

UNAUDITED GROUP FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2019



October 3, 2019

Highlights

- **Group profit before taxes and finance costs for 1H2019 increased by 154% year on year to \$61.3 million**
- **Net Operating Income rose by 23% for 1H2019 to \$46.9 million.**
- **Funds from Operations (FFO) rose by 50% for 1H2019 to \$27.9 million.**
- **EBITDA adj. improved by 20% for 1H2019 to \$48.7 million.**
- **Group rental income up 6% to \$112.9 million for 1H2019**
- **Operating expenses declined by 4% for 1H2019**

We are pleased to present the unaudited consolidated financial statements for the six months ended June 30, 2019.

OVERVIEW

The results of the first half of financial year 2019 saw continuing improvement in our net operating margin with higher rental revenue and a reduction in expenses. The impact of the volatility of the Jamaican dollar vis-à-vis the United States dollar resulted in lower year on year profitability due to unrealized foreign exchange losses incurred on our net assets in 2019 compared to gains in the prior year.

INCOME STATEMENT

The Group posted a 6.0% increase in **rental income** for the six months ended June 30, 2019 to \$112.9 million compared to \$106.5 million for the same period in 2018. Rental income for the three months to June 30, 2019, improved by 5.9% to \$53.6 million. This occurred despite a higher vacancy rate in some of our properties when compared with the prior year. **Group operating expenses**, which include direct property expenses and administrative expenses, increased from \$32.7 million for the three months ended June 30, 2018 to \$34.7 million for the same period in 2019, an increase of 6.2%. For the six months period, operating expenses declined by 3.6% to \$66.1 million from \$68.5 million the same period during the prior year. Operating expenses for the first half of the year reflect lower HOA fees and property taxes, two of our largest expense items. Operating results saw a 5.4% increase year over year with results of operating activities before gains moving from \$17.9 million in

UNAUDITED GROUP FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2019

2018 to \$18.9 million in 2019 for the second quarter. For the six months to June 30, 2018, the increase was 23.3%, moving from \$38.0 million in 2018 to \$46.8 million in 2019.

The Group recorded **profit before net finance charges** of \$38.9 million in the second quarter of 2019 compared with \$14.0 million in the same quarter in 2018. For the first half of 2019, this line item amounted to \$61.3 million compared to \$24.1 million in 2018, an increase of 154% year on year. The figure in the first half of 2019 includes a fair value gain on investment property of \$23.8 million, a loss on disposal of investment properties following the sale of two condo units in Florida, as well as, an impairment loss of \$4.2 million due to the Group's adoption of IFRS 9.

Funds from Operations (FFO) for the first half of 2019 amounted to \$27.9 million compared to \$18.6 million in 2018. This represents a year on year improvement of 50.4% and continues the Group's strategy to consistently generate strong cash flows from its operations.

Profit before income tax amounted to \$23.7 million in the first half of 2019 compared to \$32.6 million for the first half of 2018. The second quarter, recorded a pre-tax profit of \$10.4 million compared to \$24.6 million for the same period in the prior year. The year on year reduction is attributed to **net finance costs** of \$28.6 million in the second quarter 2019 compared to net finance income for the second quarter last year. Net finance costs in 2019 were primarily due to net unrealized loss on translation of foreign currency investments and borrowings amounting to \$16.5 million compared to a gain of \$21.7 million in the prior year.

The Group recorded an income tax credit for both the second quarter and half year in 2018 due primarily to amendments to the US tax code that came into effect in early 2018; or \$1.6 million in the second quarter of 2018 and \$30.9 million for the first half of that year. This financial year, the Group booked income tax expenses of \$0.9 million and \$1.8 million for the second quarter and half year respectively.

Net Profit in the first half of 2019 amounted to \$21.9 million compared to \$63.5 million for the first half of 2018. The figure in 2018 included a tax credit of approximately \$31 million due to the Trump tax cuts. The second quarter of 2019, however, recorded a net profit of \$9.4 million compared to a profit of \$26.1 million in 2018.

Total comprehensive income in 2019 amounted to \$47.6 million and \$53.5 million for the second quarter and the half year respectively, compared with \$34.1 million and \$72.2 million, respectively, reported in 2018.

BALANCE SHEET

Investment Properties totaled \$2,487.9 million as at June 30, 2018 versus \$2,669.9 million as at June 30, 2019, an increase of 7.3%. The net increase results from the addition to the portfolio of the Grenada Crescent building in November 2018, the disposal of nine (9) condos in Florida over the last year, as well as fair value improvement on some of our properties. **Total assets** stood at \$2,671.6 million as at June 30, 2018 compared to \$2,875.0 million this year, an increase of 7.6%. The Group

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SIX MONTHS ENDED JUNE 30, 2019

continues to hold higher cash balances in 2019 when compared with 2018 largely from the proceeds of the sale of condos over the period. The cash will be used in the acquisition of new properties.

Total loans payable were \$797.4 million at June 30, 2018 compared with \$994.4 million at June 30, 2019 representing a 24.7% year on year increase. The increase loan balance, which are primarily collateralized bank financing, was used as part of our portfolio expansion strategy. The loans are all in US dollars from financial institutions in the US, Jamaica and the Cayman Islands. The weighted average cost of borrowing as at June 2019 was 4.99%.

As a consequence of the disposal of and the fair value loss on some of our US properties, the Group's **deferred tax liabilities** declined by \$16.5 million during the first half of 2019 when compared with the figure as at June 30, 2018.

Total Equity improved marginally year on year moving from \$1,789.2 million at the end of the first six months of 2018 to \$1,808.1 million at the end of the first six months of 2019. Total equity per stock unit was \$5.56 as at June 30, 2018 compared with \$5.62 as at June 30, 2019.

SUMMARY AND OUTLOOK

Since the rebalancing of our property portfolio to underweight US properties and add one more property in Jamaica, our financial performance has improved with higher net operating margins through higher rental income and a reduction in expenses. We continue to monitor developments in the economies in which we own properties and remain bullish on the Jamaican and especially the Caymanian economies. The recent reduction in benchmark US interest rates signals weaknesses in some US economic fundamentals, however we note that the Miami Realtors Association reports a 4.2% increase in the median sale price of condos and townhouses in the Miami-Dade area up to June 2019. Our strategy remains focused on prudently funding the acquisition of properties with strong fundamentals and attractive cash yields. As at the end of June 2019 our loan: total asset and loan: total equity ratios stood at 35% and 55% respectively, which compare very favourably to our peer group and well within our risk management parameters. On August 2, 2019 at an Extraordinary General Meeting, our shareholders approved the increase in share capital of the Company to 1,000,000,000 ordinary shares to facilitate a renounceable rights issue to be executed shortly. As mentioned at our Annual General Meeting in May 2019, this is part of our strategy to substantially increase our capital base over the next three years.

As always, we thank our shareholders and other stakeholders for your continued support as we seek to meet and exceed our corporate objectives.



Kevin G. Richards
Chief Executive Officer

KINGSTON PROPERTIES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SIX (6) MONTHS ENDED JUNE 30, 2019

KINGSTON PROPERTIES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

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KINGSTON PROPERTIES LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

	<u>Notes</u>	Unaudited	Unaudited	Unaudited	Unaudited	Audited
		Quarter ended	Quarter ended	Six (6) months	Six (6) months	Year ended
		June 30,	June 30,	ended	ended	December 31,
		2019	2018	June 30,	June 30,	2018
		<u>\$'000</u>	<u>\$'000</u>	<u>2019</u>	<u>2018</u>	<u>\$'000</u>
Revenues:						
Rental income		53,546	50,550	112,854	106,510	204,077
Operating expenses		<u>(34,678)</u>	<u>(32,649)</u>	<u>(66,048)</u>	<u>(68,523)</u>	<u>(132,878)</u>
Results of operating activities before other income/gains		18,868	17,901	46,806	37,987	71,199
Other income / gains:						
Fair value gain / (loss) on revaluation of investment properties		23,756	-	23,756	(10,566)	(4,297)
Loss on disposal of investment properties		(4,074)	(5,387)	(9,920)	(5,387)	(46,932)
Impairment loss on financial assets		(2,887)	-	(4,201)	-	(1,451)
Management fees		2,498	1,400	4,043	1,926	5,017
Miscellaneous income		<u>764</u>	<u>63</u>	<u>838</u>	<u>148</u>	<u>493</u>
Profit before net finance costs		38,925	13,977	61,321	24,108	24,029
Finance income		1,229	22,255	6,052	31,239	18,553
Finance cost		<u>(29,808)</u>	<u>(11,650)</u>	<u>(43,636)</u>	<u>(22,753)</u>	<u>(51,394)</u>
Net finance (costs) / income	4	<u>(28,579)</u>	<u>10,605</u>	<u>(37,584)</u>	<u>8,486</u>	<u>(32,841)</u>
Profit / (loss) before income tax		10,346	24,582	23,737	32,594	(8,812)
Income tax (charge) / credit		<u>(925)</u>	<u>1,552</u>	<u>(1,781)</u>	<u>30,874</u>	<u>42,755</u>
Profit / (loss) for the period / year		<u>9,421</u>	<u>26,134</u>	<u>21,957</u>	<u>63,468</u>	<u>33,943</u>
Other comprehensive income that may be reclassified to profit or loss:						
Foreign currency translation differences for foreign operations, being total comprehensive income		<u>50,754</u>	<u>7,954</u>	<u>31,620</u>	<u>8,774</u>	<u>31,945</u>
Total comprehensive income for the period / year		<u>60,175</u>	<u>34,088</u>	<u>53,577</u>	<u>72,242</u>	<u>65,888</u>
Earnings per share for profit attributable to the equity holders of the Company:						
Earnings per stock unit:	5	<u>2.93 cents</u>	<u>8.12 cents</u>	<u>6.82 cents</u>	<u>19.71 cents</u>	<u>10.5 cents</u>

KINGSTON PROPERTIES LIMITED
GROUP STATEMENT OF FINANCIAL POSITION
(UNAUDITED)
AS AT JUNE 30, 2019

	Unaudited as at June 30, 2019	Unaudited as at June 30, 2018	Audited as at December 31, 2018	
Notes	\$'000	\$'000	\$'000	
NON-CURRENT ASSETS				
Investment properties	6	2,669,921	2,487,882	2,607,495
Restricted cash		15,900	25,399	24,923
Furniture, software and equipment		6,267	5,585	6,232
Total non-current assets		2,692,088	2,518,866	2,638,650
CURRENT ASSETS				
Investment properties held for sale		-	-	100,337
Receivables and prepayments	7	51,626	43,305	47,087
Income tax recoverable		-	302	-
Cash and cash equivalents		131,289	109,103	128,553
Total current assets		182,915	152,710	275,977
Total assets		2,875,003	2,671,576	2,914,627
EQUITY				
Share capital		1,022,851	1,028,509	1,023,459
Treasury shares	8	-	(5,097)	(546)
Cumulative translation reserve		309,723	256,546	278,103
Retained earnings		475,539	509,197	478,854
Total equity		1,808,113	1,789,155	1,779,870
NON-CURRENT LIABILITIES				
Loans payable	9	922,863	765,988	994,858
Deferred tax liabilities		32,572	49,065	32,176
Total non-current liabilities		955,435	815,053	1,027,034
CURRENT LIABILITIES				
Loans payable	9	71,529	31,410	69,366
Accounts payable and accrued charges	10	38,191	34,776	32,592
Income tax payable		1,735	1,182	5,765
Total current liabilities		111,455	67,368	107,723
Total equity and liabilities		2,875,003	2,671,576	2,914,627

The financial statements on pages 1 to 20 were approved for issue by the Board of Directors on October 3, 2019 and signed on its behalf by:



Garfield Sinclair
Chairman



Meghon Miller-Brown
Director

KINGSTON PROPERTIES LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

	Share capital	Treasury	Cummulative	Retained	Total
	<u>\$'000</u>	<u>shares</u>	<u>translation</u>	<u>earnings</u>	<u>\$'000</u>
		<u>\$'000</u>	<u>reserve</u>	<u>\$'000</u>	<u>\$'000</u>
			<u>\$'000</u>		
Audited, balances at					
December 31, 2017 as previously reported	1,028,509	(5,049)	246,158	469,831	1,739,449
Transaction with owners of the company					
Shares repurchased	-	(48)	-	-	(48)
Understated prior year - capital reserve	-	-	1,614	-	1,614
Profit, being comprehensive income for the period	-	-	-	63,468	63,468
Translation of foreign subsidiaries' balances, being total other comprehensive income for the period	-	-	8,774	-	8,774
Dividends paid, being total distribution to owners	-	-	-	(24,102)	(24,102)
Unaudited, balances at June 30, 2018	<u>1,028,509</u>	<u>(5,097)</u>	<u>256,546</u>	<u>509,197</u>	<u>1,789,155</u>
Audited, balances at December 31, 2018	1,023,459	(546)	278,103	478,854	1,779,870
Shares repurchased	-	(62)	-	-	(62)
Stock unit cancelled	(608)	608	-	-	-
Profit, being comprehensive income for the period	-	-	-	21,957	21,957
Translation of foreign subsidiaries' balances, being total other comprehensive income for the period	-	-	31,620	-	31,620
Dividends paid, being total distribution to owners	-	-	-	(25,271)	(25,271)
Unaudited, balances at June 30, 2019	<u>1,022,851</u>	<u>-</u>	<u>309,723</u>	<u>475,539</u>	<u>1,808,113</u>

KINGSTON PROPERTIES LIMITED
GROUP STATEMENT OF CASH FLOWS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

	Unaudited Six (6) months ended June 30, 2019 \$'000	Unaudited Six (6) months ended June 30, 2018 \$'000	Audited Year ended December 31, 2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period / year	21,957	63,468	33,940
Adjustments for:			
Income tax charge	1,781	(30,874)	(42,755)
Depreciation	575	376	897
Interest income	(1,779)	(388)	(2,086)
Interest expense	27,019	22,753	47,976
(Increase) / decrease in fair value revaluation of investment property	(23,756)	10,566	4,297
Impairment loss on financial asset	4,201	-	1,451
Loss on disposal of investment property	4,074	5,387	46,932
Unrealized foreign exchange gains	(16,861)	(29,338)	(6,181)
Operating profit before changes in working capital	17,209	41,950	84,474
Changes in:			
Other receivables	(4,539)	(24,288)	(30,104)
Accounts payable and accrued charges	5,600	1,387	413
Income tax paid	(5,810)	6	(289)
Net cash provided by operations	12,459	19,055	54,493
Cash flows from investing activities			
Interest received	1,779	388	1,854
Additions to office equipment	(552)	(2,889)	(4,029)
Additions to investment property	(603)	-	(461,679)
Proceeds of disposal of investment property	102,813	9,638	201,089
Net cash provided by / (used in) investing activities	103,437	7,137	(262,765)
Cash flows from financing activities			
Interest paid	(27,019)	(22,753)	(47,976)
Dividends paid	(25,271)	(24,102)	(25,313)
Loan received	-	102,322	771,100
Loan repaid	(69,832)	(9,550)	(398,405)
Restricted cash	9,023	(925)	(1)
Treasury shares	(62)	(48)	(546)
Net cash (used in) / provided by financing activities	(113,161)	44,944	298,858
Net increase in cash and cash equivalents	2,736	71,136	90,586
Cash and cash equivalents at beginning of period	128,553	37,967	37,967
Cash and cash equivalents at end of period / year	131,289	109,103	128,553

KINGSTON PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Receivables

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

(i) Reverse repurchase agreements

Reverse repurchase agreements are transactions in which the Group makes funds available to institutions by entering into short-term agreements with those institutions. On delivering the funds, the Group receives the securities, or other documents evidencing a claim on the securities, and agrees to resell the securities, or surrender the documents evidencing the claim, on a specified date and at a specified price. Reverse repurchase agreements are accounted for as short-term collateralized lending. The difference between sale and purchase consideration is recognized as interest income on the accrual basis over the term of the agreement.

(i) Cash and cash equivalents

Cash and cash equivalents are carried 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.

(j) Accounts payable and accrued charges

Accounts payable and accrued charges are stated at cost.

(k) Revenue recognition

Rental income and management fees are recorded in these financial statements on the accrual basis using the straight line method.

(l) Income tax

The income tax charge for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognized only to the extent management can demonstrate that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current and deferred tax assets and liabilities are offset in the statement of financial position if they apply to the same tax authority.

KINGSTON PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

Kingston Properties Limited (the "Company ") was incorporated in Jamaica under the Companies Act on April 21, 2008. The Company is domiciled in Jamaica, with its registered office at 7 Stanton Terrace, Kingston 6, Jamaica. The Company is listed on the Jamaica Stock Exchange.

The Company has two wholly owned subsidiaries:

- (i) Carlton Savannah REIT (St. Lucia) Limited, incorporated in St. Lucia under the International Business Companies Act of 1999 on May 8, 2008; and its wholly owned subsidiary: Kingston Properties Miami LLC, incorporated in Florida under the Florida Limited Liability Company Act on March 12, 2010.
- (ii) KP (Reit) Jamaica Limited, incorporated on September 14, 2018, in Jamaica under the Companies Act.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim financial statements have been prepared under the historical cost basis, as modified by the revaluation of certain fixed and financial assets and are expressed in Jamaican dollars.

These financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting.

The interim financial report is to be read in conjunction with the audited financial statements for the year ended December 31, 2018. The explanatory notes attached to the interim financials statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended December 31, 2018.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended December 31, 2018.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Actual results could differ from these estimates and any adjustments that may be necessary would be reflected in the year in which actual results are known.

KINGSTON PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Consolidation:

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(d) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements, (referred to in IAS 24 *Related Party Disclosures* as the 'reporting entity', in this case the Group).

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled, or jointly controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

KINGSTON PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency).

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency, the Jamaican dollar, are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in the statement of comprehensive income for the period.

(f) Investment properties

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

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

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

(g) Furniture, software and equipment

- (i) Items of office equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

The costs of day-to-day servicing of office equipment are recognized in the statement of comprehensive income as incurred.

- (ii) Depreciation is recognized in the statement of comprehensive income on the straight-line basis, over the estimated useful life of the asset. The depreciation rate for the furniture, software and equipment are as follows:

Computer and accessories	20%
Furniture and fixtures	10%

KINGSTON PROPERTIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SIX (6) MONTHS ENDED JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Segment reporting

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

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

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

(n) Borrowings

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

(o) Assets held for sale

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

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

(p) Impairment of financial assets:

Policy applicable from January 1, 2018

The Company recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. A significant increase in credit risk is assumed to have occurred if there has been deterioration in the counterparty's performance and ability to pay.

The Company uses judgement when considering the following factors that affect the determination of impairment:

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Impairment of financial assets cont'd:

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios

The Company applies an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes and incorporates forecasts of future economic conditions. Macroeconomic factors and forward looking information are incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECL at each reporting period reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The Company uses three scenarios that are probability weighted to determine ECL.

For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. The lifetime ECL are determined by taking into consideration historical rates of default for each segment of aged receivables as well as the estimated impact of forward looking information.

Policy applicable before January 1, 2018

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise owed by parent, receivables and cash and cash equivalents; financial liabilities comprise owed to parent, owed to subsidiary and accounts payable and accrued charges.

Financial assets – Policies applicable from January 1, 2018

- Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

- Classification and subsequent measurement

The financial assets that meet both of the following conditions and are not designated as at fair value through profit or loss: a) are held within a business model whose objective is to hold assets to collect contractual cash flows, and b) whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified as “held to collect” and measured at amortised cost.

Amortised cost represents the net present value (“NPV”) of the consideration receivable or payable as of the transaction date. This classification of financial assets comprises the following captions:

- Receivables
- Related party receivables

Due to their short-term nature, the Company initially recognises these assets at the original invoiced or transaction amount less expected credit losses.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Financial instruments cont'd

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described in the particular recognition methods disclosed in their individual policy statements associated with each item.

Impairment of financial assets

Impairment losses of financial assets, including receivables, are recognised using the expected credit loss model for the entire lifetime of such financial assets on initial recognition, and at each subsequent reporting period, even in the absence of a credit event or if a loss has not yet been incurred, considering their measurement past events and current conditions, as well as reasonable and supportable forecasts affecting collectability.

Derecognition

A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities – Policy applicable from January 1, 2018

Initial recognition and measurement

All financial liabilities, which includes accounts payable are recognised initially at fair value.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described in the particular recognition methods disclosed in their individual policy statements associated with each item.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Financial instruments cont'd

Financial liabilities – Policy applicable from January 1, 2018

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Policies applicable before January 1, 2018

(i) Recognition

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

(i) Derecognition

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

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

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4. Finance costs

	Unaudited Quarter ended June 30, 2019 \$'000	Unaudited Quarter ended June 30, 2018 \$'000	Unaudited Six (6) months ended June 30, 2019 \$'000	Unaudited Six (6) months ended June 30, 2018 \$'000	Audited Year end December 31, 2018 \$'000
Finance income					
Interest income	737	270	1,779	388	2,086
Foreign exchange gains and losses arising from investing and financing activities:					
Net unrealized gains on translation of foreign currency investments and borrowings	-	21,736	-	30,536	16,467
Net realized gain on conversion of foreign exchange investments and borrowings	492	249	4,273	315	-
Total finance income	1,229	22,255	6,052	31,239	18,553
Finance costs:					
Unrealised exchange losses	(16,519)	-	(16,617)	-	-
Interest expense	(13,177)	(11,576)	(26,795)	(22,606)	(47,976)
Commitment fees	(112)	(74)	(224)	(147)	(3,418)
Total finance costs	(29,808)	(11,650)	(43,636)	(22,753)	(51,394)
Net finance (costs) / income	(28,579)	10,605	(37,584)	8,486	(32,841)

5. Earnings per stock unit

The earnings per stock unit is computed by dividing the profit for the period / year, attributable to the company's stockholders, by weighted average number of stock units in issue during the year, computed as follows:

	Unaudited Three months ended June 30, 2019 000	Unaudited Three months ended June 30, 2018 000	Unaudited Six months ended June 30, 2019 000	Unaudited Six months ended June 30, 2018 000	Audited Year ended December 31, 2018 000
Weighted average number of ordinary stock units held during the year	321,879	321,993	321,879	321,993	321,968
Earnings per share (cents)	2.93	8.12	6.82	19.71	10.5

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6. Investment properties

Investment properties held by the Group are as follows:

	Unaudited Quarter ended June 30, 2019 \$'000	Unaudited Quarter ended June 30, 2018 \$'000	Audited Year ended December 31, 2018 \$'000
(i) Miami condominiums, Loft II	325,820	421,470	315,615
(ii) Midblock Miami condominiums	57,826	257,857	56,023
(iii) W.Ft Lauderdale condominiums	295,019	426,562	285,778
(iv) Opera Tower condominiums	127,365	125,767	123,376
(v) Tropic Centre	409,647	364,672	396,817
(vi) Spanish Town Road commercial complex	336,455	320,000	327,125
(vii) Red Hills Road commercial complex	642,442	571,554	642,301
(viii) Grenada Crescent	475,347	-	460,460
	2,669,921	2,487,882	2,607,495
(i) This represents (June 30, 2019: 11; June 30, 2018: 14 and December 31, 2018: 11) residential condominiums comprising (June 30, 2019: 9,159; June 30, 2018: 11,477; December 31, 2018: 9,159) square feet in the Loft II building located at 133 NE 2nd Avenue in downtown Miami, Florida.			
(ii) This represents (June 30, 2019: 1; June 30, 2018: 5 and December 31, 2018: 1) residential condominiums comprising (June 30, 2019: 1,572; June 30, 2018: 5,213; December 31, 2018: 1,572) square feet located at 3250 NE 1st Avenue in Miami, Florida. The property was purchased in September 2015.			
(iii) This represents (June 30, 2019: 3; June 30, 2018: 4; December 31, 2018: 3) residential condominiums comprising of (June 30, 2019: 3,370; June 30, 2018: 4,174; December 31, 2018: 3,370) square feet purchased in October 2015, located at 3101 Bayshore, Fort Lauderdale.			
(iv) This represents 3 residential condominiums comprising 2,660 square feet located at 1750 North Bayshore Drive, Miami, Florida. The property was purchased in April 2016.			
(v) This represents 10,172 square feet of residential and commercial property purchased in January 2017. The property was acquired through Carlton Savannah REIT (St. Lucia) Limited and is located at Earth Close, West Bay Beach, South, Cayman Islands.			
(vi) This represents 56,897 square feet of commercial property, located at 591 Spanish Town Road, Kingston, Jamaica. The property was purchased January 2017.			
(vii) This represents a commercial property of 52,012 square feet on Red Hills Road, Kingston, Jamaica.			
(viii) This represents a property of 31,564 square feet purchased in October 2018 for commercial purposes. The property was acquired through KP (Reit) Jamaica Limited and is located at 52-60 Grenada Crescent, Kingston, Jamaica,			

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7. Receivables and prepayments

	Unaudited June 30, 2019 \$'000	Unaudited June 30, 2018 \$'000	Audited December 31, 2018 \$'000
Rent receivables	4,959	8,069	11,116
less impairment loss	(4,229)	-	(2,267)
Net rent receivable	730	8,069	8,849
Withholding tax recoverable	11,124	4,624	16,627
Security deposits	2,488	2,823	2,900
Prepayments	9,229	8,821	4,612
Interest receivables	159	198	-
Other receivables	27,896	18,770	14,099
	<u>51,626</u>	<u>43,305</u>	<u>47,087</u>

8. Treasury shares

The repurchase of the Company's stock units is being conducted on the open market through the Company's stockbroker consequent on the decision of the Board of Directors. During the year, the Company repurchased 10,969 stock units at a cost of \$62,193.

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9. Loans payable	Unaudited June 30, 2019 \$'000	Unaudited June 30, 2018 \$'000	Audited December 31, 2018 \$'000
Bank loan - No 1 [see (i)]			
Face amount	197,505	366,421	269,524
Un-amortized transaction costs	(7,002)	(8,320)	(7,486)
Carrying value	190,503	358,101	262,038
Bank loan - No 2 [see (ii)]			
Face amount	-	265,935	-
Un-amortized transaction costs	-	(3,135)	-
Carrying value	-	262,800	-
Bank loan - No 3 [see (ii)]			
Face amount	166,437	177,186	167,729
Un-amortized transaction costs	(628)	(689)	(644)
Carrying value	165,809	176,497	167,085
Bank loan - No 4 [see (iv)]			
Face amount	641,656	-	638,869
Un-amortized transaction costs	(3,576)	-	(3,768)
Carrying value	638,080	-	635,101
Total loans payable	994,392	797,398	1,064,224
Classified as follows:			
Non-current			
Bank loan [see (i)]	182,781	350,854	254,628
Bank loan [see (ii)]	-	252,977	-
Bank loan [see (iii)]	150,935	162,157	152,810
Bank loan [see (iv)]	589,147	-	587,420
	922,863	765,988	994,858
Current			
Bank loan [see (i)]	7,722	7,247	7,410
Bank loan [see (ii)]	-	9,823	-
Bank loan [see (iii)]	14,875	14,340	14,275
Bank loan [see (iv)]	48,932	-	47,681
	71,529	31,410	69,366

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9. Loans payable (cont'd):

(i) Bank loan - No 1 Terrabank

This represents two loans of US\$2,200,000 and US\$796,350 from Terrabank N.A. a financial institution in Florida, payable by Kingston Properties Miami LLC. The loan of US\$2,200,000 is for a duration of ten (10) years at an interest rate of 4%.

During the prior year, Kingston Properties Miami LLC secured a further advance of US\$796,530 under the existing loan facility from Terrabank. This will be amortised over the remaining period of 28 years and a balloon payment at maturity on April 8, 2026. Interest accrues at a rate of 4.5%.

The loan is secured by a first mortgage on fifteen (15) condominium units, being one (1) residential unit located at 3250 NE 1st Avenue in Miami, Florida and eleven (11) residential condominiums at The Loft located at 135 NE 2nd Avenue, Downtown Miami, Florida and three (3) residential units at 1750 North Bayshore Drive, Miami, Florida.

The balance at [June 30, 2019: US\$1,506,893, (J\$197,505,703); June 30, 2018: US\$2,810,155, (J\$366,412,107); December 31, 2018: US\$2,110,336, (J\$269,524,114)].

Transaction costs of approximately US\$73,794 were incurred in obtaining the loans. These costs were deducted from the loan balance and are being amortised over the life of the loan.

The balance at [June 30, 2019: US\$53,426, (J\$7,002,495); June 30, 2018: US\$63,806, (J\$8,319,858); December 31, 2018: US\$58,616, (J\$7,486,232)].

(ii) Bank Loan - No 2 National Commercial Bank

This represented loans of JMD118,265,600 and JMD160,034,000 from National Commercial Bank Jamaica Limited [see iv], payable by Kingston Properties Limited. The loans were for a duration of fifteen years at an interest rate of 9.85% and were settled in August 2018.

The loan was secured by a first legal mortgage over commercial property located at 36-38 Red Hills Road, Kingston.

The balance at June 30, 2018: J\$265,935,014.

Transaction costs of approximately J\$3,462,063 were incurred in obtaining the loan. These costs were deducted from the loan balance and was amortised over the life of the loan.

The balance at June 30, 2018: J\$3,135,090.

(iii) Bank Loan - No 3 RBC Royal Bank (Cayman) Limited

This represents a loan of US\$1,500,000 from RBC Royal Bank in the Cayman Islands, payable by Carlton Savannah REIT (St. Lucia) Limited. The loan is for a duration of twelve (12) years at an interest rate of 90 day US LIBOR plus 2.25%.

The loan is secured by a first charge debenture over the fixed and floating assets of Carlton Savannah REIT (St. Lucia) Limited and a first legal charge over the properties legally described as Block 12c, Parcel 198 H1-H12 (inclusive) in the name of Carlton Savannah REIT (St. Lucia) Limited.

The balance at [June 30, 2019: US\$1,269,850, (J\$166,437,002); June 30, 2018: US\$1,358,876, (J\$177,186,277); December 31, 2018: US\$1,313,292, (J\$167,728,669)].

Transaction costs of approximately US\$6,000 were incurred in obtaining the loan. These costs were deducted from the loan balance and are being amortized over the life of the loan. The balance at [June 30, 2019: US\$4,792, (J\$628,022); June 30, 2018: US\$5,292, (J\$689,983); December 31, 2018: US\$5,042, (J\$643,893)].

(iv) Bank Loan - No 4 First Caribbean International Bank (Jamaica) Limited

This represents loans of US\$2,160,000 and US\$2,900,000 payable by Kingston Properties Limited. Interest rates are 5.5% and 5.25% respectively fixed for two years and thereafter at 3 month LIBOR plus 3.75%.

The loan of USD2,160,000 was used to refinance the National Commercial Bank Jamaica Limited loan. The loan is for a duration of 7 years and is secured by a first legal mortgage over commercial property located at 36-38 Red Hills Road, Kingston.

The loan of USD2,900,000 was used to purchase commercial property at 52-60 Grenada Crescent, Kingston 5, Jamaica. The loan is for a duration of 10 years and is secured by commercial property located at 52-60 Grenada Crescent.

The balance at [June 30, 2019: US\$4,845,586.98 (J\$641,655,894; December 31, 2018: US\$5,002,254, (J\$638,868,828)].

Transaction costs of approximately US\$29,475 were incurred in obtaining the loan. These costs were deducted from the loan balance and are being amortised over the life of the loan. The balance at [June 30, 2019: US\$27,226, (J\$3,576,034); December 31, 2018: US\$28,688, (J\$3,767,737)].

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10. Accounts payable and accrued charges

	Unaudited June 30, 2019 \$'000	Unaudited June 30, 2018 \$'000	Audited December 31, 2018 \$'000
Accounts payable	1,394	1,205	3,609
Accounting and audit fees	3,235	2,670	7,075
Dividend payable	637	267	636
Other payables and accrued charges	18,171	18,815	8,661
Security deposits held	14,754	11,819	12,611
	<u>38,191</u>	<u>34,776</u>	<u>32,592</u>

11. Segment reporting

The Group has three operating segments, rental of real estate, which includes the earning of income from the ownership of real estate of real estate. Internal management reports are reviewed monthly by the Board. Information regarding the reportable segment is included below.

Performance is measured on segment profit before income tax, as included in the internal management reports that are reviewed by the Board. Segment reporting is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segment compared to other entities that operated within these industries.

	Unaudited Six (6) months ended June 30, 2019				
	Jamaica \$'000	United States of America \$'000	St. Lucia \$'000	Consolidated adjustments and eliminations \$'000	Total Group \$'000
Revenues	58,322	36,877	17,655	-	112,854
Profit / (loss) for the period	18,271	(8,638)	6,267	6,057	21,957

	Unaudited as at June 30, 2019				
	Jamaica \$'000	United States of America \$'000	St. Lucia \$'000	Consolidated adjustments and eliminations \$'000	Total Group \$'000
Segment assets	2,534,703	862,811	705,655	(1,228,166)	2,875,003
Segment liabilities	722,122	686,796	167,877	(509,905)	1,066,890

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11. Segment reporting (cont'd):

	Unaudited Six (6) months ended June 30, 2018				
	Jamaica \$'000	United States of America \$'000	St. Lucia \$'000	Consolidated adjustments and eliminations \$'000	Total Group \$'000
Revenues	37,342	52,906	16,262	-	106,510
Profit for the period	17,643	24,835	5,756	15,234	63,468
	Unaudited as at June 30, 2018				
	Jamaica \$'000	United States of America \$'000	St. Lucia \$'000	Consolidated adjustments and eliminations \$'000	Total Group \$'000
Segment assets	1,617,417	1,287,922	658,022	(891,785)	2,671,576
Segment liabilities	336,538	978,516	176,996	(609,629)	882,421
	Audited Year ended December 31, 2018				
	Jamaica \$'000	United States of America \$'000	St. Lucia \$'000	Consolidated adjustments and eliminations \$'000	Total Group \$'000
Revenues	84,658	85,848	33,571	-	204,077
Profit / (loss) for the year	111,439	(113,540)	51,441	(15,397)	33,943
	Audited as at December 31, 2018				
	Jamaica \$'000	United States of America \$'000	St. Lucia \$'000	Consolidated adjustments and eliminations \$'000	Total Group \$'000
Segment assets	2,534,989	934,731	688,811	(1,243,904)	2,914,627
Segment liabilities	715,347	767,251	168,401	(516,243)	1,134,756