

EPPLEY LIMITED

SECOND QUARTER 2019



58 HALF WAY TREE ROAD
KINGSTON 10, JAMAICA, W.I.
P:(876) 929-8451/4 F:(876) 920-1458

August 14, 2019

Fellow Shareholders,

Eppley produced earnings per share of \$0.40 in the first half of 2019, a 12% return for shareholders.¹ At the end of the quarter, our net asset value was \$4.03 per share.

Proprietary Investment Portfolio

At the end of the quarter we owned a \$3.6 billion investment portfolio consisting of loans, leases, receivables and investments in our real estate and asset management joint ventures and subsidiaries. The average income yield of our portfolio was 14%. Our capital-at-risk was less than 1% of capital.

Asset Management Business

We also managed the equivalent of US\$46 million of committed capital for investors at the end of the first quarter through the Caribbean Mezzanine Fund and the Eppley Caribbean Property Fund.

Capitalization and Liquidity

Our leverage was 3.6x of our capital at the end of the quarter and our average cost of debt was 6%. We ended the quarter with \$505 million of liquidity.

¹ Based on a cost basis of \$3.21 per share which assumes an investor subscribed in the IPO and fully participated in our rights issue.

Financial Performance

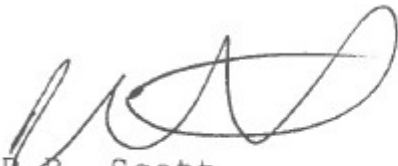
Our profit after tax was \$76.4 million in the first half of 2019, significantly above the \$44.6 million we earned in the same period last year. Our net interest income on our proprietary investments and the management fees from our funds both increased significantly in the first half of this year highlighting the continued improvement in our underlying business.

Dividend

Today, the Board of Directors approved a dividend of 3.72 cents per share payable on September 13 to ordinary shareholders on record as of August 30.

Subject to the discretion of the Board of Directors, we expect to maintain our dividend policy in future periods.

Sincerely,



E.B. Scott
Chairman



Nicholas A. Scott
Managing Director

Eppley Limited
Consolidated Statement of Comprehensive Income
(Jamaican dollars in thousands)

	Unaudited 6 months ended Jun. 2019	Unaudited 6 months ended Jun. 2018	Unaudited 3 months ended Jun. 2019	Unaudited 3 months ended Jun. 2018	Audited 12 months ended Dec. 2018
Net Investment Income					
Interest Income	179,671	149,803	87,840	76,092	319,186
Interest expense	<u>(95,135)</u>	<u>(82,993)</u>	<u>(49,833)</u>	<u>(37,888)</u>	<u>(170,154)</u>
Net interest income	84,536	66,810	38,007	38,204	149,032
Other operating (loss)/income	74,133	34,216	76,369	18,841	93,930
Administrative expenses	(84,421)	(59,273)	(46,951)	(34,963)	(137,939)
Net impairment of financial and contract assets	-	-	-	-	(922)
Share of net profit from joint venture accounted for using the equity method	<u>3,451</u>	<u>2,868</u>	<u>1,064</u>	<u>1,858</u>	<u>17,158</u>
Profit before Taxation	77,699	44,621	68,489	23,941	121,259
Taxation	<u>(1,270)</u>	<u>-</u>	<u>1,675</u>	<u>-</u>	<u>(776)</u>
Net profit for the period	76,429	44,621	70,164	23,941	120,483
Other comprehensive income:					
<i>Items that will not be reclassified</i>					
Exchange differences on translation of foreign operations	<u>696</u>	<u>-</u>	<u>206</u>	<u>-</u>	<u>(723)</u>
Other comprehensive income for the period, net of taxes	<u>696</u>	<u>-</u>	<u>206</u>	<u>-</u>	<u>(723)</u>
Total comprehensive income for the period, net of taxes	<u><u>77,125</u></u>	<u><u>44,621</u></u>	<u><u>70,370</u></u>	<u><u>23,941</u></u>	<u><u>119,760</u></u>
EARNINGS PER SHARE (3)	\$0.40	\$0.23	\$0.37	\$0.12	\$0.63

Eppley Limited
Consolidated Statement of Financial Position
(Jamaican dollars in thousands)

	Unaudited Jun. 2019	Unaudited Jun. 2018	Audited Dec. 2018
ASSETS			
Cash and deposits	505,037	341,917	263,315
Taxation recoverable	10,159	9,441	10,089
Other receivable	128,226	106,190	127,949
IPF receivables	515,159	484,180	323,282
Loans receivable	1,490,461	1,043,505	1,470,267
Lease receivable	534,422	506,767	580,508
Investment securities	-	325,172	-
Financial assets at fair value through profit or loss	372,891	-	363,763
Investment in joint venture	130,335	112,594	126,884
Deferred taxation	4,203	-	4,203
Right-of-use-asset	5,415	-	-
Property, plant and equipment	11,377	15,581	15,746
	<u>3,707,686</u>	<u>2,945,350</u>	<u>3,286,006</u>
LIABILITIES			
Due to related parties	1,653	1,653	1,653
Taxation payable	1,280	-	5,766
Deferred taxation	146	146	146
Borrowings	2,764,150	2,102,927	2,343,523
Lease liability	5,896	-	-
Other liabilities	158,019	129,604	160,034
	<u>2,931,144</u>	<u>2,234,330</u>	<u>2,511,122</u>
SHAREHOLDERS' EQUITY			
Share capital	492,343	492,343	492,343
Other reserves	(27)	-	(723)
Retained earnings	284,227	218,678	283,264
	<u>776,543</u>	<u>711,021</u>	<u>774,884</u>
	<u>3,707,686</u>	<u>2,945,350</u>	<u>3,286,006</u>

Approved by the Board of Directors on August 14, 2019 and signed on its behalf by:



Paul. B. Scott
Chairman



Nicholas A. Scott
Managing Director

Eppley Limited
Consolidated Statement of Changes in Equity
(Jamaican dollars in thousands)

	Share Capital	Other Reserves	Retained Earnings	Total
Balance as at 1 January 2018 as restated	492,343	-	212,821	705,164
Net Profit for the period	-	-	44,621	44,621
Dividends	-	-	(38,763)	(38,763)
Balance as at 30 June 2018	492,343	-	218,678	711,021
Balance as at 31 December 2018 as originally presented	492,343	(723)	283,264	774,884
Effect of adopting new standard (IFRS 16)	-	-	(523)	(523)
Restated balance as at 1 January 2019	492,343	(723)	282,741	774,361
Net Profit for the period	-	-	76,429	76,429
Other comprehensive income for the period	-	696	-	696
Total comprehensive income for the period	492,343	(27)	359,170	851,486
Transactions with owners -				
Dividends	-	-	(74,943)	(74,943)
Balance as at 30 June 2019	492,343	(27)	284,227	776,543

Eppley Limited
Consolidated Statement of Cash Flows
(Jamaican dollars in thousands)

	Unaudited 6 months ended Jun. 2019	Unaudited 6 months ended Jun. 2018	Audited 12 months ended Dec. 2018
Cash Flows from Operating Activities			
Net profit	76,429	44,621	120,483
Adjustments for items not affecting cash:			
Depreciation	25,693	3,408	8,848
Interest income	(179,671)	(149,803)	(319,616)
Interest expense	95,135	82,993	170,154
Unrealised gain on investment securities	-	-	(12,858)
Lease liability adjustment	(523)	-	-
Expected credit loss	-	-	922
Gain on disposal of property, plant and equipment	-	(3,918)	(3,918)
Exchange loss/ (gains) on foreign currency denominated balances	(17,067)	2,842	(64)
Share of profits from joint venture	(3,451)	(2,868)	(17,158)
Taxation	1,270	-	(776)
	<u>(2,185)</u>	<u>(22,725)</u>	<u>(53,983)</u>
Changes in non-cash working capital components:			
Other receivables	5,575	(31,413)	(55,756)
Insurance premium financing receivables	(181,885)	(159,516)	(269)
Loans receivable	5,263	120,585	(327,865)
Lease receivables	48,072	(122,161)	(198,194)
Interest received	179,148	150,715	319,616
Lease liability	5,896	-	-
Other liabilities	5,036	82,063	117,102
	<u>69,920</u>	<u>17,547</u>	<u>(199,349)</u>
Tax withheld at source	(70)	(474)	(1,122)
Interest paid	(95,391)	(83,171)	(148,018)
Net cash (used in) operating activities	<u>(30,541)</u>	<u>(66,098)</u>	<u>(348,489)</u>

Eppley Limited
Consolidated Statement of Cash Flows (Cont'd)
(Jamaican dollars in thousands)

	Unaudited 6 months ended Jun. 2019	Unaudited 6 months ended Jun. 2018	Audited 12 months ended Dec. 2018
Cash Flows from Investing Activities			
Term deposits with maturity periods in excess of 90	-	-	-
Acquisition of Investments	-	(238,996)	(270,033)
Proceed from sale of investments	-	105,325	77,894
Proceed from sale of property, plant and equipment	-	4,721	5,662
Additions to property, plant and equipment	(204)	(9,305)	(14,644)
Net cash provided by/(used) in investing activities	(204)	(138,254)	(201,121)
Cash Flows from Financing Activities			
Dividend paid	(74,943)	(38,763)	(53,083)
Right-of-use-asset	(5,887)	-	-
Lease liability repaid	(1,821)	-	-
Loans received	505,329	956,343	2,012,047
Loans repaid	(153,715)	(600,310)	(1,385,031)
Net cash provided by financing activities	268,963	317,270	573,933
Increase in net cash balance	238,218	112,917	24,323
Effects of foreign exchange rates changes on cash and cash equivalents	2,981	19,937	1,586
Cash and cash equivalents at beginning of year	234,972	209,063	209,063
CASH AND CASH EQUIVALENTS AT END OF PERIOD	476,171	341,917	234,972

Ten Largest Shareholders

(at June 30, 2019)

Stony Hill Capital Limited	48,097,800
ATL Group Pension Fund Trustees Nominee Limited	48,052,050
Caribprop Limited	27,500,000
Coldharbour Partners Inc.	15,244,350
Perseverance Limited	14,155,350
Curmudgeon Limited	8,283,000
Michael Subratie	8,040,450
Ravers Limited	5,348,700
Caona Investments Limited	3,000,000
Justin Nam	1,351,420

Shareholdings of Directors

(at June 30, 2019)

	Direct	Connected
Melanie Subratie	-	4,287,134
Nicholas Scott	-	23,527,350
Sharon Donaldson	798,450	-
Jennifer Scott	-	14,155,350
Keith Collister	-	-
Byron Thompson	483,750	-
Maxim Rochester	956,850	-
P.B. Scott	-	28,787,134
Alexander Melville	-	-

Shareholdings of Executives

(at June 30, 2019)

	Direct	Connected
Justin Nam	1,351,420	-
Jacquelin Watson	1,024,650	-

1. Identification and Activities

Eppley Limited is a limited liability company incorporated and domiciled in Jamaica. The company is listed on the Main Market of the Jamaica Stock Exchange. The registered office of the company is located at 58 Half Way Tree Road, Kingston 10.

The principal activity of the company is investing in credit products including insurance premium financing, lease and loan financing.

2. Statement of Compliance and Basis of Preparation

These unaudited interim financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS) and their interpretations issued by the International Accounting Standards Board (IASB), and the relevant provisions of the Companies Act.

The interim financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets carried at fair value.

The accounting policies and method of computation are consistent with the audited financial statements for year ended December 31, 2018, except for the adoption of IFRS 16 at January 1, 2019. These financial statements are expressed in Jamaican dollars which is the currency of the primary economic environment in which the company operates.

IFRS 16 ‘Leases’

IFRS 16 (effective for annual periods beginning on or after 1 January 2019). This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces the guidance in IAS 17, which made a distinction in classification between leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset (finance leases) and those that do not (operating leases). For a lessee, finance leases were recognised as an asset that was depreciated over the lease term and the amount due to the lessor recognised as borrowings. While operating leases were recognised as a periodic rental payment that was treated as a current expense in the income statement.

IFRS 16 introduces a single lease accounting model for lessees. It requires lessees to recognise a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets. For lessors, the accounting stays almost the same.

In addition, an interest expense on the lease liability and depreciation on the right-of-use asset will be presented in the income statement. In comparison with operating leases under IAS 17, this will change not only affect the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight line depreciation of the right-of use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The Group applied the simplified transition approach that allows the measurement of the right-of-use assets at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses), rather than full retrospective application. In addition, as a practical expedient, the Group is not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are 'grandfathered'). As further provided under this approach, comparatives for 2018 will not be restated.

The Group has adopted IFRS 16 with effect from 1 January 2019 and the impact of this adoption is \$0.523m.

3. Earnings Per Share

	Unaudited 6 months Jun. 2019	Unaudited 6 months Jun. 2018	Audited 12 months Dec. 2018
Net profit attributable to shareholders (\$'000)	76,429	44,621	120,483
Weighted average number of shares outstanding ('000)	<u>192,468</u>	<u>192,468</u>	<u>192,468</u>
Earnings per share (\$)	0.40	0.23	0.63

4. Cash and Cash Equivalents

	Unaudited 6 months Jun. 2019	Unaudited 6 months Jun. 2018	Audited 12 months Dec. 2018
Cash and bank balances	476,171	341,917	234,972
Term deposits	28,866	-	28,343
	<u>505,037</u>	<u>341,917</u>	<u>263,315</u>
Less: term deposits with maturity period in excess of ninety days	(28,126)	-	(28,126)
Less: interest receivable	(740)	-	(217)
	<u>476,171</u>	<u>341,917</u>	<u>234,972</u>