,607	800,121
Payable to associates (Note 16)	193,294	159,000	156,479	62,160
Loans & leases payable to subsidiaries	-	-	415,519	431,228
Deposits payable to associates	214,716	77,882	-	-
Securities sold under agreements to repurchase to associates	-	57,912	-	-

Loans receivable from subsidiaries are repayable between 2012 - 2016 and bear interest at 0% - 3% (2009: 0% - 3%). No provision was required in 2010 and 2009 for loans made to subsidiaries.

#### (f) Year end balances with directors and other key management

	Group	
	2010 \$'000	2009 \$'000
Loans receivable	3,966	4,609
Deposits	91,582	87,278
Securities sold under agreements to repurchase	216,599	168,982

The loans receivable attract interest at rates ranging between 10.00% - 23.55% (2009: 10.00% - 23.55%) and are repayable in the years 2011 - 2015. The related interest income was \$886,000 (2009: \$782,000). These loans are secured and are made on terms similar to those offered to other employees. No provision has been required in 2010 and 2009 for the loans made to directors and senior managers.

The related interest expense on deposits and repurchase agreements was \$13,988,000 (2009: \$24,183,000).

#### (g) 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 (2009: 3,244,001).

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 35. Fair Values of Financial Instruments

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 includes those instruments which are measured based on quoted prices in active markets for identical assets or liabilities.
- Level 2 includes those instruments which are measured using inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 includes those instruments which are measured using valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

The following tables present the Group's and company's financial instruments that are measured at fair value at 31 December grouped into Levels 1 to 3 dependent on the degree to which fair values are observable.

Group 2010				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Available-for-sale securities:				
Quoted equities	191,021	-	-	191,021
Government of Jamaica securities	-	36,907,650	-	36,907,650
Corporate bonds	-	2,473,643	877,858	3,351,501
Other debt securities	-	385,556	-	385,556
Other	-	194,846	-	194,846
Financial assets at fair value through profit or loss:				
Quoted equities	18,662	-	-	18,662
	209,683	39,961,695	877,858	41,049,236

Group 2009				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Available-for-sale securities:				
Quoted equities	28,923	-	-	28,923
Government of Jamaica securities	-	31,288,771	-	31,288,771
Corporate bonds	88,170	1,365,549	1,114,494	2,568,213
Other debt securities	-	34,461	-	34,461
Other	-	226,658	-	226,658
Financial assets at fair value through profit or loss:				
Quoted equities	15,122	-	-	15,122
	132,215	32,915,439	1,114,494	34,162,148

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 35. Fair Values of Financial Instruments (Continued)

Company				
2010				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Available-for-sale securities:				
Quoted equities	64,777	-	-	64,777
Government of Jamaica securities	-	3,305,267	-	3,305,267
Other	-	335	-	335
	64,777	3,305,602	-	3,370,379
Company				
2009				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Available-for-sale securities:				
Quoted equities	128	-	-	128
Government of Jamaica securities	-	3,044,386	-	3,044,386
Other	-	635	-	635
	128	3,045,021	-	3,045,149

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily JSE equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments

# GraceKennedy Limited

## Notes to the Financial Statements

**31 December 2010**

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### 35. Fair Values of Financial Instruments (Continued)

Note that all of the resulting fair value estimates are included in level 2 except for certain corporate bonds as explained below.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	1,114,494	979,181
Acquisitions	-	241,254
Foreign exchange gains recognised in the income statement	(38,220)	111,218
Gains and losses recognised in the income statement	-	(21,083)
Gains and losses recognised in other comprehensive income	1,975	(27,489)
Disposals	(200,391)	(168,586)
At end of year	877,858	1,114,494

There were no transfers between the levels during the year.

### 36. Custodial Services

One of the Group's investment subsidiaries provides custody and brokerage services to certain third parties. Assets that are held in a custodial capacity are not included in these financial statements. At the statement of financial position date, the subsidiary had investment custody accounts amounting to approximately \$7,976,484,000 (2009: \$9,641,506,000).

### 37. Fiduciary Activities

One of the Group's investment subsidiaries provides pension administration and management services. At the statement of financial position date, the subsidiary had pension assets held under management amounting to approximately \$24,282,865,000 (2009: \$22,111,263,000).