



KINGSTON PROPERTIES LIMITED
ANNUAL REPORT 2011

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Chairman's Statement

To Our Shareholders

The Board of Directors is happy to present the annual report of Kingston Properties Limited for the financial year ended December 31, 2011.

The year 2011 saw significantly slower world GDP growth of 2.7% versus the 4.4% experienced in 2010. The financial turmoil generated by the acceleration of the fiscal crisis in Europe created headwinds for the world's economies. However, in the second half of 2011, we began to see an improving economic picture in the United States, the world's largest economy, where a run of better employment data dispelled much of the pessimism. Additionally, most major markets progressed steadily, albeit slowly, through the recovery cycle despite the unprecedented economic uncertainties in the Euro bloc.

During 2011 as well, sentiment regarding real estate improved globally as sharp declines showed signs of levelling off. As a result, commercial real estate continued to attract capital from investors, showing that it remains a core asset class for many investors. Property returns turned positive across a broad range of markets in 2011.

In Jamaica, the Real Estate, Renting & Business Activities sector bottomed in the first quarter of 2011 after registering nine (9) consecutive quarter of negative growth as per published statistics from STATIN. Since the first quarter of 2011, growth has continued at 0.7% pace in the second quarter 2011 and 0.6% in the third quarter 2011. While encouraging, this is historically below the average quarterly pace of the last 10 years.

The Construction sector saw a more volatile performance. After ten (10) consecutive quarters of decline averaging an almost 6% pace per quarter, the sector registered positive growth in the 4th quarter of 2010 only to decline again in the 1st quarter of 2011. Since then however, the sector has been showing above average positive growth.

Kingston Properties continued in 2011 to execute its strategic vision and added a fully tenanted 47,875 square feet office and warehouse complex to its portfolio bringing the total square footage under management to 89,957. This transaction significantly added to the strength and breath of Kingston Properties' tenant base, key underpinnings for sustainable revenue and dividend generation.

Looking Ahead

We remain optimistic for 2012 given the continued strengthening of economies worldwide and we expect this to translate into sustainable gains in commercial real estate prices. At Kingston Properties, we maintain a disciplined investment approach, by combining proactive asset management with the application of prudent capital and risk management strategies, a process that supports stable and predictable dividend distributions to our shareholders.

In Appreciation

Thanks to my fellow Board members, shareholders and the extended Kingston Properties team for their unwavering support and dedication to the execution of our business strategies as established by the Board.

As we continue to deploy our core strategies, I remain confident that we will continue to deliver strong and stable results into the foreseeable future.



Garfield Sinclair

20th April 2012

Kingston Properties Limited - THE REIT



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Kingston Properties Limited is a real estate investment company that seeks real estate acquisition opportunities in a variety of markets. We actively manage the properties we acquire to generate stable, sustained income and capital appreciation for our shareholders.

Kingston Properties' business model is modeled on Real Estate Investment Trusts (REITs) in developed markets. These entities raise capital in both public and private markets and invest in a variety of property types such as office buildings, hotels, warehouses, industrial complexes, retail buildings and apartment buildings. They employ active management strategies to maximize the earnings from the properties and have a dividend policy that returns income to shareholders.

Kingston Properties pursues a diversification strategy in order to prudently mitigate risk. The portfolio mix is targeted to include property types such as office buildings, hotels, residential and industrial across various markets.

Shareholders' benefits from investing in the real estate sector via owning shares in Kingston Properties are many including the

potential for dividend payments and long-term capital appreciation, a higher level of liquidity from trading the company's shares as opposed to directly buying and selling real estate. Additional benefits include enhancement of portfolio diversification for investors as real estate has proven to be an asset class with a lower correlation to stocks or bonds, thereby providing increased return potential and diversification within a well-balanced portfolio. Finally, the affordability factor means individuals can participate in a liquid real estate investment by purchasing the number of shares of Kingston Properties that is best for their portfolios.

Notice of the 4th Annual General Meeting



NOTICE IS HEREBY GIVEN that the 4th Annual General Meeting of KINGSTON PROPERTIES LIMITED will be held at the Knutsford Court Hotel, 16 Chelsea Avenue, Kingston 5 on Tuesday, June 12, 2012 at 10:30 a.m. for the following purposes:

1. To receive the Audited Accounts for the Year Ended December 31, 2011 and the Reports of the Directors and Auditors thereon.

Resolution 1

“THAT the Audited Accounts for the Year Ended December 31, 2011 along with the Reports of Directors and Auditors are hereby received and adopted.”

2. To Re-elect Directors

The Director retiring by rotation in accordance with Article 107 of Schedule I of the Company’s Articles of Incorporation is Ms. Nicole Foga who being eligible for re-election offers herself for re-election to the Board.

Resolution 2

“THAT Ms. Nicole Foga, retiring by rotation, be and is hereby re-elected.”

3. To authorize the Directors to fix the remuneration of the Auditors.

Resolution 3

“THAT KPMG continues in office as Auditors, and the Directors be and are hereby authorized to agree to their remuneration in respect of the period ending with the next Annual General Meeting.”

4. To transact any other ordinary business of the company

By Order of the Board of Directors

Nicole Foga

Company Secretary

Registered Office:

7 Stanton Terrace

Kingston 6, Jamaica

April 19, 2012

Note:

In accordance with the Schedule to the Articles of Incorporation, a shareholder is entitled to vote by proxy. A suitable Form of Proxy is enclosed. Forms of Proxy must be lodged at the Company’s registered office at least forty-eight hours before the time appointed for holding the meeting.

Corporate Data



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BOARD OF DIRECTORS

- Garfield Sinclair, BSc., C.P.A
- Fayval Williams, CFA, MBA
- Nicole Foga, BA, LLB, LLM
- Lisa Gomes
- Peter Reid

REGISTERED OFFICE

- 7 Stanton Terrace
Kingston 6

CORPORATE OFFICE

- 36-38 Red Hills Road
Kingston 10
- **Website:** www.kpreit.com
- **Email:** info@kpreit.com

REGISTRAR & TRANSFER AGENT

- Jamaica Central Securities Depository

AUDITORS

- KPMG

ATTORNEYS-AT-LAW:

- Hylton & Hylton
- Patterson Mair Hamilton
- Hart Muirhead Fatta

BROKERS

- NCB Capital Markets Limited
- Proven Wealth Management
- Scotia DBG Limited
- JMMB Limited

BANKERS

- National Commercial Bank Limited
- First Caribbean International Bank (St. Lucia)
- Pan Caribbean Bank
- First Global Bank

ACCOUNTANTS

- CrichtonMullings Strategies – Jamaica
- CrichtonMullings & Associates PA - USA

SUBSIDIARY COMPANIES

- Carlton Savannah REIT (St. Lucia) Ltd
- Kingston Properties Miami LLC

STOCK SYMBOL

- KPREIT

EXCHANGE

- Jamaica Stock Exchange

Board Of Directors



Chairman
Garfield Sinclair

Company Secretary
Nicole Foga

Executive Director
Fayval Williams

Director
Peter J. Reid

Director
Lisa Gomes

The Board of Kingston Properties Limited is comprised of five diverse and highly accomplished individuals who are dedicated to serving the best interests of the stockholders. The Board, which meets monthly, is responsible for directing and providing oversight of the management of the company in carrying out its responsibilities, the Board, reviews the company's strategy, approves and implements governance policies, and provides oversight of financial reporting, regulatory and legal compliance.

Board of Directors

Garfield Sinclair, Chairman of the Board

Mr. Sinclair is the Managing Director for LIME Jamaica and the Cayman Islands. LIME is a regional telecommunications service provider in 13 countries throughout the Caribbean. He was also one of the pioneering members of the Dehring Bunting & Golding Limited (DBG) team between 1994 and 2007, rising to the level of President & Chief Operating Officer. He resigned after the company was acquired by Scotiabank. He was responsible for overseeing the Operations, Treasury & Asset Trading, Brokerage, Marketing and Information Technology Units inclusive of the DB&G Unit Trust Managers Ltd and DB&G Merchant Bank Ltd subsidiaries.

He has nearly 20 years of experience in the financial services industry having held a senior position with the audit firm PricewaterhouseCoopers, where he specialized in auditing some of the country's largest financial institutions.

Mr. Sinclair is a licensed CPA with the California Board of Accountancy.

His educational background includes:

- Massachusetts Institute of Technology - Sloan School of Management Executive Certificate in Strategy and Innovation 2007
- University of Pennsylvania (Wharton) Executive Development Program 2004
- California Board of Accountancy, California, USA 1993 C.P. A. LICENCE – Non Practicing
- San Diego State University, California, USA 1979 - 1983 B.Sc. BUSINESS ADMINISTRATION (ACCOUNTING)

He has been on the Board of Directors of the following organizations:

1. The Jamaica Stock Exchange
2. Dehring Bunting & Golding Limited
3. DB&G Unit Trust Managers Limited
4. DBG Merchant Bank Limited

He is currently on the Board of Directors of **The Jamaica Stock Exchange Pension Fund – Chairman**

He was also appointed the Chairman of the Board of the Statistical Institute of Jamaica (STATIN) and subsequently resigned with the 2007 change of government in Jamaica.

Board of Directors

Fayval Williams, Executive Director

Ms. Williams has been with Kingston Properties since the inception of the company serving in the capacity of Executive Director responsible for the company's affairs and the execution of its operating objectives.

Prior to Kingston Properties, Ms. Williams served as Chief Investment Officer of JMMB Limited from March, 2005 to Sept, 2007 with investment responsibilities spanning the trading department, investment research, and pensions. Also, during the period Sept, 2002 to Feb, 2004, Ms. Williams consulted with JMMB in the areas of market risk management and investment research where she led that company's efforts to develop investment research capabilities. Ms. Williams also served as the Head of the Valuation and Pricing team for its public offering.

In 2004, Ms. Williams consulted with the Financial Services Commission (FSC) in the area of Research and Policy. Prior to returning to Jamaica, Ms. Williams was Senior Vice President at Putnam Investments, in Boston, a top-10-global mutual fund manager. Her investment work spanned a broad cross-section of industries. She also had portfolio management responsibilities for an equity portfolio product and led Putnam's efforts to incubate a market neutral hedge fund.

Ms. Williams' investment experience also includes approximately five years as Vice President at Wellington Management Company in Boston, Massachusetts. Her focus was on fixed income securities investments. Prior to Wellington, she was a Fixed Income Analyst at Northwestern Mutual Life Insurance Company in Milwaukee, Wisconsin and shared portfolio management responsibilities for a US\$3 billion portfolio. She was a member of the team that provided macro economic and market input for both the strategic and tactical portfolio decisions.

Ms. Williams interned at the Equitable Real Estate Investment Management, Inc in Chicago, Illinois. While there, she performed valuation analysis on commercial real estate properties. She also worked as an Information Systems Analyst for Morgan Stanley Inc in New York.

Ms. Williams' education background includes the following:

- Chartered Financial Analyst (CFA)
- Master's in Business Administration (MBA) from the Wharton Business School at The University of Pennsylvania
- Bachelors of Arts (with honors) from Harvard University, Cambridge, Massachusetts



Board of Directors

Nicole Foga, Company Secretary & Director

Ms. Foga is the Managing Partner of the Law Firm of Foga Daley and heads its Telecommunications, Media & Technology Department. Her practice areas include mergers and acquisitions, regulatory compliance, franchising and software licensing.

Admitted to the Jamaican Bar in 1993, Ms. Foga is an ODASS Scholar and holds a Master of Laws Degree in Commercial Law, focusing on International Commercial Transactions and Intellectual Property, from Aberdeen University, a Bachelor of Arts Degree with First Class Honours and a Bachelor of Laws Degree from the University of the West Indies.

Ms. Foga chairs the Technology, Broadcasting and Telecommunications Committee of the Jamaican Bar Association and is a Trustee for the Environmental Foundation of Jamaica and the University of Technology Pension Funds.

Previous appointments include the first General Counsel for the Office of Utilities Regulation, Legal Advisor to the Broadcasting Commission, Crown Counsel in the Attorney General's Department and Ministerial Advisor on telecommunications law and policy.

Previous directorships include, Cable & Wireless Jamaica Limited, Kingston and Montego Bay Free Zone and Factories Corporation of Jamaica.



Board of Directors

Lisa Gomes, Director

Ms. **Lisa Gomes** is the Regional Director of Finance & Planning at the Sandals Group of Companies.

Prior to Sandals, Ms. Lisa Gomes worked with the Guardian Holdings Group since the eighties, and has over 26 years of experience in the Investment Industry having been an integral part of the Investment Department of Guardian Life of the Caribbean in Trinidad. She headed the Investment Division of Guardian Life Limited in Jamaica.

Additionally, Ms. Gomes served as a Director and President of Guardian Asset Management Jamaica Limited, a position she held since the company's existence in October 2002.

Ms. Gomes was recently appointed Chairman of Proven Wealth Limited and also serves as Director of Ocho Rios Beach Limited. She is a past Secretary of the Jamaica Security Dealers Association, and serves as Chairperson for the Jamaica Business Council for HIV & AIDS.

Ms. Gomes is a certified General Accountant and holds the FLMI designation.



Board of Directors

Peter J. Reid, Director



Mr. Peter Reid was a Senior Officer at The Bank of Nova Scotia Jamaica Ltd (BNSJ) for ten years and one of two District Vice Presidents, providing sale and service strategic leadership for half the branch network. A Career Banker, he has had eighteen (18) years experience in the financial service industry mainly in the areas of sales management, credit, financial analysis, financial advisory and deal structuring.

Assignments and major deals have spanned a wide cross section of economic sectors specializing in the areas of raising capital, acquisitions, balance sheet restructuring and financial advisory. Formerly a Director of Guardian Life Limited, Guardian Asset Management Jamaica Limited and West Indies Alliance Insurance Company Limited and sat on a number of board committees. Additionally he was a Director of Grace Kennedy Currency Trading Services Ltd. Harmonisation Ltd., National Water Commission, Dehring Bunting & Golding Limited, DB&G Merchant Bank and DB&G Unit Trust Services Ltd.

Currently he is a Senior Vice President and Chief Operating Officer at The Victoria Mutual Building Society.

PROFESSIONAL EXPERIENCE

The Bank of Nova Scotia Jamaica Ltd (1995-2005)

Primarily responsible for the profitable development of the retail and commercial portfolios for half the Bank's Branch Network (Approx. J\$30 Billion in assets).

- US\$70 Million Note Issue for Government of Jamaica: Advised, structured and distributed J\$450 Million Underwriting for Manufacturing Company: Advised, structured and distributed J\$60 Million Underwriting for manufacturing company: Advised, structured and distributed US\$26 Million Equity fundraising for Hotel Development: Advised, structured and distributed

Dehring Bunting & Golding Ltd. (1992-1995)

- J\$37.5 Million Common Stock Issue for Dehring Bunting & Golding Ltd.
- US\$20 Million Acquisition for Agro Business Company: Advised and structured Bid Proposal
- J\$100 Million Bond issue for Micro Investment Development Agency
- J\$100 Million Jamaica Mortgage Bank Shelter Bond Issue
- Advisor on the Privatization of Trans Jamaican Airlines Limited-domestic airline
- Advisor on the Privatization of the Jamaica Sugar Factories-for the Ban Pong Group, Thailand

Citibank NA (1988-1992)

- US\$30 Million Receivables Based Syndicated Financing, Financial Institution; Advised and restructured Balance Sheet to provide secured financing
- US\$3 Million Debt Conversion, hotel: advised, structured and executed financial restructuring
- US\$20 Million Receivables Based Syndicated financing, Telecommunication Company; restructured Balance Sheet to provide secured financing for the company
- US\$1 Million Foreign Exchange Hedge; Financial Institution; structured hedge product that resulted in the hedging of the capital
- J\$12.5 Million Lease Financing Facility; advised and structured Lease

Education

York University (Toronto) (1981-1984); Bachelor of Arts (Honours) In International Studies.

Corporate Governance

Corporate governance broadly defines the rules, processes, or laws by which Kingston Properties is operated, regulated and controlled. This refers specifically to internal factors defined by the Board of Directors, management, stockholders or the incorporation documents of the company, as well as to external forces such as investors and government regulations.

• Corporate Governance Committee

The Corporate Governance Committee members were named during 2011 and are as follows:

- Ms. Lisa Gomes
- Mr. Peter Reid
- Ms. Fayval Williams

Kingston Properties maintains a high standard of corporate governance to protect shareholders' interests and to enhance long-term shareholder value. Its Corporate Governance guidelines reflect those of the PSOJ's Code of Corporate Governance model. We are committed to the "comply or explain" approach and as such completed and submitted to the Jamaica Stock Exchange our Corporate Governance policy guidelines. This document can be accessed at our website at www.kpreit.com

• Board of Directors

While all of our employees are an integral part of the corporate governance system, the Board of Directors (including the audit committee) and the management merit special mention given their respective roles.

The Board is responsible for the overall corporate governance and closely monitors the related areas of business operations, risk

and financial performance. As a result, the Board has established a framework for the management of the operations, including systems of internal control and a business risk management process.

The systems of internal control are policies, procedures, practices, and organizational structures that provide assurance that our business objectives will be achieved and that undesired events will be prevented or detected and corrected.

Business risk management process refers to the identification, analysis, and management of uncertainty facing the company in meeting its financial, compliance and operational objectives.

The Board currently consists of five members, four of whom are Independent Directors.

The composition of the Board has been determined using the following principles:

1. the Chairman of the Board should be a non-executive Director;
2. the Board comprises Directors with a range of commercial and financial experience including expertise in funds management and the real estate industry; and
3. at least one-third of the Board comprises Independent Directors.

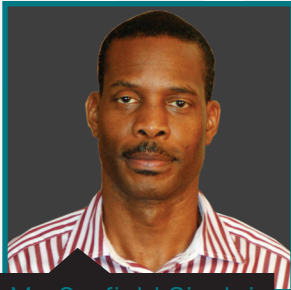
The composition will be reviewed regularly to ensure that the Board of Directors has the appropriate mix of expertise and experience.

Corporate Governance



• Audit Committee

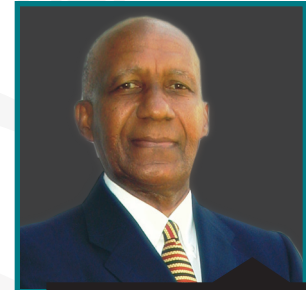
The Audit Committee comprises of two Directors and an external member.
The members are:



• Mr. Garfield Sinclair
- Chairman



• Ms. Nicole Foga
- Company Secretary



• Mr. John Bell
- Chartered Accountant



John Bell Chartered Accountant

Mr. Bell is a former partner with PricewaterhouseCoopers, Jamaica. Mr. Bell was lead partner of the firm's Financial Services Audit and Assurance practice for many years. He holds a Bachelor's degree in Economics and Accounting from the University of the West Indies and is a Fellow of the Institute of Chartered Accountants of Jamaica and the Association of Chartered Certified Accountants of Great Britain and has over 30 years experience in his profession.



The role of the Audit Committee is to monitor and evaluate the effectiveness of the company's internal controls. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports and is responsible for the nomination of external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance.

Regarding our external auditors, they have a responsibility to evaluate and assess the effectiveness of internal controls within Kingston Properties to plan the financial statement audit. They also have a responsibility to report internal control weaknesses (as well as reportable conditions about internal control) to the audit committee of the Board of Directors.

Other responsibilities include:

1. Review of the nature and extent of non-audit services performed by external auditors;
2. Monitor of the procedures in place to ensure compliance with applicable legislation
3. Monitor and review of the procedures established to regulate interested party transactions

Risk Management



• Management of Business Risks

Risk management is a critical component of real estate investing as factors such as changes in inflation, interest rates, real estate market cycles all impact real estate returns. Additionally, local market circumstances such as an oversupply of space or a reduction in demand for real estate in a particular area present a degree of risk and uncertainty as well.

Management's strategy to manage these risks includes geographic, type of asset and tenant diversification in its real estate portfolio. Proper due diligence when making acquisitions as to the local market, characteristics of the properties, strength of the underlying tenant base and the capital structure of the transaction are all factors that are carefully analyzed.

At its monthly board meeting, the Board reviews the financial performance of the company against a previously approved budget, making any adjustments that are required. The Board also reviews the business risks associated with real estate investing, focusing on factors such as market trends. The Board examines asset and liability management and responds to any comments or issues raised by the auditors.

In assessing business risk, the Board considers the underlying economic

environment, financing options available to Kingston Properties and stability of the tenant base of the various properties. The Board assesses real estate proposals recommended by management and provides a final approval on selected transactions.

• Related Party Transactions

Internal Control System

The Board has responsibility for approving the establishment of an internal control system to ensure that all transactions are authorized, all transactions are recorded, access to assets is allowed only for authorized purposes, accounting records describe only real assets and that all Related Party Transactions are undertaken on normal commercial terms and are not be prejudicial to the interests of the shareholders.

Disclosure of Shareholders

At December 31, 2011, the top 10 shareholders were as follows:

NAMES	SHAREHOLDINGS
NCB Capital Markets Ltd	13,817,840
Prime Asset Management	12,182,700
Guardian Life Shelter Plus Fund	5,280,000
NCB Insurance Co. Ltd	4,200,000
Guardian Life Ltd/Blue Chip	3,874,700
Guardian Life Pooled Pension Fund	3,250,000
Jamaica Money Market Brokers Ltd	2,578,000
NCB Capital Markets X Trading	2,500,000
Platoon Ltd	2,495,160
Guardian Life Ltd/CELGF	1,608,000

DIRECTORS	SHAREHOLDINGS	CONNECTED SHAREHOLDERS
Garfield Sinclair	NIL	
	2,495,160	Platoon Limited
Peter Reid	1,100,000	
Fayval Williams	282,020	
	20,000	Dorothy Vassell
	11,000	Leo Williams
Nicole Foga	50,865	

Management Discussion & Analysis



During 2011, Kingston Properties identified and acquired a fully tenanted office/warehouse building of approximately 47,865 square feet located on Red Hills Road in Kingston, Jamaica.



**Red Hills
Road Office**



**Red Hills
Road
Warehouse**

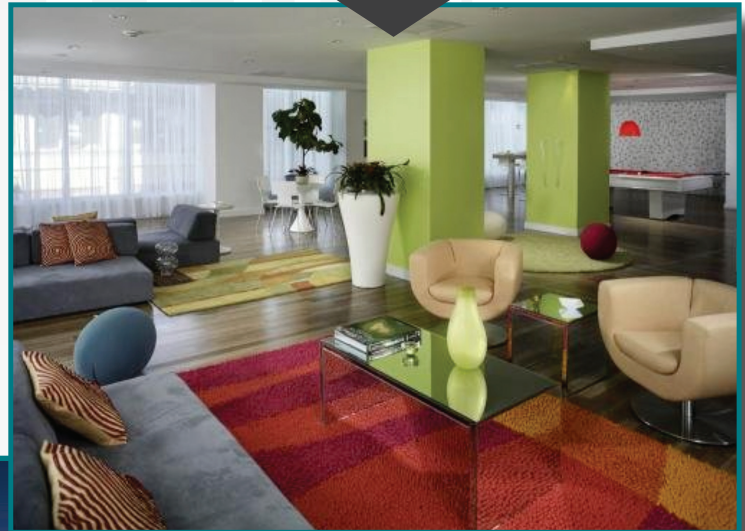
This acquisition doubles the size of Kingston Properties' real estate portfolio and brings diversification in the underlying tenant base whose businesses span a variety of industries.

In addition to this recent purchase, Kingston Properties continues to hold properties that consist of 19 condominium apartments in the Loft II building in downtown Miami in the State of Florida, USA, and a warehouse/office building on Hagley Park Road in Kingston, Jamaica.

Miami Loft II Building



Club House



Roof Top Swimming Pool

The units remained in demand in 2011 with occupancy averaging 95%. During 2011, we also had opportunities to increase the rental rates without any impact on occupancy. Additionally, condo fees remained stable and the service level consistently high.

State of the Condo Market in Downtown Miami

John Burns Real Estate Consulting's view of the rental market in Miami is that it has been particularly robust. Rental prices have increased significantly over the past 3 years fuelled by strong demand and shrinking rental inventory. So much so, in fact, that Miami now ranks as the fourth priciest city to rent in the U.S.

Management Discussion & Analysis

A CNBC report attributes the latest boom to cash buyers from South America, Europe, Russia and China. It also said that the surge in demand has prompted developers to start building once again. This time around, however, there is less fear in the marketplace than was present in the last boom. Easy credit is no longer available and the majority of purchases for South Florida real estate are made with cash.



Miami Skyline

Management Discussion & Analysis

The Hagley Park Road property is 26,000 square feet of warehouse and office space in the heart of the automotive parts center of Jamaica. It remains 100% leased to a US based company with operations worldwide.



**Hagley
Park Road
Building**



CORPORATE OBJECTIVE

The primary corporate objective of Kingston Properties is to increase shareholder value through the ownership and management of real estate properties that will generate sustainable, above average long term dividend yields. In this regard, management has an intense focus on increasing dividend per share over the long term without employing excessive financial leverage or taking undue amounts of operating risk.

Management Strategies

- Focus on Jamaica and select international markets
- Ensure geographical diversification
- Actively manage the portfolio of real estate asset to take advantage of market strengths
- Employ prudent capital and risk management strategies

Property Sourcing

Kingston Properties continues to add to its network of real estate relationships that enhances the company's ability to source real estate investment opportunities across the Caribbean and other markets. We use internal and external expertise to identify those property types and markets that offer the most potential.

Funding Strategy

Kingston Properties seeks to establish secure commitments or raise capital from a variety of funding sources to strengthen its ability to seize opportunities. The company can utilize a variety of funding instruments:

- Convertible bond, with incentives for holders to convert to equity
- Secured bond with first claim on the property
- Equity capital: preferred, common
- Other types of instruments based on investor preferences and objectives

These property types are within the scope of Kingston Properties' investments criteria: hotels, offices, industrial buildings, warehouses, retail (e.g. shopping centers), parking lots/ parking garages, mixed use.

BUSINESS STRATEGY

The primary business objective continued to be maximization of total returns to shareholders from real estate property investments so as to provide consistently superior long-term yields. The strategy to achieve this objective remained as follows:

- **Concentrate on a Few Carefully Selected Geographic Markets**

With its purchases in 2010 and 2011, the company has begun to structure a diversified portfolio of real estate properties and target international markets that have improving macro-economic fundamentals and demonstrate a proven hard currency earning capacity.

Management Discussion & Analysis

• Opportunistically Acquire Assets

Kingston Properties is positioned to acquire portfolios of real estate assets or individual properties from institutions or individuals if valuations meet our criteria. In addition, the company's relatively low leverage and strategies to access capital has been providing us with a competitive advantage when pursuing acquisitions.

• Explore Joint- Venture Opportunities.

Kingston Properties remains open to participate with third parties in property ownership, through joint ventures or other types of co-ownership. These types of investments should permit the company to own interests in larger assets without unduly restricting diversification and, therefore, add flexibility in structuring its portfolio.

The company continues to explore joint-venture opportunities with strategic institutional partners that have a preference for owning real estate properties via a REIT structure. We have acquired real estate properties for cash and may continue to do so. Additionally, we are also particularly well-positioned to appeal to sellers wishing to contribute their ownership of property for equity in a diversified real estate operating company that offers liquidity through access to the public equity markets and distribution of dividends.

• Demonstrate Value Creation.

We will pursue, on a selective basis, the sale of properties to take advantage of the demand for any of our premier properties.

Kingston Properties commits to regularly reviewing its property portfolio and deciding which assets are likely to generate less-

than-average cash flows in future years. The proceeds from the sale of these properties will be reinvested in opportunities with higher yielding prospects or provide dividend to shareholders.

INVESTMENT OBJECTIVES

We continue to pursue our investment objectives primarily through the acquisition of moderate-to-heavily-discounted properties with above average yields.

Kingston Properties recognizes that local investors have a desire to diversify their investment portfolios beyond Jamaica. Likewise, there are international investors who want to invest in the Caribbean region through a transparent, publicly listed vehicle such as Kingston Properties. The company's objective is to scout out the best opportunities that meet the varying needs of investors desirous of investing in the real estate asset class.

CURRENT PROPERTIES UNDER MANAGEMENT

PROPERTIES	Sq Ft	DESCRIPTION
Hagley Park Kingston, JA	26,000	Warehouse/Office building
Miami Loft 11 Miami, Florida, USA	16,092	Residential Condos
Red Hills Road Kingston, JA	<u>47,865</u> 89,957	Warehouse/Office Complex

SUMMARY OF FINANCIAL RESULTS



Total revenues for the year ended December 31, 2011 were \$48,786,061, an increase of 47.3% year on year. Rental income accounted for \$44,223,820 and fair value gain on investment property was \$4,562,241. Rental income rose by 33.5% reflecting a full year of income versus approximately nine months in the prior year. Rental income was derived primarily from the company's portfolio of properties that comprised the Miami Loft II residential condominium units and the office/warehouse complex at Hagley Park Road.

Operating expenses were \$31,907,164 and include items such as insurance, property taxes, condo association fees, repair & maintenance and professional fees. Operating expenses increased by 11.0% over the prior period and primarily reflect increases in audit fees and a full year of direct property expenses versus approximately nine months in the prior period.

Results from operating activities were \$16,898,897 versus \$4,377,971 for the full year 2010. When adjusted for the fair value gains of \$4,562,241, operating profits totalled \$12,336,656, and represents an increase of 182% over the results experienced in 2010. Operating margin was 27.9% versus 13.2% in the prior year.

Finance income for 2011 was \$7,230,653 versus \$15,162,087 for the prior year. This was a result of lower cash balances in 2011 and a generally lower interest yield environment.

2011 saw unrealised losses on translation of foreign currency balances of negative \$2,694,930 versus unrealised gains in 2010 of \$3,235,962.

Interest expense for 2011 was \$9,098,566 while that for 2010 was \$11,085,307. Interest expense arose from a credit facility of US\$1,699,988 and a vendor's mortgage of US\$300,000. The decline in interest expense reflects the general lower interest rate environment in 2011 relative to that of 2010.

Profit for the twelve months ended December 31, 2011 was \$13,135,277 or \$0.19 per share. This compares with profits of \$15,106,156 for 2010 or \$0.22 per share. Profits in 2010 included \$3,594,236 of income tax credit.

Total comprehensive income for 2011 was \$16,748,772 versus negative \$2,659,008 for 2010. The results in 2011 reflect the positive impact of foreign currency translation differences for foreign operations of \$3,613,495 compared with a negative \$17,765,164 experienced in 2010, a result of a 4.2% appreciation of the Jamaican dollar versus the United States Dollar.

Management Discussion & Analysis

BALANCE SHEET

Total assets at December 31, 2011 were \$843,307,433 versus \$681,897,900 at December 31, 2010. The approximately 24% increase was primarily due to the successful completion of the Red Hills Road transaction.

Current assets were \$197,791,593 and consisted of \$179,191,140 cash and cash equivalents plus \$3,169,809 in reverse repurchase agreements. Approximately \$145,078,336 of cash and cash equivalents was held as collateral for a credit facility of a similar amount. For the comparative balance sheet date, current assets were \$256,424,572 with \$162,411,388 of cash and cash equivalents and \$87,322,931 in reverse repurchase agreements. The drawdown in the cash balance in 2011 was to fund the purchase of the property on Red Hills Road.

Investment properties totalled \$639,159,119 at December 31, 2011 versus \$419,942,891 at the end of the year prior. Investment properties in 2011 consisted of the fully tenanted 26,000 square feet warehouse/office building on Hagley Park Road in Kingston, Jamaica; 16,092 square feet of residential condominium space (19 units) in downtown Miami and 47,865 square feet office/warehouse complex on Red Hills Road, Kingston, Jamaica.

Receivables at December 31, 2011 were \$15,430,644 versus \$6,690,253 at the end of the prior period. Receivables comprised primarily withholding tax recoverable of \$3,697,837, security deposits of \$4,906,803 and prepayments of \$5,032,672. These comparative balances were lower in 2010.

Total current liabilities were \$182,790,537 at December 31, 2011 versus \$154,888,721 at the comparable date for 2010. Current liabilities in 2011 comprised primarily loan payable of \$165,356,859 and accounts payable and accrued charges of \$17,423,976. Loan payable represents the current portion of a vendor's mortgage on the Red Hills Road property of \$11,942,770 and a draw down under a credit facility with Pan Caribbean Bank Limited. The loan is secured against a Carlton Savannah REIT (St. Lucia) Limited deposit of similar amount.

Noncurrent liabilities totalled \$142,361,185 at the end of December 2011 versus \$25,602,240 at the end of the comparable period in 2010. Noncurrent liabilities in 2011 were primarily the non current portions of a credit facility with First Global Bank equivalent to \$95 million and a vendor's mortgage on the Red Hills Road property equivalent to \$68 million.

Accounts payable and accrued charges primarily consisted of security deposits held which totalled \$9,249,139 and accrued charges of \$7,402,287.

Shareholders' equity at December 31, 2011 was \$518,155,711 versus \$501,406,939 at December 31, 2010. The increase in the equity base reflected primarily the rise in retained earnings of \$13,135,277 and the movement in the translation reserve from \$50,187,363 in 2010 to \$53,800,858 in 2011.

CASHFLOW

Net cash provided by operations in 2011 was \$12,752,911 versus \$14,391,286 in 2010.

Net cash used in investing activities was \$121,217,132 and reflects the addition to investment properties of the Red Hills Road office/warehouse complex.

Communication with Shareholders



26

Management acknowledges the importance of regular communication with shareholders and investors to ensure that they are well informed about the activities and performance of Kingston Properties. During 2011, we maintained open communication channels via the company's website, annual reports, quarterly financial reports and the various disclosures and announcements to the Jamaica Stock Exchange that are also sent electronically via e-mail to shareholders and the investing public at large. In addition, we continued to field comments and questions from shareholders via e-mail, telephone and letters.

Website: www.kpreit.com

Home Board of Directors The Team Corporate Governance Partners Financials Properties Real Estate News

Kingston Properties Limited

THE REIT

THE REIT

Miami Loft II

NEWS

- ◆ Mar 19, 2012: US property values still fall but rental market is flourishing
- ◆ Mar 15, 2012: Kingston Properties' board to consider dividend
- ◆ Mar 12, 2012: European listed real estate performing well
- ◆ Mar 05, 2012: REITs can still make up ground with investors
- ◆ Feb 29, 2012: KPREIT Audited Annual Financial Statements 2011
- ◆ **Please note:** our telephone number has changed to 1-876-754-7840.
- ◆ Our office will be relocated to 36-38 Red Hills Road effective Monday February 27, 2012.

Becoming a shareholder in [Kingston Properties Ltd](http://www.kpreit.com) is easy...

During 2011, Kingston Properties continued to provide local and global real estate news to the general public via its weekly flagship e-newsletter.

Corporate Social Responsibility

Corporate Social Responsibility (“CSR”), in essence, is a set of transparent and ethical actions to give back, nurture and aid in the progress of the various environments in which a company operates. Kingston Properties is committed to the principles of Corporate Social Responsibility and shows this commitment by aiming to satisfy shareholder expectations, respecting the physical environment and imbuing ethical standards through the company.

Additionally, as part of its responsibility to the financial market place, the company’s business transactions, deals and relationships with all its groups of customers, suppliers and partners are executed with the highest concern for transparency and ethical conduct, guided by high corporate governance standards. We monitor and ensure that our business activities comply with the spirit of the law, ethical standards, and international norms.



LEGISLATIVE AGENDA

REIT legislation that provides special tax considerations for the acquisition and ownership of real estate have existed in developed markets since the 1960’s. The REIT investment vehicle has been the popular way that many countries facilitate an increasingly liquid and transparent real estate securities market.

However, the Caribbean countries have not formally sought to create liquidity for their real estate market through the creation of REIT products despite the shift in investor sentiment to participate in a broader and more globally diversified approach to real estate investment.

Kingston Properties maintains this as an objective to continue to seek ways to be successful in facilitating the enactment of comprehensive REIT legislation by the Parliament of Jamaica.

REIT INVESTMENT BENEFITS

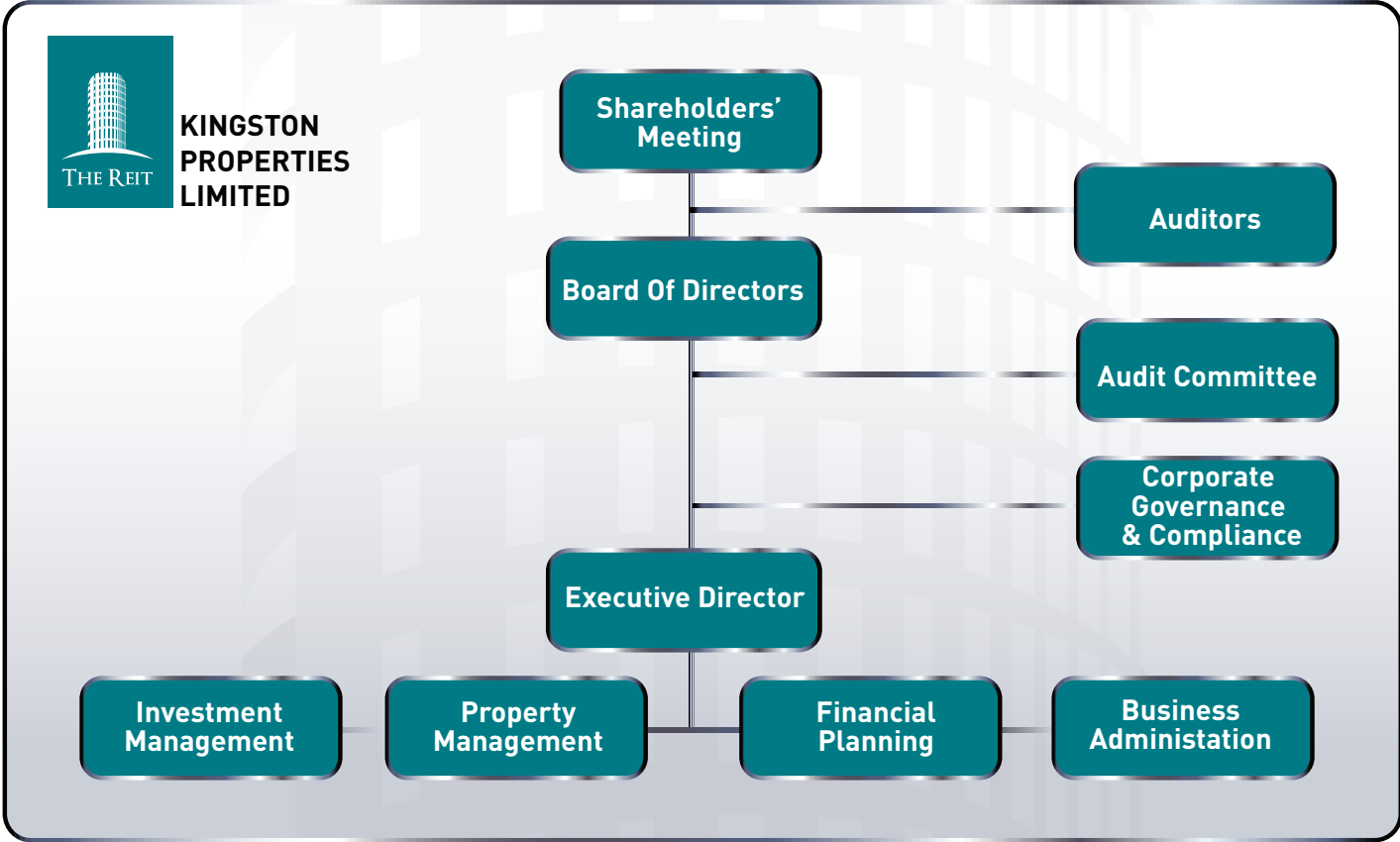
Corporate Social Responsibility

There are multiple reasons why the REIT approach to real estate investment has been embraced by policymakers and investors alike in the U.S. and other developed markets. These reasons include the following :

- **Portfolio Diversification** - having assets with different attributes that behave differently across market conditions in one's portfolio
- **Compliment to Direct Investment** - investing in the stocks of real estate companies is complimentary to directly buying real estate. Real estate securities seem to represent an asset class distinct from bonds and stocks in most countries
- **Dividends** - real estate properties have a history of providing reliable income
- **Inflation-Proof Investing** - REIT dividend growth has tended to exceed inflation in major markets. As such, REITs are view as "inflation-proof" investments
- **Liquidity** - As a result of their liquidity, REIT and listed real estate equities have become the most efficient way for investors and investment managers across the globe to gain exposure to commercial real estate; an effective way for professional investment managers to manage their investment exposure to real estate; and a meaningful way to reduce the risk of illiquidity.
- **Investment Performance** - Research has shown that REITs in various markets offer strong long-term total returns
- **Leverage** - REITs generally use moderate leverage to enhance returns
- **Risk-Adjusted Returns** - Adding REITs to the typical investment portfolio can have a positive impact on the portfolio in terms of its long-term stability and returns.
- **Transparency & Governance** - REITs provide operating transparency, meaning that listed REITs are registered and regulated in their various countries and are therefore likely to adhere to high standards of corporate governance, financial reporting and information disclosure.



Corporate Structure - Team & Partners



Investment Management



The **Investment Management Process** during 2011 focused on existing properties with auditable cashflows in markets with sound fundamentals and tenants with strong credit histories. Our analysis begins with market analysis in which we scrutinize the real estate fundamentals, property and market conditions, neighbouring vacancies, the surrounding tenant mix and demographic patterns in recognition that local market fundamentals drive property selection.

Property Selection incorporates rent comparisons among various properties, trends in capitalization (yields), potential for net operating income growth and historical sales comparisons. Kingston Properties utilizes data sources in various markets that provide updated trends and forecasts for factors such as market rents, vacancies and inventory for different property types including apartments, office, retail and industrial properties. Kingston Properties utilizes a network of real

estate professionals who work to identify properties and spot opportunities

Property Valuation Analysis involves detailed modeling of cashflows of the individual properties with attention on the important assumptions such as rent growth, the level of vacancy that could be experienced, operating expenses for items such as insurance, taxes, repair and maintenance. The industry leading Argus software has the flexibility to model one property or a portfolio of properties, engage in scenario analysis, vary the assumptions and seamlessly see the impact on the Internal Rate of Return (IRR).

Investment Management



For the Years Ending	Year 1 Feb-2011	Year 2 Feb-2012	Year 3 Feb-2013	Year 4 Feb-2014	Year 5 Feb-2015	Year 6 Feb-2016	Year 7 Feb-2017	Year 8 Feb-2018	Year 9 Feb-2019	Year 10 Feb-2020
Potential Gross Revenue										
Base Rental Revenue	\$263,786	\$261,179	\$266,302	\$273,971	\$281,867	\$289,635	\$298,087	\$306,824	\$317,622	\$329,000
Absorption & Turnover Vacancy	(15,717)	(19,555)	(21,553)	(22,191)	(22,842)	(24,534)	(23,854)	(24,573)	(20,131)	(20,595)
Scheduled Base Rental Revenue	248,069	241,624	244,749	251,780	259,025	265,101	274,233	282,251	297,491	308,405
Total Potential Gross Revenue	248,069	241,624	244,749	251,780	259,025	265,101	274,233	282,251	297,491	308,405
Collection Loss	(12,403)	(12,081)	(12,237)	(12,589)	(12,951)	(13,255)	(13,712)	(14,113)	(14,875)	(15,420)
Effective Gross Revenue	235,666	229,543	232,512	239,191	246,074	251,846	260,521	268,138	282,616	292,985
Operating Expenses										
HOA	95,052	97,904	100,841	103,866	106,982	110,191	113,497	116,902	120,409	124,021
RE Taxes	73,447	75,650	77,920	80,258	82,665	85,145	87,700	90,331	93,040	95,832
Insurance	7,988	8,227	8,474	8,728	8,990	9,260	9,538	9,824	10,119	10,422
Service America	5,291	5,450	5,614	5,782	5,956	6,134	6,318	6,508	6,703	6,904
Total Operating Expenses	181,778	187,231	192,849	198,634	204,593	210,730	217,053	223,565	230,271	237,179
Net Operating Income	53,888	42,312	39,663	40,557	41,481	41,116	43,468	44,573	52,345	55,806
Leasing & Capital Costs										
Tenant Improvements	6,447	9,962	10,261	10,563	11,341	11,029	11,361	9,308	9,520	13,150
Leasing Commissions	6,091	9,413	9,696	9,982	10,717	10,421	10,737	8,796	8,999	12,426
Total Leasing & Capital Costs	12,538	19,375	19,957	20,545	22,058	21,450	22,098	18,104	18,519	25,576
Cash Flow Before Debt Service & Taxes	\$41,350	\$22,937	\$19,706	\$20,012	\$19,423	\$19,666	\$21,370	\$26,469	\$33,826	\$30,230

Created with ARGUS™ SOFTWARE

Deal Structuring involves the analysis of the most efficient and return-enhancing way to finance the respective properties. Kingston Properties' ability to offer a variety of instruments including common equity, redeemable and non-redeemable preferred shares, and a variety of fixed income instruments puts the company in good stead to correctly match the cashflows of the properties to the appropriate instrument, thus minimizing financing risk.

Return analysis uses industry leading valuation software to estimate the return potential of each property. This process takes into consideration the likely capital appreciation prospects for the property and is influenced by the macro economic trends of the location of the property. For example, for an

apartment building, the important variables include macro trends in the job market.

Deal Review and Final Approval is an important component of the investment management process. The Board of Directors takes an active role in the review in order to determine specific properties for approval. Their priorities include the potential change in the company's balance sheet, the sustainability of cashflows and capital management.

Property Management



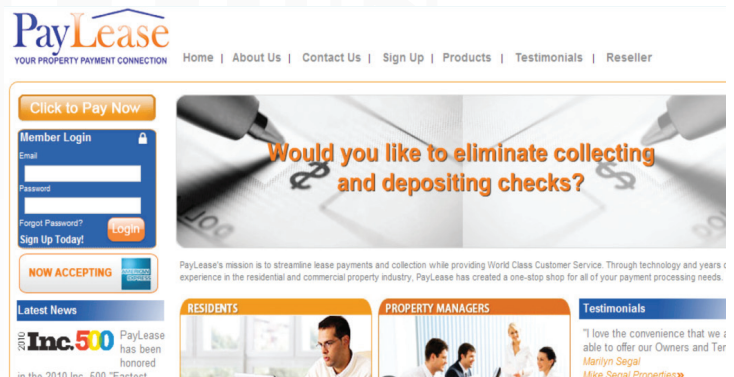
The Property Management team has responsible for ensuring the smooth and efficient operation of all investment properties. The primary activities include maintaining high tenant retention through adhering to above-average service quality standards. The team also administers all leases including rental collections, insurances and property tax matters. This team oversees the marketing function, ensures that the buildings are leased at optimal rents and occupancy levels remain high to meet the financial targets of the portfolio.

Post Deal Management focuses on the active management of the properties, tenant relations, market surveillance, return analysis and consistent reporting. Property management ensures that the physical asset is adequately maintained and that property data is collected and analyzed for trends. Kingston Properties uses a combination of internal and external professionals to ensure properties remain competitive in terms of rental rates and physical condition.

For data collection and analysis, Kingston Properties continues to use industry software Rent Manager a residential and commercial property management solution designed specifically to help real estate professionals work more efficiently and effectively. Rent Manager includes a completely integrated accounting system that offers General Ledger, Accounts Payable, Accounts Receivable, Budgeting, and drill-down financial reports that integrate seamlessly with a property management software system.



For our multi-tenant property in Miami, efficient rent collection and processing, is a priority. Here again Kingston Properties utilizes the state of the art technology for the industry to streamline the process of lease collection. The PayLease software allows for electronic rent collection and is very cost effective way to ensure timely collection thus avoiding the “check is in the mail” syndrome.



Property Management of our residential property involves us consistently maintaining the important activity of tenant screening and selection.

Property Management



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Questions? Call us at 855-244-2400

 TENANT CREDIT REPORTS

 INSTANT EVICTION SEARCH

 INSTANT CRIMINAL SEARCH

 EMPLOYMENT VERIFICATION

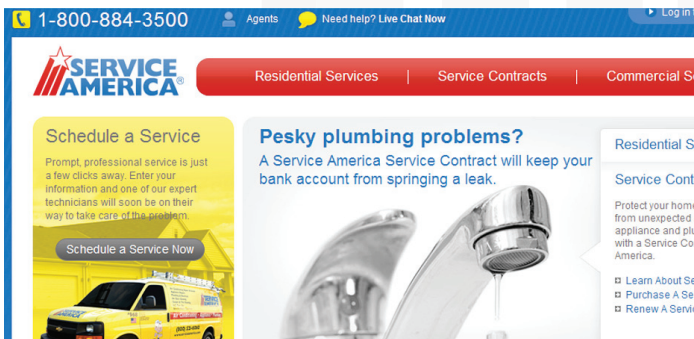
Why use our Tenant Screening Services?

1. Fast & accurate **tenant background check**, **tenant credit check**, and **eviction reports** delivered instantly online
2. Competitive pricing with volume discounting available
3. Proven, award winning company with customer service professionals onsite and ready to assist you

[Sign Up & Start Ordering >>](#)

The software, Advantage Tenant, gives us the technology to incorporate information about the prospective tenant's credit record, address verification, employment history and background checks. This screening tool utilizes nationwide data that helps us to fast track our approval process, an important competitive edge in a fast paced rental market.

Property Management also involves control of repair and maintenance expenses while providing the highest level of tenant relations. Utilizing the service of Service America, a national company in the US that has been providing repair and maintenance services for almost 40 years, has allowed Kingston Properties to be uniformed in its delivery of this important service for our tenants. This service is cost effective, covers emergencies and allows the tenants to directly access it on their schedule.



Financial Planning



The Financial Planning team continue to benefit from its strong partnership with Crichton Mullings Strategics in Jamaica and Crichton Mullins PA in the USA. Together, this team oversees the accounting, taxation, treasury, compliance and reporting functions. This team is also involved in the areas of strategic planning, budgeting, investor relations, operations and business development opportunities.

Return Analysis and Reporting provides us with data to compare the actual results with the projections and provides a feedback loop into the Investment Process and for the Board of Directors. It also feeds back into guiding the assumptions for future properties. As well, Crichtonmullings brings insights into tax strategies and help to guide the decision making by analyzing the accounting implications of various scenarios.

Uncompromising determination
More than anything else, our mantra is to provide value to our clients.

Foreign Account Tax Compliance Act
On February 8, 2012, the U.S. Treasury Department issued proposed regulations to implement the Foreign Account Tax Compliance Act commonly referred to as FATCA. The proposed regulations are voluminous, totaling 388 pages. Concurrently, the U.S. Treasury Department issued a joint statement with the governments of France, Germany, Italy, Spain and the United Kingdom regarding an intergovernmental approach to improving international tax compliance and implementing FATCA (the Alternative Approach to FATCA). [read more](#)

US Citizens and Residents living in Jamaica liable for US Taxes
Information released during the last US general elections, indicated that up to twenty thousand US citizens and Green Card Holders reside in Jamaica. Many are Jamaican citizens who have acquired US residency or citizenship status but have chosen to continue living and working in Jamaica often operating businesses in both jurisdictions. [read more](#)

Tax Implications of Renouncing your US Citizenship
Certain US citizens or long time permanent residents who renounce their citizenship or residence with the United States after June 17, 2008, may be liable for an expatriation tax. The expatriation tax applies to individuals who are deemed to be "Covered Expatriates" at the time of expatriation. [read more](#)

Business Administration

This team has responsible for providing an effective support system. Additionally, it involves proper allocation of resources and identification of talent to support the company's growth.

The Team & Partners

Fayval Williams – Executive Director

Mrs. Williams holds the position of Executive Director of the company and has overall executive responsibility for the company's affairs. The primary objectives remain as follows:

- a) Implement the long-term vision and strategy as developed and recommended to the board such that it results in creation of shareholder value.
- b) Develop and recommend to the board annual business plans and budgets that support the long-term vision and strategy of Kingston Properties.
- c) Lead the company and set a philosophy that is well understood, widely supported, consistently applied and effectively implemented.
- d) Ensure that appropriate systems are maintained to protect assets and maintain effective control of operations.
- e) Ensure that the day-to-day business affairs of the company are appropriately managed.
- f) Develop, attract, retain, motivate and either supervise or partner with an effective top management team capable of achieving objectives.
- g) Serve as chief spokesperson, communicating effectively with shareholders and all stakeholders.
- h) Manage the reporting and compliance aspects of the company either directly or through appointed affiliates.



The Team & Partners

Tatesha Robinson

Tatesha Robinson is a member of the Investment Committee which meets weekly to report on the developments in the portfolio of properties and to discuss new potential transactions. She provides the operations management for the US based and Jamaican properties ensuring timely rent collection and a high level of tenant relations. She also processes the lease renewals for existing tenants, interacts with the management company and leasing agents, screens new applicants and liaises with our US based accounting firm to ensure that information is consistent and up-to-date. Ms. Robinson is also responsible for using Rent Manager to generate reports such as market and rent analysis, unit turnover analysis and to log tenant profile and maintenance data on each apartment.

Ms. Robinson also has a primary function of conducting research regarding the real estate sector locally and internationally. She researches and produces the company's flagship weekly newsletter, gleaning articles about real estate markets from across the world. The newsletter is read by about 150 people weekly.

Ms. Robinson graduated from the University of the West Indies in 2010 with a Bachelor of Science in Economics and Statistics (Honours) and is presently pursuing a Master of Science in Economics.

Prior to being employed at Kingston Properties, Tatesha was a Field Agent at MJB Airports Limited in 2009 where her role involved creating questionnaires to effectively capture the feedbacks of the passengers as it relates to the overall services offered by the airport. Additionally, she was the leader of the team and had the responsibilities of overseeing the completion of the project undertaken as well as writing a comprehensive report on the findings of the study.

The Team & Partners

Ms. Robinson also worked with the National Housing Trust (NHT). Her duties involved capturing accurate data from numerous households across the country and recording this data in a Statistical Package. She held various leadership positions which included:

- Vice President of the Student Union at Browns Town Community College from 2006-2007 with the responsibilities of reporting the concerns of the students to the Board of Directors as well as implementing policies that aided in the effective operation of the institution.
- Treasurer at the Rex Nettleford Hall (Cluster Eight), UWI Mona 2008-2009 where she was responsible for the accurate, reliable safe keeping and reports of funds collected as well as assisting in the implementation of policies regarding fund raising activities.

The Team & Partners

CrichtonMullings Strategies – Jamaica
Crichton Mullings & Associates PA - USA



Mr. Mullings is a Chartered Accountant and Certified Public Accountant licensed in Jamaica and Florida with over twenty five years of international experience in the audit and financial services industry.

He holds an undergraduate degree in Accounting and a Masters in Business Administration. He has over 20 years of experience in auditing, accounting, taxation, systems design and implementation and business consulting.

Mr. Mullings worked with Booth Anderson & Company of London as a Senior Accountant and with Mitchell Titus & Company, of New York as a manager. His experience also includes several years as an Audit Manager and Senior Consultant with PricewaterhouseCoopers, Jamaica.

Mrs. Gonzales is a graduate of the University of the West Indies, where she received both an undergraduate degree (with first class honours) and a masters degree (with distinction) in accounting. A Chartered Accountant, she is a member of the Institute of Chartered Accountants of Jamaica. Mrs. Gonzales has over eight years of experience in audit, taxation and accountancy with four years in management.

She is skilled in the areas of tax planning and consulting, mediation and negotiation, audit and internal audit, due diligence exercises and recruitment of accounting personnel.



Summary

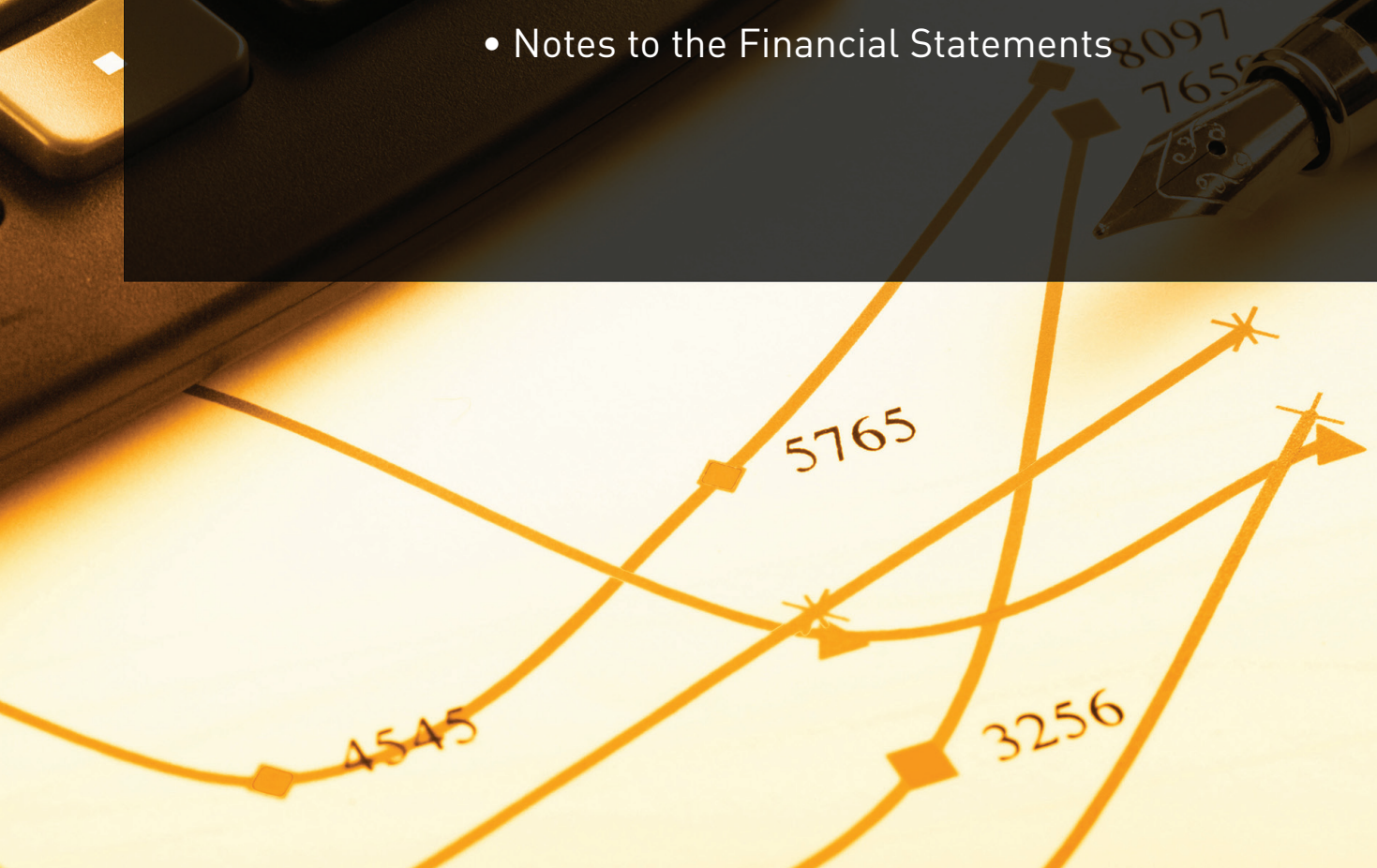
Kingston Properties expects to continue making acquisitions on a very select and disciplined basis. Across many markets, strength in commercial real estate market is boosting optimism among owners and investors. Kingston Properties' portfolio continues to perform well and management expects growth from rental escalations.

In short, management remains very optimistic and excited about its ability to continue to grow and prosper in the coming years.



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- Independent Auditors' Report
- Group Statement of Comprehensive Income
- Group Statement of Financial Position
- Group Statement of Changes in Equity
- Group Statement of Cash Flows
- Company Statement of Comprehensive Income
- Company Statement of Financial Position
- Company Statement of Changes in Equity
- Company Statement of Cash Flows
- Notes to the Financial Statements





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INDEPENDENT AUDITORS' REPORT

To the Members of
KINGSTON PROPERTIES LIMITED

Report on the Financial Statements

We have audited the financial statements of Kingston Properties Limited ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 3 to 36, which comprise the statements of financial position as at December 31, 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 the Jamaican Companies Act, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 as to 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 our judgment, including our assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

KPMG, a Jamaican partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Elizabeth A. Jones
R. Tarun Handa
Patrick A. Chin
Patricia O. Dailey-Smith
Linroy J. Marshall

Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers



INDEPENDENT AUDITORS REPORT (Cont'd)
To the Members of
KINGSTON PROPERTIES LIMITED

Report on the Financial Statements, (cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at December 31, 2011, and of the Group's and Company's financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters 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 maintained and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

Chartered Accountants
Kingston, Jamaica

February 28, 2012

KINGSTON PROPERTIES LIMITEDGroup Statement of Comprehensive Income
Year ended December 31, 2011

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Revenue:			
Rental income	4, 9(d)	44,223,820	33,119,567
Fair value gain on investment property	9(b)(i)	<u>4,562,241</u>	<u>-</u>
		48,786,061	33,119,567
Operating expenses		<u>(31,907,164)</u>	<u>(28,741,596)</u>
Results from operating activities		<u>16,898,897</u>	<u>4,377,971</u>
Finance income	5	4,490,379	18,219,256
Finance costs	5	<u>(9,098,566)</u>	<u>(11,085,307)</u>
Net finance (cost)/income	5	<u>(4,608,187)</u>	<u>7,133,949</u>
Profit before income tax		12,270,710	11,511,920
Income tax credit	6	<u>864,567</u>	<u>3,594,236</u>
Profit for the year	7	<u>13,135,277</u>	<u>15,106,156</u>
Other comprehensive (expense)/income:			
Foreign currency translation differences for foreign operations			
being total other comprehensive (expense) /income		<u>3,613,495</u>	<u>(17,765,164)</u>
Total comprehensive income/(expense) for the year		<u>\$16,748,772</u>	<u>(2,659,008)</u>
Earnings per stock unit:	8	<u>19 cents</u>	<u>22 cents</u>

The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITED

Group Statement of Financial Position
December 31, 2011

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
NON-CURRENT ASSETS			
Investment properties	9(a)	639,159,119	419,942,891
Furniture, software and equipment	10	474,577	561,324
Deferred tax asset	11	<u>5,882,144</u>	<u>4,969,113</u>
Total non-current assets		<u>645,515,840</u>	<u>425,473,328</u>
CURRENT ASSETS			
Receivables	14	15,430,644	6,690,253
Reverse repurchase agreements	15	3,169,809	87,322,931
Cash and cash equivalents	16	<u>179,191,140</u>	<u>162,411,388</u>
Total current assets		<u>197,791,593</u>	<u>256,424,572</u>
Total assets		<u>\$843,307,433</u>	<u>681,897,900</u>
EQUITY			
Share capital	17	406,608,605	406,608,605
Translation reserve		53,800,858	50,187,363
Retained earnings		<u>57,746,248</u>	<u>44,610,971</u>
Total equity		<u>518,155,711</u>	<u>501,406,939</u>
NON CURRENT LIABILITIES			
Loans payable	18	<u>142,361,185</u>	<u>25,602,240</u>
CURRENT LIABILITIES			
Loans payable	18	165,356,859	145,078,336
Accounts payable and accrued charges	19	17,423,976	9,568,529
Income tax payable		<u>9,702</u>	<u>241,856</u>
Total current liabilities		<u>182,790,537</u>	<u>154,888,721</u>
Total equity and liabilities		<u>\$843,307,433</u>	<u>681,897,900</u>

The financial statements on pages 3 to 36 were approved for issue by the Board of Directors on February 28, 2012 and signed on its behalf by:



Garfield Sinclair Director



Fayval Williams Director

The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDGroup Statement of Changes in Equity
Year ended December 31, 2011

	Share capital (note 17)	Cumulative translation adjustments	Retained earnings	Total
Balances at December 31, 2009:				
As previously reported	406,608,605	67,952,527	23,982,487	498,543,619
Prior period adjustments (note 24)	<u>-</u>	<u>-</u>	<u>5,522,328</u>	<u>5,522,328</u>
As restated	406,608,605	67,952,527	29,504,815	504,065,947
Total comprehensive income/(expense):				
Profit for the year	-	-	15,106,156	15,106,156
Other comprehensive income/(expense):				
Exchange differences on translation of foreign subsidiaries' balances, being total other comprehensive expense for the year	<u>-</u>	<u>(17,765,164)</u>	<u>-</u>	<u>(17,765,164)</u>
Total comprehensive income/(expense) for the year	<u>-</u>	<u>(17,765,164)</u>	<u>15,106,156</u>	<u>(2,659,008)</u>
Balances at December 31, 2010	406,608,605	50,187,363	44,610,971	501,406,939
Total comprehensive income/(expense):				
Profit for the year	-	-	13,135,277	13,135,277
Other comprehensive income/(expense):				
Exchange difference on translation of foreign subsidiaries' balances, being total other comprehensive expense for the year	<u>-</u>	<u>3,613,495</u>	<u>-</u>	<u>3,613,495</u>
Balances at December 31, 2011	<u>\$406,608,605</u>	<u>53,800,858</u>	<u>57,746,248</u>	<u>518,155,711</u>

The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDGroup Statement of Cash Flows
Year ended December 31, 2011

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities			
Profit for the year		13,135,277	15,106,156
Adjustments to reconcile profit for the year to net cash provided by/(used in) operating activities:			
Translation difference		3,613,495	(17,765,164)
Income tax		(864,567)	(3,594,236)
Depreciation	10	163,333	55,519
Interest income		(7,230,652)	(15,162,087)
Interest expense		9,098,566	11,085,307
Increase in investment property due to foreign currency translation		(2,190,133)	-
Increase in office equipment due to foreign currency translation		2,544	-
Increase in fair value of investment property		(4,562,241)	-
Unrealised foreign exchange loss/(gains)		<u>2,694,930</u>	<u>(3,235,962)</u>
Operating profit before changes in working capital		13,860,552	(13,510,467)
Changes in:			
Deposit on investment property		-	26,400,000
Other receivables		(8,679,770)	(4,984,345)
Accounts payable and accrued charges		7,855,446	6,486,098
Income tax paid		<u>(283,317)</u>	<u>-</u>
Net cash provided by operating activities		<u>12,752,911</u>	<u>14,391,286</u>
Cash flows from investing activities			
Interest received		7,167,829	15,060,143
Reverse repurchase agreements		84,153,122	381,893,557
Additions to office equipment	10	(74,229)	(508,713)
Additions to investment property		<u>(212,463,854)</u>	<u>(419,942,891)</u>
Net cash used by investing activities		<u>(121,217,132)</u>	<u>(23,497,904)</u>
Cash flows from financing activities			
Interest paid		(9,098,566)	(11,085,307)
Loans payable		<u>137,037,469</u>	<u>143,912,887</u>
Net cash provided by financing activities		<u>127,938,903</u>	<u>132,827,580</u>
Net increase in cash and cash equivalents		19,474,682	123,720,962
Cash and cash equivalents at beginning of year		162,411,388	35,454,464
Effect of exchange rate fluctuations on cash and cash equivalents		<u>(2,694,930)</u>	<u>3,235,962</u>
Cash and cash equivalents at end of year		<u>\$179,191,140</u>	<u>162,411,388</u>

The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDCompany Statement of Comprehensive Income
Year ended December 31, 2011

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Revenue:			
Rental income	4, 9(d)	19,184,232	13,443,069
Fair value gain on investment property	9(b)(i)	<u>4,562,241</u>	<u>-</u>
		23,746,473	13,443,069
Operating expenses		(14,153,444)	(14,287,677)
Results from operating activities		<u>9,593,029</u>	(844,608)
Finance income	5	(1,887,633)	2,988,337
Finance costs	5	(9,098,566)	(11,085,307)
Net finance costs	5	(10,986,199)	(8,096,970)
Loss before income tax	7	(1,393,170)	(8,941,578)
Income tax	6	<u>913,031</u>	<u>3,709,010</u>
Loss being total comprehensive expense for the year	7	<u>\$(480,139)</u>	<u>(5,232,568)</u>

The accompanying notes form an integral part of the financial statements.

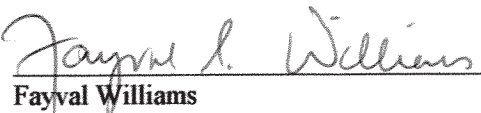


KINGSTON PROPERTIES LIMITED**Company Statement of Financial Position
December 31, 2011**

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
NON-CURRENT ASSETS			
Investment properties	9(a)	401,658,354	184,632,259
Furniture, software and equipment	10	298,480	295,794
Deferred tax asset	11	5,882,144	4,969,113
Investment in subsidiaries	12	<u>308,730,729</u>	<u>308,730,729</u>
Total non-current assets		<u>716,569,707</u>	<u>498,627,895</u>
CURRENT ASSETS			
Owed by subsidiaries	13	2,853,903	2,391,890
Receivables	14	13,162,196	3,771,686
Reverse repurchase agreements	15	3,169,809	87,322,931
Cash and cash equivalents	16	<u>2,804,400</u>	<u>2,460,135</u>
Total current assets		<u>21,990,308</u>	<u>95,946,642</u>
Total assets		<u>\$738,560,015</u>	<u>594,574,537</u>
EQUITY			
Share capital	17	406,608,605	406,608,605
Retained earnings		<u>11,717,788</u>	<u>12,197,927</u>
Total equity		<u>418,326,393</u>	<u>418,806,532</u>
NON CURRENT LIABILITIES			
Loans payable	18	<u>142,361,185</u>	<u>25,602,240</u>
CURRENT LIABILITIES			
Loans payable	18	165,356,859	145,078,336
Accounts payable and accrued charges	19	<u>12,515,578</u>	<u>5,087,429</u>
Total current liabilities		<u>177,872,437</u>	<u>150,165,765</u>
Total equity and liabilities		<u>\$738,560,015</u>	<u>594,574,537</u>

The financial statements on pages 3 to 36 were approved for issue by the Board of Directors on February 28, 2012 and signed on its behalf by:


 _____ Director
 Garfield Sinclair


 _____ Director
 Fayval Williams

The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITEDCompany Statement of Changes in Equity
Year ended December 31, 2011

	<u>Share capital (note 17)</u>	<u>Retained earnings</u>	<u>Total</u>
Balances at December 31, 2009:			
As previously reported	406,608,605	11,908,167	418,516,772
Prior period adjustments (note 24)	<u>-</u>	<u>5,522,328</u>	<u>5,522,328</u>
As restated	406,608,605	17,430,495	424,039,100
Loss, being total comprehensive expense for the year	<u>-</u>	<u>(5,232,568)</u>	<u>(5,232,568)</u>
Balances at December 31, 2010	406,608,605	12,197,927	418,806,532
Loss, being total comprehensive expense for the year	<u>-</u>	<u>(480,139)</u>	<u>(480,139)</u>
Balances at December 31, 2011	<u>\$406,608,605</u>	<u>11,717,788</u>	<u>418,326,393</u>

The accompanying notes form an integral part of the financial statements.



KINGSTON PROPERTIES LIMITEDCompany Statement of Cash Flows
Year ended December 31, 2011

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities			
Loss for the year		(480,139)	(5,232,568)
Adjustments to reconcile loss for the year to net cash provided by / (used in) operating activities:			
Depreciation	10	71,543	47,959
Income tax		(913,031)	(3,709,010)
Interest income		(852,641)	(2,380,525)
Interest expense		9,098,566	11,085,307
Increase in fair value of investment property		(4,562,241)	-
Unrealised foreign exchange gains		<u>2,694,930</u>	<u>(786,605)</u>
Operating profit/(loss) before changes in working capital		5,056,987	(975,442)
Changes in:			
Other receivables		(9,389,014)	(2,115,203)
Deposit on investment property		-	26,400,000
Accounts payable and accrued charges		7,428,150	2,622,244
Owed by subsidiaries		(462,013)	(2,391,890)
Owed to subsidiary		<u>-</u>	<u>(336,146,151)</u>
Net cash provided by/(used in) operating activities		<u>2,634,110</u>	<u>(312,606,442)</u>
Cash flows from investing activities			
Interest received		851,144	2,278,580
Reverse repurchase agreements		84,153,122	381,893,557
Investment in subsidiaries		-	(26,574,168)
Additions to office equipment	10	(74,229)	(235,623)
Additions to investment property		<u>(212,463,854)</u>	<u>(184,632,259)</u>
Net cash (used in)/provided by investing activities		<u>(127,533,817)</u>	<u>172,730,087</u>
Cash flows from financing activities			
Interest paid		(9,098,566)	(11,085,307)
Loans payable		<u>137,037,468</u>	<u>143,912,887</u>
Net cash provided by financing activities		<u>127,938,902</u>	<u>132,827,580</u>
Net increase/(decrease) in cash and cash equivalents		3,039,195	(7,048,775)
Cash and cash equivalents at beginning of year		2,460,135	8,722,305
Effect of exchange rate fluctuations on cash and cash equivalents		<u>(2,694,930)</u>	<u>786,605</u>
Cash and cash equivalents at end of year		<u>\$ 2,804,400</u>	<u>2,460,135</u>

The accompanying notes form an integral part of the financial statements.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011

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:
- (ii) Kingston Properties Miami LLC, incorporated in Florida under the Florida Limited Liability Company Act on March 12, 2010.

The Company and its subsidiaries are collectively referred to as "Group". In these financial statements 'parent' refers to the Company and intermediate parent refer 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. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, and comply with the relevant provisions of the Jamaican Companies Act ("the Act").

New, revised and amended standards and interpretations that became effective during the year:

Certain new, revised and amended standards and interpretations came into effect during the financial year under review. None of them had any significant effect on the financial statements, and, based on the Group's current operations, none of them is expected to have any significant effect on the amounts and disclosures in the financial statements.

New, revised and amended standards and interpretations that are not yet effective:

At the date of approval of the financial statements, certain new, revised and amended standards and interpretations were in issue but had not yet come into effect. They were not adopted early and therefore have not been taken into account in preparing the financial statements. The following are considered relevant to the financial statements:

- IFRS 7, *Financial Instruments: Disclosures*, has been amended by "Amendments to IFRS 7, *Disclosures – Transfer of Financial Assets*," effective for annual reporting periods beginning on or after July 1, 2011, to require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities, and to evaluate the nature of, and risks associated with, the entity's continuing involvement in these derecognised assets.



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New, revised and amended standards and interpretations that are not yet effective (cont'd):

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2015, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It also includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, on the recognition and de-recognition of financial assets and financial liabilities.
- IAS 1, *Presentation of Financial Statements*, has been amended, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles.
- IAS 12, *Income Taxes*, has been amended, effective for annual reporting periods beginning on or after January 1, 2012, to require an entity to measure deferred taxes relating to an asset based on whether the entity expects to recover the carrying amount of the asset through use or sale.
- IFRS 10, *Consolidated Financial Statements*, effective for annual reporting periods beginning on or after 1 January 2013, introduces a new approach to determining which investees should be consolidated. It was issued as part of a suite of consolidation and related standards, also replacing existing requirements for joint ventures (now Joint Arrangements) and making limited amendments in relation to associates. IFRS 10 supersedes IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*, and provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. An investor controls an investee when (i) it is exposed, or has rights, to variable returns from its involvement with the investee, (ii) has the ability to affect those returns through its power over the investee and (ii) there is a link between power and returns.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011

2. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New, revised and amended standards and interpretations that are not yet effective (cont'd):

- IFRS 11, *Joint Arrangements*, which is effective for annual reporting periods beginning on or after January 1, 2013, identifies two main types of joint arrangements – joint operations and joint ventures: (i) Those cases in which although there is a separate vehicle created by the venturers, that separation is ineffective in certain ways, are now called *joint operations*. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31. (ii) All other joint arrangements, now called *joint ventures*, are required to be accounted for using the equity method (thus prohibiting the use of proportionate consolidation). The application of the equity method is subject to two exemptions carried forward from IAS 28 (2008) and IAS 31.
- IFRS 12, *Disclosure of Interest in Other Entities*, which is effective for annual reporting periods beginning on or after January 1, 2013, contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. *Interests* are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. *Structured entities* are entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The disclosure requirements encompass risk exposures for the sponsor of such an entity even if it no longer has any contractual involvement. These required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Group is expected to understand what a structured entity is in the context of its operations; apply judgement in assessing whether it is 'involved' with a structured entity, which has the potential to broaden the transactions and relationships to which the disclosures may apply, particularly for those who sponsor, or perhaps even transact with, but do not consolidate structured entities; and assess the level of disclosure that it believes will be meaningful to users of the financial statements.

- IFRS 13, *Fair Value Measurement*, which is effective for annual reporting periods beginning on or after 1 January 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Group is assessing the impact, if any, that these new, revised and amended standards and interpretations will have on its future financial statements.



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011

2. Statement of compliance and basis of preparation (cont'd)

(b) Basis of measurement:

The financial statements are prepared on the historical cost basis

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars (\$), unless otherwise indicated, which is the functional currency of the Company. The financial statements of the subsidiaries, which have a different functional currency, are translated into the presentation currency in the manner described in note 3(g)(ii).

(d) Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRS and the Act requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of, and disclosures related to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from these estimates. The estimates and associated assumptions are based on historical experience and/or various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, the assumptions concerning the future and other areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements, or which have a risk of material adjustment in the next year, are as follows:

(i) Key assumptions concerning the future and other sources of estimation uncertainty:

Investment property is carried at fair value. Given the infrequency of trades in comparable properties in some cases, and therefore the absence of observable market prices, fair value is less objective and requires judgement, which is impacted by the uncertainty of market factors, pricing assumptions and general business and economic conditions [see note 9(c)].

(ii) Critical accounting judgements in applying the Group's accounting policies

There are no critical accounting judgements in applying the Group's accounting policies that have a significant effect on the financial statements.

3. Significant accounting policies

(a) Consolidation:

The consolidated financial statements comprise the financial position, results of operations and cash flows of the Company and its subsidiaries (note 1), after eliminating intra-group amounts.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011

3. Significant accounting policies (cont'd)

(a) Consolidation (cont'd):

(i) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

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

(b) Investment in subsidiary:

Investment in the wholly-owned subsidiary (note 1) is accounted for at cost less, if any, impairment losses.

(c) Cash and cash equivalents:

Cash and cash equivalents are carried at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(d) Accounts payable and accrued charges:

Accounts payable and accrued charges are stated at cost.

(e) Receivables:

Receivables are stated at amortised cost less, if any, impairment losses.

(f) Related parties:

A related party is a person or entity that is related to the Company, also referred to as reporting entity.

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

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011

3. Significant accounting policies (cont'd)

(f) Related parties (cont'd):

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

- (i) The entity and the Company 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 Company or an entity related to the Company.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(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 a reporting entity and a related party, regardless of whether a price is charged.

(g) Foreign currencies:

- (i) Transactions in foreign currencies are translated to the respective functional currencies of the Group at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the foreign exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Exchange differences arising on settlement of monetary items or on reporting the Group's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognised as income or expense in the period in which they arise. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at historical cost are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are denominated in foreign currencies and are carried at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements
December 31, 2011



3. Significant accounting policies (cont'd)

(g) Foreign currencies (cont'd):

(i) (Cont'd)

Exchange differences arising on a monetary item that, in substance, forms a part of the Company's net investment in a foreign entity is included in equity in these financial statements until the disposal of the net investment, at which time they are recognised as income or expense.

(ii) The assets and liabilities of the foreign operations, which are "foreign entities", as defined in IFRS, are translated into Jamaica dollars for the purpose of inclusion in these financial statements as follows:

- (1) all assets and liabilities at the rate ruling at the reporting date;
- (2) all income and expense items at the exchange rate ruling at the dates of the transactions;
- (3) the resulting exchange differences are included in equity until the disposal of the investment.

(h) Impairment:

The carrying amount of the Group's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated at each reporting date. 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 the income statement.

(i) Calculation of recoverable amount:

The recoverable amount of the Group'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 net selling price 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.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

3. Significant accounting policies (cont'd)

(h) Impairment (cont'd):

(ii) Reversals of impairment (cont'd):

An impairment loss is reversed only to the extent that the carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(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 Company 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 collateralised lending. The difference between sale and purchase consideration is recognised as interest income on the accrual basis over the term of the agreement.

(j) Financial assets and liabilities:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, resale agreements, receivables, and owed by subsidiaries. Financial liabilities comprise loans payable, accounts payable and accrued charges. Financial liabilities are recognised initially at fair value less any directly attributable transactions costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(i) Recognition:

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

(ii) Derecognition:

The Group 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 Group is recognised as a separate asset or liability.

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

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

3. Significant accounting policies (cont'd)

(k) Capital:

(i) Classification:

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

(ii) Share issue costs:

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

(iii) Dividends:

Dividends are recorded in the financial statements in the period in which they are declared.

(l) Income tax:

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised 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 income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date.

A deferred tax asset is recognised only to the extent management can demonstrate that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

(m) Furniture, software and equipment:

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing part of an item is recognised 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 recognised in profit or loss as incurred.



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

3. Significant accounting policies (cont'd)

(m) Furniture, software and equipment (cont'd):

- (ii) Depreciation is recognised in profit or loss on the straight-line basis, over the estimated useful life of the asset. The depreciation rates for the furniture, software and equipment are as follows:

Software	33 $\frac{1}{3}$
Computer and accessories	20%
Furniture and fixtures	10%

(n) Investment properties:

Investment properties, comprising, offices, warehouse building and residential apartments, are held for long-term rental yields and capital gain.

Investment properties are initially recognised at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs 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 three years by an independent registered valuer, and in each of the two 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.

(o) Revenue recognition:

Rental income:

Rental income is recorded in these financial statements on the accrual basis using the straight line method.

(p) 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 expense 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.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

4. Rental income

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Hagley Park Warehouse	18,059,070	13,443,069	18,059,070	13,443,069
Red Hills Road commercial complex	1,125,162	-	1,125,162	-
Miami Condominiums	<u>25,039,588</u>	<u>19,676,498</u>	<u>-</u>	<u>-</u>
	<u>\$44,223,820</u>	<u>33,119,567</u>	<u>19,184,232</u>	<u>13,443,069</u>

5. Net finance (costs)/income

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Finance income:				
Interest income	7,230,653	15,162,087	852,641	2,380,525
Unrealised (losses)/gains on translation of foreign currency balances	(2,694,930)	3,235,962	(2,694,930)	786,605
Realised (losses)/gains on conversion of foreign exchange	(45,344)	(178,793)	(45,344)	(178,793)
	4,490,379	18,219,256	(1,887,633)	2,988,337
Finance costs:				
Interest expense	(9,098,566)	(11,085,307)	(9,098,566)	(11,085,307)
	<u>\$(4,608,187)</u>	<u>7,133,949</u>	<u>(10,986,199)</u>	<u>(8,096,970)</u>

6. Income tax(a) Income tax comprises:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
(i) Current tax expense:				
Income tax at 1%	48,464	114,774	-	-
(ii) Deferred tax (credit)/expense:				
Origination and reversal of temporary differences	(913,031)	(3,709,010)	(913,031)	(3,709,010)
Total income tax credit	<u>\$(864,567)</u>	<u>(3,594,236)</u>	<u>(913,031)</u>	<u>(3,709,010)</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

6. Income tax (cont'd)

(b) Reconciliation of effective tax rate:

The tax rate for the Company is 33 $\frac{1}{3}$ % of profit before income tax, adjusted for tax purposes, while the tax rate for the St. Lucia subsidiary is 1% of profits. The actual tax credit for the year is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Profit before income tax	\$12,270,710	11,511,920	(1,393,170)	(8,941,578)
Computed "expected" tax (credit)/expense at 33 $\frac{1}{3}$ %	(464,390)	(2,980,526)	(464,390)	(2,980,526)
Computed "expected" tax expense at 1%	<u>48,464</u>	<u>114,774</u>	<u>-</u>	<u>-</u>
	(415,926)	(2,865,752)	(464,390)	(2,980,526)
Tax effect of difference between profit for financial statements and tax reporting purposes on:				
Disallowed expenses	(448,641)	(728,484)	(448,641)	(728,484)
Actual tax credit	\$ <u>(864,567)</u>	\$ <u>(3,594,236)</u>	\$ <u>(913,031)</u>	\$ <u>(3,709,010)</u>

(c) Subject to agreement by the Commissioner General, Tax Administration Jamaica, taxation losses, available for set-off against future taxable profits, amounted to approximately \$29,900,000 as at December 31, 2011 (2010: \$17,500,000).

7. Profit for the year

The following are among the items charged in arriving at the profit for the year:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$	\$
Auditors' remuneration	2,318,091	1,013,120	1,075,000	609,500
Key management personnel compensation				
Directors' remuneration:				
- salaries	3,186,430	2,886,055	3,186,430	2,886,055
- fees	<u>1,133,010</u>	<u>699,913</u>	<u>591,683</u>	<u>422,955</u>

Key management personnel comprise the Board of Directors, which includes an executive director.

8. Earnings per stock unit

Earnings per stock unit ("EPS") is computed by dividing profit for the year of \$13,135,277 (2010: \$15,106,156) by stock units in issue during the year, numbering 68,800,102.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

9. Investment properties

(a) Investment properties held by the Group are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Hagley Park warehouse [see (i)]	188,000,000	184,632,259	188,000,000	184,632,259
Miami condominium [see (ii)]	237,500,765	235,310,632	-	-
Red Hills Road commercial complex [see (iii) and note 18)]	<u>213,658,354</u>	<u>-</u>	<u>213,658,354</u>	<u>-</u>
	<u>\$639,159,119</u>	<u>419,942,891</u>	<u>401,658,354</u>	<u>184,632,259</u>

- (i) This represents 26,000 square feet of commercial property located on Hagley Park Road, Kingston, Jamaica. The purchase of this property was partly financed by a vendor's mortgage, which was repaid during the year [see note 19(ii)].
- (ii) This represents 16,092 square feet of residential condominium space (19 units) in the Loft II building located at 133 NE 2nd Avenue in downtown Miami, Florida.
- (iii) This represents 47,865 square feet of commercial property on Red Hills Road, Kingston 10.

(b) (i) The carrying amounts of investment properties have been determined as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Balance as at January 1, 2011	419,942,891	-	184,632,259	-
Additions during the year	208,145,904	431,063,459	208,145,904	184,632,259
Increase in fair value gain [see (c)(ii)]	4,562,241	-	4,562,241	-
Amount held in escrow account [see (ii) below]	4,317,950	-	4,317,950	-
Foreign currency translation adjustments	<u>2,190,133</u>	<u>(11,120,568)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2011	<u>\$639,159,119</u>	<u>419,942,891</u>	<u>401,658,354</u>	<u>184,632,259</u>

- (ii) These funds are being held in escrow, as stipulated by the clauses in the Supplemental Agreement associated with the acquisition of the Red Hills Road property.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

9. Investment properties (cont'd)

- (c) (i) The fair value of investment properties as at the reporting date is based on estimates of open market value, which may be defined as the best price at which an interest in a property might reasonably be expected to be sold by private treaty at the date of valuation, assuming:
- a willing seller;
 - a willing buyer;
 - a reasonable period in which to negotiate a sale, taking into account the nature of the property and state of the market;
 - values are expected to remain stable throughout the period of market exposure and disposal by way of sale;
 - the property will be freely exposed to the market;
 - that no account has been taken of any possible additional bid/s reflecting any premium in price which might be forth-coming from a potential purchaser with a special interest in acquiring the premises; and
 - that the subject premises, in its current zoned use class, can be sold, exchanged, transferred, let, mortgaged or used for any other economic activity, within its land use class, in the open market.
- (ii) During the year ended December 31, 2011, the Hagley Park Road property was revalued by independent valuers, NAI Jamaica Langford and Brown, of Kingston, Jamaica. The increase in the fair value of the investment property of approximately \$4.5 million was credited to income.

(d) Gross lease rental income for investment properties:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Gross lease rental income	<u>\$44,223,820</u>	<u>33,119,567</u>	<u>19,184,232</u>	<u>13,443,069</u>

(e) Property operating expenses are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Insurance premium	1,668,093	1,844,961	1,220,872	1,325,878
Property taxes	4,302,256	3,779,495	111,251	83,437
Professional fees	1,548,453	2,614,303	200,000	1,770,000
Maintenance	9,072,719	8,196,848	299,421	315,700
Other expenses	<u>15,006</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$16,606,527</u>	<u>16,435,607</u>	<u>1,831,544</u>	<u>3,495,015</u>

KINGSTON PROPERTIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 201110. Furniture, software and equipment

	Group		Total
	Office equipment	Computer software	
Cost:			
December 31, 2009	108,130	-	108,130
Additions	<u>235,623</u>	<u>273,090</u>	<u>508,713</u>
December 31, 2010	343,753	273,090	616,843
Foreign currency translation adjustment	-	2,544	2,544
Additions	<u>74,229</u>	<u>-</u>	<u>74,229</u>
December 31, 2011	<u>417,982</u>	<u>275,634</u>	<u>693,616</u>
Depreciation:			
December 31, 2010	47,959	7,560	55,519
Foreign currency translation adjustment	-	187	187
Charge for year	<u>71,543</u>	<u>91,790</u>	<u>163,333</u>
December 31, 2011	<u>119,502</u>	<u>99,537</u>	<u>219,039</u>
Net book value:			
December 31, 2011	<u>\$298,480</u>	<u>176,097</u>	<u>474,577</u>
December 31, 2010	<u>\$295,794</u>	<u>265,530</u>	<u>561,324</u>
December 31, 2009	<u>\$108,130</u>	<u>-</u>	<u>108,130</u>

	Company Office equipment
Cost:	
December 31, 2009	108,130
Additions	<u>235,623</u>
December 31, 2010	343,753
Additions	<u>74,229</u>
December 31, 2011	<u>417,982</u>
Depreciation:	
December 31, 2010	47,959
Charge for year	<u>71,543</u>
December 31, 2011	<u>119,502</u>
Net book value:	
December 31, 2011	<u>\$298,480</u>
December 31, 2010	<u>\$295,794</u>
December 31, 2009	<u>\$108,130</u>



KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

11. Deferred tax asset

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
Beginning of year	4,969,113	1,260,103
Movement during the year	<u>913,031</u>	<u>3,709,010</u>
Balance at the end of the year	<u>\$5,882,144</u>	<u>4,969,113</u>

Deferred tax movement is attributable to the following:

	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
Property, furniture, software and equipment	(4,483,944)	(1,447,176)
Receivables	(499)	(33,983)
Tax losses	9,970,723	5,861,612
Unrealised foreign exchange losses	<u>395,864</u>	<u>588,660</u>
	<u>\$ 5,882,144</u>	<u>4,969,113</u>

12. Investment in subsidiaries

The parent's investment in subsidiaries comprises the amount paid for shares in, and the amount funds borrowed from, Carlton Savannah REIT (St. Lucia) Limited and funds loaned to Kingston Properties Miami LLC.

	<u>2011</u>	<u>2010</u>
Carlton Savannah REIT (St. Lucia) Limited		
Amount paid for shares	282,156,561	282,156,561
Funds borrowed [see (i) below]	<u>(208,576,584)</u>	<u>(208,576,584)</u>
	<u>73,579,977</u>	<u>73,579,977</u>
Loan to Kingston Properties Miami LLC [see (ii) below]	<u>235,150,752</u>	<u>235,150,752</u>
	<u>\$308,730,729</u>	<u>308,730,729</u>

(i) The sum of \$208,576,584 is the portion of an amount that the Company borrowed from Carlton Savannah REIT (St. Lucia) Limited which was on-lent to Kingston Properties Miami LLC for the purpose of acquiring condominiums in Miami.

(ii) Kingston Properties Miami LLC:

Kingston Properties Miami LLC has no share capital; the parent's sole ownership and control of it are by virtue of the intermediate parent (note 1) being its sole member. The loan to this subsidiary constitutes the parent's investment in this subsidiary.

On February 1, 2010, it was determined by the directors that the amount on-lent, net of the amount borrowed, constituted a long-term investment in the parent's foreign operations and, accordingly, repayment of these amounts will neither be required nor expected to occur in the foreseeable future.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

13. Owed by subsidiaries

	<u>2011</u>	<u>2010</u>
Kingston Properties Miami LLC US\$4,755 (2010: US\$ Nil) [see (i) below]	411,753	-
Carlton Savannah REIT (St. Lucia) Limited US\$28,200 (2010: US\$28,028) [see (ii) below]	<u>2,442,150</u>	<u>2,391,890</u>
	<u>\$2,853,903</u>	<u>2,391,890</u>

(i) This represents charges paid by the Company on behalf of its subsidiary, Kingston Properties Miami LLC. This amount is interest free, unsecured and has no fixed repayment date.

(ii) This represents advances and charges paid by the Company on behalf of its subsidiary, Carlton Savannah REIT (St. Lucia) Limited. The amount is interest free, unsecured and has no fixed repayment date.

14. Receivables

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Rent receivable	1,322,143	-	1,322,066	-
Withholding tax recoverable	3,697,837	3,183,069	3,697,837	3,183,069
Security deposits	4,906,803	2,067,976	2,878,321	58,200
Prepayments	5,032,672	1,337,263	4,851,320	428,472
Other receivables	<u>471,189</u>	<u>101,945</u>	<u>412,652</u>	<u>101,945</u>
	<u>\$15,430,644</u>	<u>6,690,253</u>	<u>13,162,196</u>	<u>3,771,686</u>

15. Reverse repurchase agreements

The Group entered into reverse repurchase agreements with major financial institutions, collateralised by Government of Jamaica securities.

The fair value of the underlying securities used to collateralise the reverse repurchase agreements was \$3,226,135 (2010:\$ 96,921,388) at the reporting date.

16. Cash and cash equivalents

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Interest bearing accounts [see note 18(i)]	169,247,931	155,164,481	580,102	1,744,602
Current and savings accounts	<u>9,943,209</u>	<u>7,246,907</u>	<u>2,224,298</u>	<u>715,533</u>
	<u>\$179,191,140</u>	<u>162,411,388</u>	<u>2,804,400</u>	<u>2,460,135</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

17. <u>Share capital</u>		
	<u>2011</u>	<u>2010</u>
Authorised capital:		
500,000,000 ordinary shares of no par value		
Issued and fully paid:		
68,800,102 ordinary shares	<u>\$406,608,605</u>	<u>406,608,605</u>
18. <u>Loans payable</u>		
	<u>Group and Company</u>	
	<u>2011</u>	<u>2010</u>
Bank loan - First Global Bank:		
Face amount	95,260,880	-
Unamortised transaction costs	(2,311,781)	-
Carrying value	<u>92,949,099</u>	-
Bank loan - Pan Caribbean Bank [see (i)]	147,220,321	145,078,336
Vendors' mortgages [see (ii)]	<u>67,548,624</u>	<u>25,602,240</u>
Total loans	<u>\$307,718,044</u>	<u>170,680,576</u>
Classified as follows:		
Non-current		
Bank loans [see (i)]	86,755,331	-
Vendors' mortgages (ii)	<u>55,605,854</u>	<u>25,602,240</u>
	<u>142,361,185</u>	<u>25,602,246</u>
Current		
Bank loans [see (i)]	153,414,089	145,078,336
Vendor's mortgage [see (ii)]	<u>11,942,770</u>	-
	<u>165,356,859</u>	<u>145,078,336</u>
Total loan payable	<u>\$307,718,044</u>	<u>170,680,576</u>

(i) Bank loans:

Pan Caribbean Bank Limited

This represents a draw-down under a credit facility of US\$1,699,988 [2010: US\$1,699,988 (J\$145,078,336)], evidenced by a promissory note. The loan currently attracts interest at a rate of 4.8% per annum. The loan was renewed at maturity on December 23, 2011, and is now repayable December 2012.

It is secured by hypothecation of a deposit of US\$1,699,988 (2010: US\$1,699,988) held by a subsidiary with the bank [see note 16].

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

18. Loans payable (cont'd)(i) (cont'd)First Global Bank Limited

During the year ended December 31, 2011, the Company negotiated a credit facility of US\$1,100,000, equivalent to approximately J\$95 million. The loan attracts an interest rate of 8% in the first year, thereafter it becomes variable and is subject to change at the Bank's discretion. It is repayable in ninety-six (96) consecutive blended monthly payments plus a final lump sum payment at maturity. It is secured by a demand mortgage over commercial property registered in the Company's name, and the facility expires in October 2019. Transaction costs of approximately of \$2.3 million were incurred in obtaining the credit facility. These costs were off settled against the loan balance and are amortised over the useful life of the loan.

(ii) Vendors' mortgages

The amount at December 31, 2011 represents the balance owing under a mortgage of US\$780,000 from the vendor of the Red Hills Road property [see note 9(a)]. It bears interest at a rate of 6% per annum and is repayable in sixty (60) monthly instalments, commencing January 1, 2012.

The amount at December 31, 2010 represents the balance owing under a mortgage of US\$300,000 from the vendor of the Hagley Park Road property. It bore interest at a rate of 6% per annum in the first year and 7% per annum in the second year. The principal was due for repayment in one (1) instalment on April 22, 2012; however, it was repaid in full on November 22, 2011 [see note 9(a)].

19. Accounts payable and accrued charges

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Accounts payable	574,182	865,176	31,020	682,500
Short-term loans	15,363	17,611	15,363	17,611
Dividend payable	183,005	183,005	183,005	183,005
Other payables and accrued charges	7,402,287	2,678,964	6,495,713	1,270,605
Security deposits held	<u>9,249,139</u>	<u>5,823,773</u>	<u>5,790,477</u>	<u>2,933,708</u>
	<u>\$17,423,976</u>	<u>9,568,529</u>	<u>12,515,578</u>	<u>5,087,429</u>

20. Segment reporting

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

Performance is measured based on segment profit before income tax, as included in the internal management reports that are review by the Board. Segment report 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.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

20. Segment reporting (cont'd)

	2011				
	Jamaica \$	United States of America \$	St. Lucia \$	Elimination \$	Group \$
External revenue	19,184,232	25,039,588	-	-	44,223,820
Fair value gain on investment property	<u>4,562,241</u>	-	-	-	<u>4,562,241</u>
Total revenue	23,746,473	25,039,588	-	-	48,786,061
Operating expenses	(14,153,444)	(16,312,303)	(1,441,417)	-	(31,907,164)
Interest income	852,641	88,084	6,289,928	-	7,230,653
Interest expense	(9,098,566)	-	-	-	(9,098,566)
Net losses on translation of foreign currency balances	(2,740,274)	-	-	-	(2,740,274)
Profit before tax	(1,393,170)	8,815,369	4,848,511	-	12,270,710
Income tax expense	<u>913,031</u>	-	(48,464)	-	<u>864,567</u>
Profit after tax	(480,139)	<u>8,815,369</u>	<u>4,800,047</u>	-	<u>13,135,277</u>
Segment assets	<u>738,560,015</u>	<u>256,671,512</u>	<u>368,602,973</u>	(520,527,068)	<u>843,307,433</u>
Segment liabilities	<u>320,233,622</u>	<u>239,845,966</u>	<u>3,442,643</u>	(238,379,509)	<u>325,151,722</u>
Other segment items:					
Capital expenditure	213,732,583	-	-	-	213,732,583
Depreciation and amortisation	<u>71,543</u>	<u>91,790</u>	-	-	<u>163,333</u>
	2010				
	Jamaica \$	United States of America \$	St. Lucia \$	Elimination \$	Group \$
External revenue	13,443,069	19,676,498	-	-	33,119,567
Operating expenses	(14,287,677)	(13,832,925)	(620,994)	-	(28,741,596)
Interest income	2,380,525	-	15,230,919	-	17,611,444
Interest expense	(11,085,307)	-	-	-	(11,085,307)
Net gains/(losses) on translation of foreign currency balances	(607,812)	-	-	-	(607,812)
Profit before tax	(8,941,578)	5,843,573	14,609,925	-	11,511,920
Income tax expense	<u>3,709,010</u>	-	(114,774)	-	<u>3,594,236</u>
Profit after tax	(5,232,568)	<u>5,843,573</u>	<u>14,495,151</u>	-	<u>15,106,156</u>
Segment assets	<u>594,574,537</u>	<u>245,043,171</u>	<u>359,604,573</u>	(517,324,381)	<u>681,897,900</u>
Segment liabilities	<u>175,768,005</u>	<u>239,252,507</u>	<u>638,270</u>	(235,167,820)	<u>180,490,962</u>
Other segment items:					
Capital expenditure	420,451,604	-	-	-	420,451,604
Depreciation and amortisation	<u>47,959</u>	<u>7,560</u>	-	-	<u>55,519</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

20. Segment reporting (cont'd)

During 2011, revenue from one customer of the Group represented approximately \$18,000,000 or 43.4% (2010: \$13,400,000 or 40.6%) of the Group's total revenue.

21. Financial instruments and financial risk management

The Group has exposure to credit, liquidity, and market risks, which arise in the ordinary course of the Group's business. This note presents information about the Group's exposure to each of the above-listed risks and the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The risk management policies are established and implemented by the directors to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Board of Directors is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

No derivative instruments are presently used by the Group to mitigate, manage or eliminate exposure to financial instrument risks.

(a) Credit risk:

Credit risk is the risk of a financial loss arising from a counter-party to a financial contract failing to discharge its obligations. The Group manages this risk by establishing policies for granting credit and entering into financial contracts. The Group's credit risk is concentrated, primarily, in cash and cash equivalents, receivables, reverse repurchase agreements and deposit on investment property.

Exposure to credit risk:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Receivables	15,430,644	6,690,253	13,162,196	3,771,686
Owed by subsidiaries	-	-	2,853,903	2,391,890
Reverse repurchase agreements	3,169,809	87,322,931	3,169,809	87,322,931
Cash and cash equivalents	<u>179,191,140</u>	<u>162,411,388</u>	<u>2,804,400</u>	<u>2,460,135</u>
	<u>\$197,791,593</u>	<u>256,424,572</u>	<u>21,990,308</u>	<u>95,946,642</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

21. Financial instruments and financial risk management (cont'd)

(a) Credit risk (cont'd):

- (i) Cash and cash equivalents are held with financial institutions and collateral is not required for such accounts as management regards the institutions as strong.
- (ii) Receivables comprise the amounts set out in note 14. Management considers that the credit risk related to these items is not significant.
- (iii) Reverse repurchase agreements expose the Group to credit losses as there is a risk that the counterparty will fail to fulfil its contractual obligations. The Group manages this risk by contracting only with counterparties that management considers to be financially sound.

The Group has no significant concentration of credit risk, except for balances held with an investment broker.

The maximum credit exposure, the total amount of loss the Group would suffer if every counter-party to the Group's financial assets were to default at once, is represented by the carrying amount of financial assets shown on the statement of financial position.

There was no change in the Group's approach to its credit risk management during the current or prior period.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management requires the Group to maintain sufficient cash and marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

The Group is not subject to any externally-imposed liquidity requirements and there has been no change in the Group's approach to managing its liquidity risk during the year.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

21. Financial instruments and financial risk management (cont'd)

(b) Liquidity risk (cont'd):

The following table presents the contractual maturities of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

Group

	2011				
	Carrying value	Contractual cash flows	Within 3 month	3 to 12 months	Over12 months
Loans payable	307,718,044	369,181,873	9,151,810	174,675,741	185,354,321
Accounts payable and accrued charges	<u>17,423,976</u>	<u>17,423,976</u>	<u>3,584,453</u>	<u>13,839,523</u>	<u>-</u>
	<u>\$325,142,020</u>	<u>386,605,849</u>	<u>12,736,263</u>	<u>188,515,264</u>	<u>185,354,321</u>
	2010				
	Carrying value	Contractual cash flows	Within 3 month	3 to 12 months	Over12 months
Loans payable	170,680,576	184,420,353	-	156,087,207	28,333,146
Accounts payable and accrued charges	<u>9,568,529</u>	<u>9,568,529</u>	<u>3,398,144</u>	<u>6,170,385</u>	<u>-</u>
	<u>\$180,249,105</u>	<u>193,988,882</u>	<u>3,398,144</u>	<u>162,257,592</u>	<u>28,333,146</u>

Company

	2011				
	Carrying value	Contractual cash flows	Within 3 month	3 to 12 months	Over12 months
Loans payable	307,718,044	369,181,873	9,151,810	174,675,741	185,354,321
Accounts payable and accrued charges	<u>12,514,578</u>	<u>12,515,578</u>	<u>2,359,840</u>	<u>10,155,738</u>	<u>-</u>
	<u>\$320,233,622</u>	<u>381,697,451</u>	<u>11,511,650</u>	<u>184,831,479</u>	<u>185,354,321</u>
	2010				
	Carrying value	Contractual cash flows	Within 3 month	3 to 12 months	Over12 months
Loans payable	170,680,576	184,420,353	-	156,087,207	28,333,146
Accounts payable and accrued charges	<u>5,087,429</u>	<u>5,087,429</u>	<u>1,807,109</u>	<u>3,280,320</u>	<u>-</u>
	<u>\$175,768,005</u>	<u>189,507,782</u>	<u>1,807,109</u>	<u>159,367,527</u>	<u>28,333,146</u>

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

21. Financial instruments and financial risk management (cont'd)

(c) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

Such risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as foreign exchange and interest rates. The elements of market risk that affect the Group are as follows:

(i) Foreign currency risk

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The Group is exposed to foreign currency risk on transactions that it undertakes in foreign currencies. The main foreign currencies giving rise to this risk is the United States dollar. The Group ensures that the risk is kept to an acceptable level by matching foreign currency assets with foreign currency liabilities, to the extent practicable.

The exposure to foreign currency risk at the reporting date was as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2011</u> US\$	<u>2010</u> US\$	<u>2011</u> US\$	<u>2010</u> US\$
Foreign currency assets:				
Cash	114,192	1,894,835	24,577	20,569
Receivables	74,060	-	47,724	-
Reverse repurchase agreements	<u>1,994,978</u>	<u>1,023,226</u>	<u>36,800</u>	<u>1,023,226</u>
	2,183,230	2,918,061	109,101	1,043,795
Foreign currency liabilities:				
Payables and accrued charges	(91,168)	(86,998)	(34,489)	(34,489)
Loans payable	<u>(3,579,988)</u>	<u>(1,999,988)</u>	<u>(3,579,988)</u>	<u>(1,999,988)</u>
	<u>(3,671,156)</u>	<u>(2,086,986)</u>	<u>(3,614,477)</u>	<u>(2,034,477)</u>
Net foreign currency assets/ (liabilities)	<u>(1,487,926)</u>	<u>831,075</u>	<u>(3,505,376)</u>	<u>(990,682)</u>

Sensitivity to foreign exchange rate movements

A 10% (2010: 10%) weakening of the Jamaica dollar against the United States dollar at December 31, 2011 would have increased/(decreased) the Group's and Company's profit by \$(12,851,217) (2010: \$7,092,461) and \$(30,275,932) [2010: \$(8,454,559)], respectively. The analysis assumes that all other variables, in particular, interest rates, remain constant.

A 5% (2010: 5%) strengthening of the Jamaica dollar against the United States dollar at December 31, 2011 would have (decreased)/increased the Group's and Company's profit by \$6,425,609 [2010: \$(3,546,230)] and \$15,137,966 (2010: \$4,227,280), respectively, on the basis that all other variables remain constant.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

21. Financial instruments and financial risk management (cont'd)

(c) Market risk (cont'd):

(i) Foreign currency risk (cont'd)

The following rate of exchange of J\$ for one US\$ applied in respect of the year under review:

	<u>Average rate</u>		<u>Reporting date spot rate</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
United States Dollar (US\$)	<u>86.08</u>	<u>87.38</u>	<u>86.37</u>	<u>85.60</u>

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group manages this risk by monitoring interest rates daily. Even though there is no formally predetermined gap limits, to the extent judged appropriate, the maturity profile of the financial assets is matched with that of the financial liabilities. Where gaps occur, management expects that its monitoring will, on a timely basis, identify the need to take quick action to close a gap, if it becomes necessary. As at the year end, the Group was not subject to significant interest rate risk.

Sensitivity to interest rate movements:

The Group does not have variable rate instruments nor does it account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

22. Fair value

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

The fair value of cash and cash equivalents, reverse repurchase agreements, receivables, loans payable, accounts payable and owed to subsidiary are considered to approximate their carrying values due to their relatively short-term nature.

23. Capital management

The Company's capital consists of ordinary shares and retained earnings. The Board's policy is to maintain capital at a level which balances the need for the Group to be financially strong, and be able to sustain future development of the business, with the need for dividend payments. The Board of Directors monitors the return on capital, which it defines as profit after tax divided by total shareholders' equity. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position. The Company is not subject to any externally-imposed capital requirements.

KINGSTON PROPERTIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2011

24. Prior period adjustment

Deferred tax liability is the amount of income taxes payable in future periods in respect of differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. In the period ended December 31, 2009, deferred tax was inadvertently computed on exchange gains in respect of the Company's reverse repurchase agreements and non-operating bank accounts. This treatment was changed in the year ended December 31, 2010, retrospectively.

The adjustment changed deferred tax expense from \$4,262,225 to a deferred tax credit of \$1,260,105 and increased profit for the year ended December 31, 2009 by \$5,522,328 for the Company and the Group, and correspondingly changed deferred tax liability from \$4,262,225 to a deferred tax asset of \$1,260,103, thereby increasing equity by \$5,522,328. Earnings per stock unit consequently increased from 31 cents to 40 cents.



KINGSTON PROPERTIES LIMITED
SUPPLEMENTARY INFORMATION TO THE
FINANCIAL STATEMENTS

DECEMBER 31, 2011

KINGSTON PROPERTIES LIMITED

Operating Expenses
Year ended December 31, 2011



	<u>Group</u>		<u>Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Advertising and promotion	95,692	887,945	95,692	887,945
Audit and accounting fees	3,732,594	1,833,410	1,888,600	1,271,690
Bank charges	212,266	260,593	118,660	191,054
Courier	390,000	346,928	390,000	346,928
Computer and internet expenses	284,032	135,695	218,760	95,044
Depreciation	163,332	55,519	71,543	47,959
Development	85,041	12,511	85,041	12,511
Directors fees	1,133,010	699,913	591,683	422,955
Homeowners' Association fees	8,019,486	6,900,795	-	-
Janitorial	27,000	54,500	27,000	54,500
Meals and entertainment	10,718	16,820	4,146	4,597
Meeting expenses	42,660	45,937	42,660	45,936
Miscellaneous	-	13,155	-	-
Motor vehicle allowance	-	1,302,055	-	1,302,055
Motor vehicle expenses	-	32,602	-	-
Insurance	2,242,773	1,844,961	1,795,552	1,325,878
Office supplies	105,017	63,905	67,482	79,393
Postage and delivery	52,143	37,284	45,880	20,668
Printing and reproduction	376,241	311,291	367,935	306,117
Property taxes	4,302,256	3,779,495	111,251	83,437
Professional fees	1,825,380	2,243,689	1,668,390	1,830,762
Broker fees	1,348,453	844,303	-	-
Consultancy	200,000	1,770,000	200,000	1,770,000
Regulatory fees and charges	414,931	399,694	387,106	399,694
Repairs	1,053,233	1,296,053	299,421	315,700
Rent expense	798,000	650,000	798,000	650,000
Salaries	4,027,726	2,085,430	4,027,726	2,085,430
Employers' taxes	396,352	213,952	396,352	213,952
Subscription	24,282	152,213	22,566	141,996
Telephone & answering services	180,490	190,556	177,554	185,843
Travel	239,834	154,939	135,251	95,745
Utilities	119,193	105,453	119,193	99,888
Interest and penalties	5,029	-	-	-
	<u>\$31,907,164</u>	<u>28,741,596</u>	<u>14,153,444</u>	<u>14,287,677</u>

Notes



Form of Proxy

I/We.....

of.....

Being a member(s) of Kingston Properties Limited hereby appoint

or failing him or her.....

of.....

as my/our proxy to vote on my/our behalf at the Annual General Meeting of Kingston Properties Limited to be held at the Knutsford Court Hotel, 16 Chelsea Avenue, Kingston 5 on Tuesday, June 12, 2012 at 10:30am and at any adjournment thereof.



RESOLUTIONS	FOR	AGAINST
Resolution 1: "THAT the Audited Accounts for the Year Ended December 31, 2011 along with the Reports of Directors and Auditors are hereby received and adopted."		
Resolution 2: "THAT Ms. Nicole Foga, retiring by rotation, be and is hereby re-elected."		
Resolution 3: To authorize the Directors to fix the remuneration of the Auditors		
4: To transact any other ordinary business of the company		

Dated this.....day of.....2012

Signature.....

[J\$100 Stamp]

Signature.....

In the case of a Body corporate, this form should be executed under Seal in accordance with the company's Articles of Association.

To be valid, this proxy must be signed, duly stamped and deposited with the Corporate Secretary of the Company at 7 Stanton Terrace, Kingston 6, not less than 48 hours before the time appointed for holding the meeting. A proxy need not be a member of the Company.



Kingston Properties Limited

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Kingston 10, Jamaica W.I.

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