

GRACE KENNEDY AND COMPANY LIMITED

CHAIRMAN'S REPORT

Year in Review - 1995

The country's economic stagnation, insecurity and unrest are basically due to the low growth in domestic development, productivity and investment, and to the devastating effects of the high interest rate regime, devaluation and inflation.

Inflation must be tamed with improved fiscal policies, wage increase moderation and price stabilisation, if we are to restore investor confidence in the country.

Group profitability has been adversely affected by these conditions, together with keen competition and rising costs. Notwithstanding this, Group turnover increased by 23.8% over 1994 and Net Profit Attributable to Stockholders by 15%.

The Group's reorganisation continues into 1996. During the year, the merger of the private wharf companies resulted in Kingston Wharves Limited becoming listed on the Jamaica Stock Exchange. The profits for its full financial year of operations has justified the decision to merge. Kingston Wharves Limited continues its negotiation with the Port Authority of Jamaica for the creation of a more innovative wharfage rate formula and the renewal of the contract for the management of the transshipment terminal.

Cari-Freight Shipping Company Limited, the shipping line joint venture with our

Caricom partners, while continuing to serve the needs of importers and exporters in Caricom, has not been able to produce satisfactory results despite a reorganisation during the year, and therefore its potential is again being examined.

We continue to assess the viability of our overseas companies which are showing mixed results, reflective of the economies in which these business units operate.

Our Trading Division, which encompasses our trading and manufacturing operations, is the Division most affected by the country's changing economic conditions, and as a result, new policies have been implemented to improve its competitiveness and to enhance customer satisfaction.

Industrial Catering Services Limited, a subsidiary of Versair In-Flite Services Limited, has had an encouraging year and has since obtained additional catering contracts. Versair In-Flite Services Limited has had a reasonable year in spite of one major airline's decision to "back-cater" its in-flight meals.

Learning Centre

During the year, some 2,262 employees participated in 123 training sessions in continuation of our programme of skills training in the Group.

Also, the second in our series of Executive Development Programmes for senior managers in the Group was launched in September 1995.

The Group remains committed to Total Quality and we are very pleased that Grace Food Processors Limited has joined Dairy Industries (Jamaica) Limited in receiving ISO 9000 accreditation.

Directors

During the year, Miss Mable Tenn retired and we wish her good health and happiness in her retirement.

As I advised you at our last Annual General Meeting, I demitted office as Chief Executive Officer in January 1995, handing over these duties to Douglas Orane. I am pleased to advise that this very

smooth transition has been completed.

Foundations

The Grace & Staff Community Development Foundation continues its outreach programmes in the areas of health, education, and concern for vulnerable groups in certain inner city communities.

The Grace, Kennedy Foundation continues to give emphasis to education and community development, and administers the Grace, Kennedy & Company Limited Scholarship Programme and the S. Carlton Alexander Memorial Scholarship and Bursaries.

The Luis Fred Kennedy Environmental Foundation's mission is being re-evaluated to ensure that it benefits from synergies of the James S. Moss-Solomon, Snr. Chair in Environmental Management as well as our recently formed subsidiary Grace Kennedy Waste Management Limited.

I thank my colleague directors, management, staff, valued customers and suppliers for their continued co-operation and support.

A.R. Diaz
March 20, 1996

Chief Executive Officer's

REPORT

1995 Review

The Group completed a generally satisfactory year in both sales and profits. The diversification and expansion of the Group in its core business of trading,

transportation, financial services, information and international business have again provided shareholders with stable profitability in highly volatile economic conditions.

Volumes increased in real terms as the Group took advantage of new opportunities to expand within its core business. Grace, Kennedy continues its long established policy of investing in its own brands. The "Grace" brand, in particular, recorded significantly increased volumes. Our "Bubbles" range of carbonated soft drinks was successfully launched during the year, as was the "Manor House" food brand.

Our Transportation companies, through their services, helped to drive further growth in transshipment cargo through the Port of Kingston and in particular 30% growth in domestic cargo. Kingston Wharves Ltd., with its improved efficiencies resulting from its recent merger with Western Terminals Ltd., was able to capitalise on this trend. Grace, Kennedy Remittance Services Ltd. experienced considerable growth by providing superior service to Jamaican communities overseas through our association with Western Union. Grace, Kennedy Export Trading Ltd. registered increased volumes to North America with particularly encouraging growth in the north eastern United States.

During the year, several new lines of business were initiated. International Communications Ltd., now widely known as Intercom, started operations marketing Sprint telephone services, with outstanding success. Laser Columbus (Jamaica) Ltd., commenced operations representing the Laser and Columbus shipping lines and has performed exceedingly well. Systems Alliance (Ja.) Ltd., our software company, acquired the assets of Mercury Information Systems greatly expanding our product offerings, particularly in human resource management systems. Our information technology company was relaunched as InfoGrace Limited and now represents Hewlett-Packard. Grace, Kennedy Waste Management Ltd. was incorporated to address environmental issues. Its first major project "recycle Jamaica" to recycle plastic and paper was launched on a joint venture basis with Minott Services Ltd., a waste disposal company.

Our associated companies in the Terfloth Group completed a generally satisfactory year, trading food products worldwide through their offices in Montreal, Atlanta and London. Increases in volumes were recorded in several categories, particularly of cold storage products, through trading between

North America, Europe and the Far East.

In 1995, capital expenditures totalled \$251 million throughout the Group. Most of these funds were spent in the manufacturing and transportation companies to renew equipment and facilities so as to improve competitiveness.

The Group at the same time has been streamlining its activities wherever activities do not create synergies with our core businesses or have had continuing losses. As a result, during the course of the year, the assets of Armour Metal Fencing Ltd. were sold, as were the shares of Universal Freight Handlers Ltd.

In the fourth quarter, the Group was adversely affected by the twin effects of a 20% devaluation and rapidly increasing interest rates. With interest rates nearly double the level of the previous year, the Group's results will continue to be affected into 1996, particularly in manufacturing and trading.

In 1995, the Directors of Grace, Kennedy developed a vision of what they expected Grace, Kennedy to be in the year 2020. This was to help to project and shape a positive future for our customers, our shareholders, and our staff. We were particularly concerned that the standard of living of all of us in Jamaica has not increased materially in the last 10 years because of the effects of inflation and the very slow growth of the Jamaican economy.

The "2020 Vision" as we call it now sets out a solution. Our vision is to be:

A dynamic group composed of strong, viable business units.

A group of business units that gives value to our customers, not added cost.

A company whose consumers demand our products, our services and our brands.

Continuously increasing productivity to raise the standard of living of our staff.

A high stock market value for our company to benefit our shareholders, and to lower the cost of capital.

Ethical in our conduct of doing business.

Responsible members of our community - "Grace - We Care"

Truly international by acting on appropriate opportunities wherever they may arise in the world.

Arising out of this, the following goals have been set:

Grace, Kennedy is to be the supplier of choice in whichever industry we compete.

Our major growth will be in services where our strength lies.

Explore new business opportunities which fit our strengths and have synergy with our core businesses.

Expand by establishing our core business overseas to generate faster growth and further diversification for our shareholders.

Double the productivity of every employee by the year 2000.

Use technology to drive our productivity competitive advantage.

Increase our sales and profits in real terms by 10% per year.

Improve the value of our shares on the stock market to be at the same level as similar companies operating in countries such as the U.S.A., Canada and the U.K.

These goals are ambitious but are considered ultimately achievable by the Directors.

The first steps in 1996 revolve around substantially enhancing customer service and steadily increasing staff productivity. Substantial investments are being made in information technology and human resource development to meet these two objectives in 1996 and beyond.

I take this opportunity to thank my colleague Directors for their unstinting support through a turbulent year. I wish to particularly thank our staff for their support and their service as we continue to serve our customers by living our motto - "Grace - We Care"

Douglas R. Orane

Finance Director's REPORT

Group Results

The Grace, Kennedy companies recorded an increase in sales of 24% moving from \$8,924.6 million in 1994 to \$11,052.6 million in 1995.

Group Profit Before Taxation was \$562.5 million (1994 - \$501.5 million), an increase of 12%, while Net Profit Attributable to Stockholders amounted to \$373.0 million (1994 - \$324.2 million). Earnings per stock unit increased by 15% over 1994 moving from \$2.91 to \$3.35.

Set out below are some significant Financial Ratios for 1995 and 1994:

	1995	1994
Return on Sales	3.4%	3.6%
Return on Average Equity	15.4%	20.1%
Current Ratio	1.17:1	1.29:1

The company's Price Earnings Ratio at the end of the year was 3.47 compared with the market average of 6.47.

The high interest rate regime and the devaluation of the dollar adversely affected the profitability of our Trading Division. Nevertheless, its

contribution to the Group's profits was a substantial improvement over the previous year.

The Financial Services Division reduced its contribution to the Group's results, contributing 40.64% of the Group's Profits for the year (1994 - 59%); and the Transportation Division also reduced its performance and accounted for 17.7% of the profits (1994 - 23.3%).

The International Business and International Trading Division increased its percentage share of the Group's results, contributing 20.47%, compared with 11.7% in 1994; while the Information Division contributed 2.87% (1994 - 1.2%).

Kingston Wharves Ltd. is no longer a subsidiary, hence the decrease in Trading Profit as the results of Kingston Wharves Ltd. are now included in the share of results of associated companies.

Balance Sheet

The Group's book value at the end of the year was \$27.50 per stock unit, an increase of 49% over 1994. This compares with a market value of \$11.60 per stock unit at December 31, 1995.

The increase in book value is due to the recognition of the current value of assets in Kingston Wharves Ltd. and the programmed revaluation of our subsidiaries' fixed assets.

Cash and Short Term investments improved over 1994. This improvement is due to tight cash management and improved working capital management throughout the Group.

Capital Expenditure

The Group will continue to make capital investments in sectors where growth and returns will be maximised. We have budgeted to invest JA\$750 million in 1996.

We will be investing heavily in upgrading our information technology within the Group, especially with the implementation of the Distribution Warehouse Management System (DWMS) which will come on-line in June 1996.

Additional office accommodation for the Financial Services Division was completed during 1995. The Merchandise Division personnel will also be moving into new offices by the end of 1996 or early 1997.

The Group will be investing in refurbishing of facilities and addition of equipment for the Port through Kingston Wharves Ltd.

The re-engineering and modernisation process of our factories will continue.

Future Prospects

Our results must be assessed against the background of the seemingly intractable problems in the economy which have led to further devaluation of the Jamaican dollar and a high interest rate regime.

Our major strategies for 1996 will therefore be the reduction of net debt and foreign exchange exposure.

We expect 1996 to be a very challenging year, however, we have implemented strategies to ensure we will be successful with whatever faces us.

Peter N. Moss-Solomon

DIRECTORS' REPORT

1. The Directors are pleased to present their Report for the year ended 31st December, 1995.

The profit of the Group before tax and minority interest was \$562,465,000.

The net profit of the Group after tax and minority interest was \$373,044,000.

2. The Directors recommend that the interim dividends paid on 22nd December, 1995 and 26th April, 1996 be combined and declared as final and that no

further dividend be paid in respect of the year under review.

3. The following are the Directors:

Messrs E. C. Alexander, U.P. Alexander, E.D. Anderson, A.H. Barnes, M.J. Belcher, B.C. Bitter, P.A. Bitter, C.D. Bovell, E.M. Burton, O.F. Clarke, A.R. Diaz, J.J. Issa, F.X. Kennedy, R. L. Kinlocke, D.W. Mills, J.S. Moss-Solomon, P.N. Moss-Solomon, D.R. Orane, G.K. Sharp, R.G. Thompson and A.B. Wallace.

In accordance with Article 98 of the Company's Articles of Association, Messrs M.J. Belcher, C.D. Bovell, O.F. Clarke, A.R. Diaz, J.J. Issa, F.X. Kennedy and P.N. Moss-Solomon will retire by rotation, and being eligible, offer themselves for re-election.

4. Messrs Price Waterhouse, the present Auditors, will continue in office pursuant to Section 153 of the Companies Act, 1965.

5. The Directors wish to express their thanks to the management and staff for the work done during the year.

By Order of the Board
Dated this 29th day of April, 1996.

E.D. Anderson
Corporate Secretary