# Notes to the Financial Statements

31 DECEMBER 1999

1. Identification

Grace, Kennedy & Company Limited (the company) is a company limited by shares, incorporated under the laws of Jamaica.

The principal activities of the company, its subsidiaries and its associated companies (the group) are as follows:

Food Trading -
Merchandising of general goods and food products, both locally and internationally, processing and distribution of dairy and meat products.

Industrial, Retail and Trading -
Merchandising of agricultural and pharmaceutical supplies, stationery, hardware and lumber-, Institutional and airline catering-, operation of a chain of supermarkets-,

Financial Services -
General insurance and insurance brokerage: commercial and merchant banking; operation of travel and tour agencies, property rental-,

Maritime -
Operation of public wharves and port security services, shipping agencies and other maritime services-
,

Information -

Operation of money transfer services-, information technology and international telecommunications services.

These financial statements are presented in Jamaican dollars.

## 2. Significant Accounting Policies

### (a) Basis of preparation

These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

### (b) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### (c) Basis of Consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiaries, and its associated companies to the extent explained in Note 2(d). Subsidiaries are those undertakings in which the group, directly or indirectly, has an interest of more than one half the voting rights or otherwise has power to exercise control over the operations. Where subsidiaries are partly-owned, the group's percentage interest is indicated. Investments in subsidiaries are shown at cost plus the par value of bonus shares received in the balance sheet of the company (Note 2(e)).

Subsidiaries are consolidated from the date on which effective control over the operations is transferred to the group, and are no longer consolidated from the date effective control ceases. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests. The amount of any difference between the cost of acquisition of a subsidiary and the aggregate fair value of net assets acquired is written off against or credited to capital reserve as goodwill or reserve arising on consolidation.

The subsidiaries consolidated are as follows:

**Resident in Jamaica**

Agro-Grace Limited
Allied Insurance Brokers Limited
Armour Block & Construction Limited
Caribbean Freight Forwarders
& Customs Brokers Limited (84%)
Caribbean Greetings Corporation Limited
George & Branday Limited
Global Capital Services Limited (formerly Vortex Limited)
Grace Food Processors Limited
Grace Pension Management Limited
Grace Spices Limited (51%)
Grace Tours Limited
Grace Food Processors (Canning) Limited
Grace, Kennedy & Company (Shipping) Limited
Grace, Kennedy Properties Limited
Grace, Kennedy Export Trading Limited
Grace, Kennedy Remittance Services Limited
Grace, Kennedy Travel Limited
Grace, Kennedy Waste Management Limited
Hamburg-SUD/Columbus Jamaica Limited
Hi-Lo Food Stores (Jamaica) Limited
H. Macaulay Orrett Limited

H. Macaulay Orrett Insurance Limited
InfoGrace Limited
International Communications Limited
International Maritime Services Limited
International Shipping Limited
Jamaica International Insurance Company Limited and its subsidiary -
Personal & Commercial Insurance Company Limited
Medi-Grace Limited
National Processors Limited
Newport Motors Limited
Port Services Limited (97.2%)
Rapid & Sheffield Company Limited
United Agricultural Produce Traders Limited
Versair In-Flite Services Limited and its subsidiary (51 %)
Industrial Catering Services Limited (51%)
Vulcan Metal Fencing Limited

**Residents outside of Jamaica:**

Grace Foods Limited, Bermuda
Grace, Kennedy (Belize) Limited, Belize (66.6%)
Grace, Kennedy (Canada) Inc. and its subsidiaries -
  Grace, Kennedy (Barbados) Limited, Barbados
  Grace, Kennedy (Ontario) Inc., Canada (94%)
  Grace, Kennedy (Caribbean) Limited, Turks and Caicos Islands
Grace, Kennedy (Guyana) Inc., Guyana
Grace, Kennedy Remittance Services (Guyana) Limited, Guyana
Grace, Kennedy (Trinidad) Limited, Trinidad and Tobago and its subsidiary -
  Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited, Trinidad and Tobago
Grace, Kennedy (U.K.) Limited, United Kingdom
Grace, Kennedy Shipping (U.S.A.) Inc., U.S.A.
Grace, Kennedy (U.S.A.) Inc., U.S.A.
Grace, Kennedy Trade Finance Limited, Belize
Graken Holdings Limited, Turks and Caicos Islands
Knutsford Re, Turks and Caicos Islands

Effective 1 March 1999, the group acquired for $60 million the entire share capital of Caribbean Home (NCB)

Insurance Company Limited, a general insurance company. Its name was then changed to Personal & Commercial Insurance Company Limited. The operations of this company were then merged into those of the general insurance company, Jamaica International Insurance Company Limited, which is its holding company.

Effective 3 December 1999, the company disposed of 60% of its interest in InfoGrace Limited making it an associated company.

Effective 31 March 1999, the group acquired a further 19.5% interest in Port Services Limited for $5 million.

(d) Associated companies

The equity method of accounting is adopted for all associated companies. Associated companies are those undertakings in which the group has between 20% and 50% of the voting rights, and over which the group exercises significant influence, but does not control. Under the equity method, the group's share of profits of associated companies is included in the group profit and loss account and the tax attributable to the share of profits is included in the group's tax charge.

In the group balance sheet, investments in associated companies are shown at cost or written down value plus the group's share of reserves arising since the acquisition of the investments. Provisions are recorded for long-term impairment in value. In the company balance sheet, these investments are shown at cost plus the par value of bonus shares received (Note 2(e)).

The group's associated companies are as follows:

| | Group's percentage interest | |
|---|---|---|
| | 1999 | 1998 |
| Cari-Freight Shipping Company Limited, U.S.A. and its subsidiary | 34.0 | 34.0 |
| Ambassador Agencies Incorporated, U.S.A. | 34.0 | 34.0 |

| | | |
|---|---|---|
| Carib Star Shipping Limited | 30.0 | 30.0 |
| Challenge Enterprises Limited | 50.0 | 50.0 |
| Dairy Industries (Jamaica) Limited | 50.0 | 50.0 |
| Equipment Care Limited | 50.0 | 50.0 |
| Fish Importers Limited | 32.7 | 32.7 |
| Kingston Wharves Limited and its subsidiaries | 39.6 | 38.7 |
| P.S.C. Limited and its subsidiary | 33.3 | 33.3 |
| Paper Processors Limited | - | 27.8 |
| Pilkington Glass Jamaica Limited | 40.0 | 40.0 |
| Trafalgar Commercial Bank Limited | 49.0 | 49.0 |
| Recycle Jamaica Limited | 50.0 | 50.0 |

The group disposed of its interest in Paper Processors Limited effective 31 May 1999.

(i) Quoted and other Investments

Quoted and other investments are shown at cost and provision is only made where, in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(j) Inventories

Inventories are stated mainly at the lower of average cost and net realisable value. In the case of the company, cost represents invoiced cost plus direct inventory-related expenses. For the subsidiaries, costs are determined by methods and bases appropriate to their operations. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end.

Bad debts are written off during the year in which they are identified.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, and deposits held at call with banks, net of bank and short term loans.

(m) Trade marks

Trade marks are amortised on a straight-line basis over 4 years.

(n) Leases

(i) As lessee

Leases of fixed assets where the group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance charge is charged to the profit and loss account over the lease period. The fixed asset acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) As lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as deferred profit. Lease income is recognised over the term of the lease so as to reflect a constant periodic rate of return.

(o) Insurance business provisions

(i) Claims outstanding

Provision is made to cover the estimated cost of settling claims arising out of events which have occurred by the balance sheet date, including claims incurred but not reported, less amounts already paid in respect of these claims. Provision for reported claims is based on individual case estimates.

(ii) Insurance reserves

Provision is made for that proportion of premiums written in respect of risks to be borne subsequent to the year end, under contracts of insurance entered into, on or before the balance sheet date.

Provision is also made to cover the estimated amounts in excess of unearned premiums required to meet future claims and expenses on business in force.

(p) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of discounts. Premium income is recognised over the life of policies written. That portion of premiums written in the current year which relates to coverage in subsequent years is deferred. Interest income is recognised as it accrues unless collectability is in doubt.

(q) Employee benefit costs

The group accrues and funds pension costs annually. Such costs are actuarially determined and include amounts to fund future service benefits, expenses and past service benefits.

(r) Deferred taxation

Deferred taxation is not recognised in the financial statements of local group companies as the timing differences are not expected to reverse in the foreseeable future.

(s) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of the following new Accounting Standards:

(i) JSSAP 3.29 - Financial Instruments: Disclosure and Presentation
(ii) JSSAP 3.30 - Presentation of Financial Statements

3. Fixed Assets

| | Freehold Land and Buildings $'000 | Leasehold Buildings and Improvements $'000 | Plant, Equipment, Fixtures & Vehicles $'000 | Capital Work in Progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| Cost or Valuation - | | | | | |
| At 1 January 1999 | 976,615 | 132,311 | 1,001,758 | 43,087 | 2,153,771 |
| Additions | 31,237 | 29,916 | 361,566 | 53,817 | 476,536 |
| Acquired in subsidiary | - | 1,557 | 17,832 | - | 19,389 |
| Revaluation adjustment | (28,664) | - | - | - | (28,664) |
| Transfer from CWIP | 1,626 | 8,507 | 32,318 | (42,451) | - |
| Disposed of in subsidiary | - | (5,524) | (29,993) | - | (35,517) |
| Disposals | (41,755) | (2,980) | (52,799) | (1,391) | (98,925) |
| At 31 December 1999 | 939,059 | 163,787 | 1,330,682 | 53,062 | 2,486,590 |
| Accumulated Depreciation - | | | | | |
| At 1 January 1999 | 251,305 | 46,836 | 442,252 | - | 740,393 |
| Acquired in subsidiary | - | 1,527 | 12,469 | - | 13,996 |
| Charge for the year | 20,100 | 14,516 | 174,060 | - | 208,676 |
| Disposed of in subsidiary | - | (4,310) | (22,365) | - | (26,675) |
| On disposals | (9,935) | (2,713) | (36,975) | - | (49,623) |
| At 31 December 1999 | 261,470 | 55,856 | 569,441 | - | 886,767 |
| Net Book Value - | | | | | |
| 31 December 1999 | 677,589 | 107,931 | 761,241 | 53,062 | 1,599,823 |
| 31 December 1998 | 725,310 | 85,475 | 559,506 | 43,087 | 1,413,378 |

| Freehold Land and Buildings $'000 | Leasehold Buildings and improvements $'000 | Plant, Equipment, Fixtures & Vehicles $'000 | Capital Work in Progress $'000 | Total $'000 |
|---|---|---|---|---|

COMPANY

| | | | | | |
|---|---|---|---|---|---|
| Cost or Valuation - | | | | | |
| At 1 January 1999 | 7,253 | 45,367 | 228,365 | 17,440 | 298,425 |
| Additions | - | 5,967 | 37,590 | 16,322 | 59,879 |
| Transfer from CWIP | 1,626 | 1,736 | - | (3,362) | - |
| Disposals | - | - | (6,529) | - | (6,529) |
| At 31 December 1999 | 8,879 | 53,070 | 259,426 | 30,400 | 351,775 |
| Accumulated Depreciation | | | | | |
| At 1 January 1999 | 1,269 | 11,924 | 91,673 | - | 104,866 |
| Charge for the year | 222 | 4,815 | 46,257 | - | 51,294 |
| On disposals | - | - | (2,140) | - | (2,140) |
| At 31 December 1999 | 1,491 | 16,739 | 135,790 | - | 154,020 |
| Net Book Value - | | | | | |
| 31 December 1999 | 7,388 | 36,331 | 123,636 | 30,400 | 197,755 |
| 31 December 1998 | 5,984 | 33,443 | 136,692 | 17,440 | 193,559 |

Freehold land and buildings of the group were revalued during 1998 by D.C. Tavares & Finson Limited, independent valuers, and the revaluation surplus of $59,514,000 was credited to capital reserve. Additions subsequent to valuati6ns are stated at cost.

At 31 December 1999, plant, equipment, fixtures and vehicles includes an amount of $33,292,000 and $38,898,000 for the group and the company, respectively in respect of assets acquired under finance leases (Note 30(b)).

4. Investments

Investments comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | $'000 | $'000 | $'000 | $'000 |
| (a) Associated companies | 1,038,838 | 1,007,573 | 323,275 | 291,891 |
| Subsidiaries | - | - | 928,893 | 751,890 |
| Quoted | 36,204 | 24,359 | 31,340 | 20,151 |
| Other | 675,501 | 538,240 | 141,081 | 2,267 |

| | | | | |
|---|---|---|---|---|
| | 1,750,543 | 1,570,172 | 1,424,589 | 1,066,199 |
| (b) Associated companies | | | | |
| At cost or written down value | 327,306 | 295,922 | 323,275 | 291,891 |
| Group's share of reserves | 711,532 | 711,651 | - | - |
| | 1,038,838 | 1,007,573 | 323,275 | 291,891 |
| (c) Quoted investments at market value | 118,147 | 64,870 | 111,553 | 60,467 |

5. Long Term Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | $'000 | $'000 | $'000 | $'000 |
| Leases, less deferred profit | 1,204 | 7,835 | - | - |
| Subsidiaries | - | - | 152,443 | 272,575 |
| Associated companies | 38,720 | 16,290 | 38,720 | 16,290 |
| Loans | 145,914 | 99,260 | 133,549 | 86,918 |
| National Housing Trust (NHT) | 1,064 | 1,064 | 399 | 399 |
| | 186,902 | 124,449 | 325,111 | 376,182 |
| Less: Due within 12 months | 13,753 | 23,924 | 4,367 | 47,678 |
| | 173,149 | 100,525 | 320,744 | 328,504 |

NHT contributions are recoverable in the years 2001 to 2004.

6. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | $'000 | $'000 | $'000 | $'000 |
| Raw materials and spares | 87,698 | 105,300 | - | - |
| Work in process | 1,292 | 1,490 | - | - |
| Finished goods | 61,586 | 63,621 | - | - |
| Merchandise | 1,131,954 | 811,262 | 520,705 | 361,988 |
| Goods in transit | 235,644 | 345,720 | 131,659 | 251,592 |
| | 1,518,174 | 1,327,393 | 652,364 | 613,580 |

7. Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables, less provision for doubtful debts | 1,379,130 | 1,350,756 | 545,803 | 746,759 |
| Receivable from associates | 105,579 | 3,133 | 28,054 | 826 |
| Prepayments | 59,065 | 34,375 | 16,783 | 19,123 |
| Other receivables | 421,323 | 471,930 | 101,828 | 113,090 |
| | 1,965,097 | 1,860,194 | 692,468 | 879,798 |

8. Cash and Short Term Investments

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash at bank and in hand | 1,068,537 | 433,195 | 120,520 | 15,845 |
| Short term deposits | 1,699,053 | 1,869,067 | 1,351,430 | 1,632,834 |
| | 2,767,590 | 2,302,262 | 1,471,950 | 1,648,679 |

The weighted average effective interest rate on short term deposits was 24% (1998 - 25%).

9. Payables

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 11498 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade payables | 1,208,805 | 1,370,650 | 204,256 | 301,723 |
| Payable to associates | 412,435 | 407,656 | 356,164 | 389,392 |
| Accruals | 307,099 | 221,350 | 119,991 | 136,672 |
| Claims outstanding | 315,281 | 179,285 | - | - |
| Insurance reserves | 200,199 | 145,551 | | |
| Interest payable by banking subsidiary | 30,441 | 87,748 | - | - |
| Other payables | 947,256 | 847,182 | 737,545 | 660,546 |
| | 3,421,516 | 3,259,422 | 1,417,956 | 1,488,333 |

10. Bank and Short Term Loans

| | Group | | Company | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | $'000 | $'000 | $'000 | $'000 |
| Secured on assets | 82,419 | 81,491 | - | - |
| Unsecured | 873,388 | 698,201 | 473,625 | 515,356 |
| | 955,807 | 779,692 | 473,625 | 515,356 |

Unsecured loans of subsidiaries are supported by promissory notes, guarantees or a letter of comfort from the parent company. Interest rates on these loans range between 6.75% and 32% (1998 - 8% - 35%).

## 11. Trade Marks

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Cost | 2,000 | 2,000 |
| Less: Amortisation | 499 | - |
| | 1,501 | 2,000 |

## 12. Share Capital

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Authorised - | | |
| Ordinary shares of $1 each | 200,000 | 200,000 |
| Issued and fully paid - | | |
| Ordinary stock units of $1 each | 180,491 | 180,491 |

The issued share capital was increased during 1998 by the issue of $1 ordinary shares as follows:

(a) 40,000 shares to an executive of the company at a premium of $8.38 per share under the 1994 Executive Share Option Scheme.

(b) 30,081,078 shares to stockholders at 14 December 1998 being a bonus issue of one share for every five shares held and credited as fully paid by the capitalisation of

$30,081,078 out of earnings for the year.

The shares issued were then converted to stock units of identical denomination ranking pari passu with previously issued stock units.

13. Capital Reserve

| | Group | | Company | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Transfer from profit and loss account: | | | | |
| Capital distributions received | 4,486 | 4,313 | 4,486 | 4,313 |
| Gain on disposal of fixed assets | 394 | 7,938 | - | 7,329 |
| Loss on disposal of investments | - | (919) | - | - |
| Par value of bonus shares received | - | - | 191,180 | 149,679 |
| Profits capitalised by group | 202,245 | 160,075 | - | - |
| Other | (1,311) | - | - | - |
| | 205,814 | 171,407 | 195,666 | 161,321 |
| Capital reserve is comprised of: | | | | |
| Share premium | 15,356 | 15,356 | 15,356 | 15,356 |
| Realised gains on disposal of assets | 97,317 | 96,923 | 87,305 | 87,305 |
| Capital distributions received | 32,993 | 28,507 | 36,937 | 32,451 |
| Par value of bonus shares received | 5,652 | 5,652 | 854,221 | 663,041 |
| Bonus shares issued | (41,803) | (41,803) | (41,803) | (41,803) |
| Profits capitalised by group | 814,527 | 612,282 | - | - |
| Unrealised surplus on the revaluation of fixed assets | 1,165,636 | 1,194,300 | - | - |
| Goodwill arising on consolidation | (92,789) | (110,565) | - | - |
| Other | 4,909 | 6,220 | - | - |
| | 2,001,798 | 1,806,872 | 952,016 | 756,350 |

14. Deferred Liabilities
This represents deferred taxes of a foreign subsidiary.

15. Long Term Liabilities

| Bank Loans Rate | Repayable | Group 1999 $'000 | Group 1998 $'000 | Company 1999 $'000 | Company 1998 $'000 |
|---|---|---|---|---|---|
| 10.0% | 1999 | - | 475 | | |
| 24.5% | 1999 | - | 10,000 | | |
| 25.0% | 1999 | - | 396 | | |
| 29.5% | 1999 | - | 19,174 | | |
| 7.8% | 2000 | 151,880 | 49,477 | 151,880 | 49,477 |
| 9.5% | 2000 | 165,687 | 167,236 | 165,687 | 167,236 |
| 12.5% | 2000 | 230 | 2,683 | - | - |
| 13.0% | 2000 | 3,021 | 15,000 | - | - |
| 13.0% | 2000 | - | 5,222 | - | - |
| 25.0% | 2000 | 142 | 402 | - | - |
| 25.0% | 2000 | - | 4,500 | - | - |
| 7.6% | 2001 | 82,844 | - | 82,844 | - |
| 14.0% | 2001 | - | 1,514 | - | - |
| 25.0% | 2001 | 2,625 | 4,340 | - | - |
| 30.0% | 2001 | - | 8,032 | - | - |
| 12.0% | 2001 | 1,732 | 2,486 | - | - |
| 12.0% | 2001 | 5,642 | 9,762 | - | - |
| 25.0% | 2001 | - | 4,375 | - | - |
| 25.0% | 2001 | - | 500 | - | 500 |
| 25.0% | 2001 | 2,604 | - | - | - |
| 8.5% | 2002 | 2,142 | - | - | - |
| 13.0% | 2002 | - | 9,533 | - | - |
| 13.0% | 2002 | 19,882 | 26,195 | - | - |
| Carried forward | | 438,431 | 341,302 | 400,411 | 217,213 |

| | Group 1999 $'000 | Group 1998 $'000 | Company 1999 $'000 | Company 1998 $'000 |
|---|---|---|---|---|
| Brought forward | 438,431 | 341,302 | 400,411 | 217,213 |

| Rate | Repayable | | | | |
|---|---|---|---|---|---|
| 13.0% | 2002 | 6,933 | - | - | - |
| 23.0% | 2002 | 11,450 | - | | |
| 25.0% | 2002 | - | 13,930 | | |
| 13.0% | 2002 | 4,833 | - | - | - |
| 12.5% | 2003 | 5,428 | - | - | - |
| 12.5% | 2003 | 91,000 | - | - | - |
| 8.5% | 2004 | 6,757 | - | - | - |
| 12.5% | 2004 | 30,000 | - | - | - |
| 13.0% | 2004 | 38,000 | - | - | - |
| 8.5% | 2005 | 8,605 | - | - | - |
| 12.5% | 2005 | 28,871 | - | - | - |
| 14.0% | 2007 | 23,657 | 22,828 | - | - |
| | | 693,965 | 378,060 | 400,411 | 217,213 |

Mortgage loans

| Rate | Repayable | | | | |
|---|---|---|---|---|---|
| 25.0% | 2002 | 1,551 | 2,030 | - | - |
| 25.0% | 2002 | 383 | - | - | - |
| 18.0% | 2004 | 79 | 121 | - | - |
| 25.0% | 2004 | - | 767 | - | - |
| 25.0% | 2005 | 676 | 3,534 | - | - |
| 20.0% | 2008 | 1,481 | 1,520 | - | - |
| 23.0% | 2008 | 6,136 | 6,340 | - | - |
| | | 10,306 | 14,312 | - | - |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 1999 | 1998 | 1999 | 1998 |
| | | $'000 | $'000 | $'000 | $'000 |
| Other loans | | | | | |
| | Repayable | | | | |
| Other | 2000-2002 | 20,710 | - | - | - |
| Finance leases | 2000-2003 | 7,369 | 12,518 | - | - |
| Associated company | 2000 | 34,050 | 37,355 | 34,050 | 37,355 |
| Subsidiaries | | - | - | 183,792 | 158,892 |
| | | 62,129 | 49,873 | 217,842 | 196,247 |
| | | 766,400 | 442,245 | 618,253 | 413,460 |

| | | | | |
|---|---|---|---|---|
| | 136,705 | 162,101 | 61,664 | 95,728 |
| Less: Payable within 12 months | 629,695 | 280,144 | 556,589 | 317,732 |

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Secured on assets | 255,732 | 75,582 |
| Unsecured | 510,668 | 366,663 |
| | 766,400 | 442,245 |

Unsecured loans of subsidiaries are supported by promissory notes, guarantees or a letter of comfort from the parent company.

16. Revenues

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Sales of products and services | 13,254,523 | 12,924,824 |
| Interest and other financial services income | 809,130 | 619,034 |
| | 14,063,653 | 13,543,858 |

Revenues represent the price of goods and services sold to external customers of the group, net of General Consumption Tax, and after deducting discounts and allowances.

In the case of a subsidiary whose activity is the selling of insurance, revenues represent gross premiums billed. For those subsidiaries whose activity is the provision of financial, travel and shipping services, revenues represent commissions earned and charges for services rendered.

17. Expenses

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Cost of products and services sold | 9,693,373 | 9,721,001 |
| Interest expense and other financial services expenses | 475,964 | 400,433 |
| Selling, general and administrative expenses | 3,645,812 | 3,077,323 |
| | 13,815,149 | 13,198,757 |

18. Operating Income

The following items have been charged in arriving at operating income:

| | 1999 $'000 | 1998 $'000 |
|---|---|---|
| Depreciation | 208,676 | 172,477 |
| Directors' emoluments - | | |
| Fees | 1,035 | 1,050 |
| Other (included in staff costs) | 101,817 | 106,164 |
| Pensions (included in staff costs) | 7,702 | 7,627 |
| Auditors' remuneration | 20,609 | 21,977 |
| Staff costs (note 19) | 1,816,387 | 1,728,986 |
| Repairs and maintenance expenditure | 126,578 | 205,980 |
| Lease rental charges | 41,293 | 81,897 |

19.Staff Costs

| | 1999 $'000 | 1998 $'000 |
|---|---|---|
| Wages and salaries | 1,339,051 | 1,275,425 |
| Pension costs | 104,105 | 94,242 |
| Other | 373,231 | 359,319 |
| | 1,816,387 | 1,728,986 |

The group employed 2,220 persons at the end of the year (1998 - 2,233).

20. Other Income

| | 1999 $'000 | 1998 $'000 |
|---|---|---|
| Investment income - non-financial services | 597,311 | 564,409 |
| Gain on sale of fixed assets | 3,478 | 7,028 |
| Interest expense - non-financial services | (419,868) | (409,013) |
| Other, net | 309,306 | 258,431 |
| | 490,227 | 420,855 |

21. Exceptional Items

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Brand (re) launch expenses | (53,642) | (116,932) |
| Redundancy costs | (35,938) | ( 28,952) |
| Surplus realised on the termination of an associated company's superannuation scheme | 14,625 | - |
| Gain on disposal of subsidiary | 17,122 | - |
| Gain on disposal of associated company | 19,210 | - |
| Re-engineering expenses | - | ( 90,758) |
| | (38,623) | (236,642) |

22. Taxation

(a) Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

| | 1999 | 1998 |
|---|---|---|
| | $'000 | $'000 |
| Income tax at 33 1/3% | 169,256 | 131,265 |
| Overseas taxation | 13,115 | 24,779 |
| prior years | 2,136 | ( 22,434) |
| | 184,507 | 133,610 |
| Associated companies | 35,389 | 38,532 |
| | 219,896 | 172,142 |
| Tax credit on bonus shares issued | ( 37,483) | (31,772) |
| | 182,413 | 140,370 |

(b) Withholding tax represents tax suffered by the group in respect of dividends paid within the group.

(c) Subject to agreement with the Commissioner of Income Tax, losses of approximately $187,403,000 (1998 - $234,604,000) are available for set off against future profits of local entities.

23. Extraordinary Items.

| 1999 | 1998 |
|---|---|

| | | |
|---|---|---|
| Gain on disposal of subsidiary | - | 1,331 |
| Loss on disposal of subsidiary of associated company | - | (1,843) |
| Loss on disposal of business assets of associated company | - | (2,757) |
| Write-off of fixed assets and balances by associated company | - | (1,359) |
| | - | (4,628) |

24. Net Profit Attributable to the Stockhoiders of Grace, Kennedy & Company Limited

Dealt with as follows in the financial statements of:

| | 1999<br>$'000 | 1998<br>$'000 |
|---|---|---|
| The company | 229,461 | 62,526 |
| The subsidiaries | 245,923 | 350,310 |
| The associated companies | 111,627 | 92,954 |
| | 587,011 | 505,790 |

25. Dividends

| | 1999<br>$'000 | 1998<br>$'000 |
|---|---|---|
| Paid out of franked income, net - | | |
| Interim - 45 cents per share (1998 - 12.5 cents) | 81,221 | 22,562 |
| Final - Nil cents per share (1998 - 22.5 cents) | - | 33,833 |
| | 81,221 | 56,395 |

At 31 December 1999, the company has franked income of $228,050,000 (1998 - $196,705,000) available for distribution to stockholders without further deduction of tax.

26. Earnings Per Stock Unit

The calculation of earnings per stock unit is based on the group net profit and 180,491,185 stock units in issue throughout 1999 and 180,461,185 stock units being the average number of stock units in issue in 1998 (after the bonus issue in December 1998) weighted on a time basis.

27. Operating Activities

Reconciliation of net profit to cash generated from operating activities:

| | 1999 $'000 | 1998 $'000 |
|---|---|---|
| Net profit | 587,011 | 505,790 |
| Items not affecting cash: | | |
| Depreciation | 208,676 | 172,477 |
| Trade marks amortised | 499 | - |
| Deferred income/ (liabilities) | (9,233) | 3,690 |
| Loss/(gain) on disposal of fixed assets | 6,678 | (3,134) |
| Gain on disposal of investments | (3,643) | (2,000) |
| Investment written off | 167 | 1,798 |
| Minority interest in results of the year | 63,075 | 44,923 |
| Exchange gains on foreign cash balances | ( 6,609) | (1,329) |
| Unremitted equity income in associated companies | (58,119) | (55,190) |
| | 788,502 | 667,025 |
| Changes in non-cash working capital components: | | |
| Inventories | (190,781) | ( 64,257) |
| Receivables | (104,903) | (294,828) |
| Taxation recoverable | (134,830) | ( 23,844) |
| Payables | 162,094 | 65,938 |
| Taxation | 81,162 | ( 6,162) |
| Translation gains | ( 10,578) | ( 25,227) |
| | (197,836) | (348,380) |
| Cash provided by operating activities | 590,666 | 318,645 |

28. Financial Instruments

(a) Currency risk

The consolidated balance at 31 December 1999 includes aggregate net foreign liabilities of approximately US$15,424,000 (1998 - US$13,991,000) in respect of transactions arising in the ordinary course of business.

(b) Credit Risk

Cash and short term investments are held with substantial financial institutions. A significant level of investments is held in various forms of government instruments. There are no significant concentrations of risk attaching to trade receivables as these amounts are not concentrated in any given sector or institution and are shown net of provisions for doubtful debts.

The amounts included in the financial statements for cash, short term investments, receivables, payables, bank, short term loans and deposits reflect their approximate fair value because of the short term maturity of these instruments.

The estimated fair values of the group's other financial instruments are as follows:

| | 1999 Carrying Amount $'000 | Fair Value $'000 | 1998 Carrying Amount $'000 | Fair Value $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Investments | 1,750,543 | 1,750,543 | 1,570,172 | 1,570,172 |
| Long term receivables | 173,149 | 173,149 | 100,525 | 100,525 |
| **Financial Liabilities** | | | | |
| Long term liabilities (including current portion) | 766,400 | 766,400 | 442,245 | 442,245 |

The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented above are not necessarily indicative of the amounts that the group would realise in a current market exchange.

Fair values were estimated as follows:

**Investements**

Fair value of debt instruments is based upon projected cash flows discounted at an estimated current market rate of interest. Fair value of equity instruments is determined based on quoted market prices for these instruments. When quoted market prices are not available, an approximation of fair value is based on the net underlying assets of the investee.

Long Term receivables

The carrying value of leases approximates fair value because these leases are contracted at market rates. Fair value of loans receivable is based upon projected cash flows discounted at an estimated current market rate of interest.

Long Term liabilities

The fair values of long term liabilities either approximate their carrying amounts or are estimated using discounted cash flow analyses based on the group's current incremental borrowing rates for similar types of borrowing arrangements.

**29. Pension Scheme**

In addition to an approved superannuation scheme, the company and its local subsidiaries participate in a joint contributory pension scheme which is open to all permanent employees and administered by trustees.

The scheme, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5% and employer contributions at 10% of salary as recommended by independent actuaries. Pension at normal retirement age is based on 2% of final 3-year average salary per year of pensionable service, plus any declared bonus pensions.

**30. Commitments**

The results of the actuarial valuation as of 31 December 1996 disclosed that the scheme was adequately funded at that date.

(a) Future lease payments under operating leases at 31 December 1999 were as follows:

$'000

| | | |
|---|---|---|
| In financial year | 2000 | 38,332 |
| | 2001 | 29,126 |
| | 2002 | 19,417 |
| | 2003 and beyond | 2,607 |

(b) The group had outstanding obligations under finance leases as follows:

| | | 1999 $'000 | 1998 $'000 |
|---|---|---|---|
| In financial year | 1999 | - | 7,462 |
| | 2000 | 4,168 | 4,789 |
| | 2001 | 2,565 | 2,747 |
| | 2002 | 2,202 | 697 |
| | 2003 | 546 | - |
| | | 9,481 | 15,695 |
| Less: Future finance charges | | 2,112 | 3,177 |
| Present value of minimum lease payments | | 7,369 | 12,518 |
| Less: Current portion | | 3,332 | 7,134 |
| | | 4,037 | 5,384 |

The weighted average effective interest rate on leases ranged between 14% and 31% (1998 - 14% and 27%).

(c) At 31 December 1999, the group had capital expenditure authorised and contracted for amounting to $3,200,000.

31. Assets under Management

Assets under management, which are not beneficially owned by the group, but which the finance subsidiary, George & Branday Limited, manages on behalf of investors, have been excluded from the balance sheet. At balance sheet date, the book value of these assets amounted to $3,550,977,000 (1998 -$514,345,000).

## 32. Subsequent Events

Subsequent to the year end, the company disposed of its wholly owned subsidiaries, Grace, Kennedy Travel Limited and Grace Tours Limited in a management buyout. Total consideration comprises $5 million plus a rebate of 1% of revenue, not exceeding $400,000 per annum, over the first three years.