

Chairman's Report

The Group achieved sales of \$14.06 billion for 1999 (1998: \$13.54 billion), an increase of 3.84% or \$519.8 million over the previous year. The Net Profit attributable to Stockholders increased by \$81.2 million over the corresponding period of 1998, moving from \$505.8 million to \$587.0 million, an increase of 16.1%. This represents Earnings per Stock Unit of \$3.25 (1998:\$2.80).

The value of having a diversified portfolio of companies has been demonstrated by the overall increase in profits, despite operating in a Jamaican economy that has contracted in size. An important part of our current strategy is to divest businesses and products which do not have significant growth potential, have few synergies with the rest of the group, or are not generating sufficient cash flows. These divestments slowed the growth of group revenues, but improved our overall operating profits.

The market capitalisation of the group ended the year at \$4.24 billion up from \$3.68 billion at the end of 1998, an increase of 15.2%. Dividends paid in 1999 to Grace, Kennedy stockholders totalled \$81.2 million compared to \$56.4 million in 1998, an increase of 44.0%. Grace, Kennedy's dividend policy is to pay at least 10% of after tax profits as dividends. In 1999, this figure was 13.8% compared to 11.1% in the prior year.

The Food Trading Division showed mixed results for the year. All factories continued to be profitable but at reduced levels compared to their record breaking 1998. The merchandise Division had an unsatisfactory performance, producing a loss for the year. The Division was adversely affected by sluggish demand in a contracting economy, and increasingly fierce competition from both local and overseas based competitors. In addition, the gas price demonstrations of April 1999 disrupted the normal patterns of distribution and consumer off-take.

The re-engineering of this Division's operations continued throughout the year. As part of this exercise, the operations of Newport Fish & Meats were sold in January 1999. The re-engineering has included a reduction in distribution operating costs, a greater focus on our major branded products, and tighter working capital management, particularly, the reduction of slower moving inventories and the elimination of marginal product lines. In a drive to become more marketing led, several bulk

commodities are being steadily converted to more hygienic, consumer preferred, branded packaging.

The re-engineering is taking longer than anticipated. However, the initial indications are that the Merchandise Division will have at minimum a breakeven position for the first quarter of 2000, and make a positive contribution for the year.

The unprofitable trading operations of Grace, Kennedy (Guyana) Inc. were discontinued at the end of September and a third party distributor appointed. The new arrangements are working well.

We continue to be encouraged by the growth of the Grace brand world wide following our investments in its relaunch. Grace owned brand sales internationally for 1999 totalled US\$18.9 million, an increase of 26%, over the previous year's US\$15.0 million.

Grace, Kennedy Export Trading Limited received three awards from the Jamaica Exporters' Association (JEA) in May 1999, with the most prestigious being the JEA's Governor General's Cup for Champion Exporter,

Grace, Kennedy (Ontario) Inc. was approached by National Grocers to have Grace products listed in 200 of their stores across Canada, including Loblaw's supermarkets. This is a major breakthrough, as they perceive us as a growing purveyor of Caribbean foods for the mainstream market.

Grace, Kennedy & Company Limited sold its 27.8% holding in Paper Processors Limited to Canadian Overseas Packaging Industries (COPI), the major shareholder in the company. We concluded that it was in our best interest to divest our holding since it was no longer considered an investment of strategic importance.

The Industrial, Retail & Trading Division achieved satisfactory results, which exceeded that of the prior year. Versair In-Flite Services Limited, our joint venture with LSG/Sky Chefs and Goddard Enterprises Limited, continues to be an excellent investment for us, along with its subsidiary, Industrial Catering Services Limited, as they consistently are performing above expectations. The business technique, "Cycle Time Reduction", which was introduced at Versair In-Flite Services Limited in 1999, has dramatically increased productivity and improved the consistency and freshness of food being served aboard the airlines. The benefits have translated into a substantial improvement in profitability without increasing prices to the airline customers.

Rapid & Sheffield Company Limited had an excellent year selling building materials. This business has expanded to a total of nine branch outlets across Jamaica. The majority of this company's sales are now transacted at the retail level making it Jamaica's largest building materials retailer. During the latter half of the year, the operations of Medi-Grace Limited and Caribbean Greetings Corporation Limited were merged to reduce operational expenses.

The Financial Services Division performed well, producing profits above the corresponding period of 1998. The insurance

interests of the Division continue to record satisfactory profits. On 1 March 1999, Jamaica International Insurance Company Limited (JIIC) acquired a general insurance company, Caribbean Home NCB Insurance Company Limited (CHNCB) from its Trinidadian and Jamaican shareholders. Its operations have been successfully merged into our wholly owned subsidiary, Jamaica International Insurance Company Limited. The combined entity is now contributing increased profits, and has positioned Jamaica International Insurance Company Limited for further growth coupled with a strong balance sheet.

Our merchant bank, George & Branday Limited, continues to operate profitably, showing improvements over the previous year.

As previously reported, our associated company, Trafalgar Commercial Bank Limited, is troubled with a portfolio of non-performing loans which is being monitored closely.

Negotiations commenced during the year to sell Grace, Kennedy Travel Limited and Grace Tours Limited. These negotiations were successfully concluded and became effective on 1 March 2000 with the sale of these two companies to Ms. Charmaine Harrison, the former General Manager. The companies now trade as Great Vacations Limited.

Trade finance services in the Caribbean and North America are now being offered by Grace, Kennedy Trade Finance Limited. The company has a team of trade finance specialists who offer corporate entities, governments and statutory bodies in the Caribbean basin, a comprehensive and cost effective range of customised products. We believe that our long experience in trading and finance will help to make the company the financial intermediary of choice in the development of Caribbean trade.

Grace, Kennedy Pension Management Limited, which was launched in December 1998, is now very active in the marketplace in securing new business.

The overall financial results of the Maritime Division were satisfactory. Compared to 1998, however, domestic volumes for the Division were down for the year, primarily as a result of lower numbers of motor vehicle imports and reduced export volumes. All our agencies have therefore sought to be more cost effective and productive.

Based on an assessment by Lloyd's Register Quality Assurance, Port Services Limited was awarded ISO9002 certification. This company, which provides stevedoring services and the rental of related equipment, is the first company on the Port of Kingston to achieve this certification, and the third Grace, Kennedy company to achieve this distinction. The company invested US\$3.2 million in a new Gottwald crane earlier in the year and it is now fully operational. It is the first crane of its type in the Port of Kingston. The new Gottwald crane has improved the productivity at Kingston Wharves Limited and makes the operation ultimately more attractive to shipping lines.

Kingston Terminal Operators Limited, the managers of the transshipment port, steadily improved productivity during the course of the year and container transshipment volumes increased to 334,583 moves from 307,382 moves in 1998. A substantial input was made, at our request, by P&O Ports Limited of Australia to advise and train on modern transshipment terminal practices. P&O

Ports Limited is one of the world's largest terminal operators with involvement in 51 ports worldwide.

The Information Services Division had generally satisfactory results for 1999 in comparison to the previous year. Our money remittance business in Caricom, Grace, Kennedy Remittance Services Limited, super agent for Western Union, continues to show substantial growth both in terms of turnover and profitability. This company now has a wired electronic network totalling 162 outlets, comprising 85 in Jamaica, 46 in Trinidad and Tobago and 31 in Guyana. Our cambio operator, FX Trader, commonly known as "The foreign exchange place from Grace", now has 22 branch outlets making it the largest cambio network in Jamaica. Computers & Controls Limited, a Trinidad and Tobago based company, acquired 60% of InfoGrace Limited in November. We have retained a 40% shareholding in the company.

Jamweb, a division of International Communications Limited has been offering internet access to the public for over one year. I am pleased to report that this venture is now making a net contribution, and the customer base continues to grow with minimal turnover of existing customers. Grace, Kennedy now has two corporate websites www.gracefoods.com and www.gracestockholders.com

We intend to use information technology as a major driver for our existing activities and to create new ones. This year, we will be using e-commerce to make our food products available to consumers, particularly in First World countries.

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In 1995 we formulated our 2020 Vision for Grace, Kennedy. One objective set was to double the productivity of every employee in five years. I am pleased to report that after four years, using the broad productivity measure of profits after tax per employee in US dollars, productivity is up by 80%, from US\$4,140 to US\$7,480, and on track to meet our five-year objective.

At our Learning Centre, the Executive Development Programme is ongoing for the development of senior level employees, and has proven invaluable in assisting individual growth and corporate succession.

A major new initiative is the development of Learning Centre programmes to deal with employee wellness, and coping effectively with stress. In addition, a structured mentorship intervention has been implemented in order to pass along valuable knowledge to employees as they progress through various levels of management.

During March 1999, Dr. Barry Chevannes, Dean of the Faculty of Social Sciences at the University of the West Indies, delivered the 1999 Grace, Kennedy Foundation Lecture to a "standing room only" audience on the subject "What we sow and what we reap - Problems in the cultivation of male identity in Jamaica". The current turmoil in our Jamaican society confirms to us the increasing relevance of the Foundation's lecture series in particular, and the work of all our Foundations in general.

The Grace, Kennedy Foundation also contributed to several projects largely in the area of educational development, scholarships and bursaries. The Grace & Staff Community Development Foundation expanded its outreach through our homework centre, counseling programmes for parents and students, assisting other companies to commence outreach activities and, our joint programme with the Salvation Army for the elderly.

Grace Kitchens continued to play a vital role in nutrition education in schools and communities across the island; our school breakfast feeding programme, Creative Cooking television show, and specialized culinary classes continued to be well received. We are proud that our services and recipes can be accessed across the world through our website.

Our Arts & Culture Department ably led by Dr. Olive Lewin continued to influence the development of our cultural heritage at home and abroad, and to schools, communities and staff islandwide. Our efforts in staging the "Prelude to the Millennium Concert" in November were thoroughly appreciated, and resulted in our being asked to coordinate the concert to mark the visit of H.R.H. The Prince of Wales.

At Grace, Kennedy, we see ourselves as corporate citizens of the Caribbean community. On 5 October 1999, we became the first Jamaican based company to be listed on the Barbados Stock Exchange, and consequently the first to be listed on all three CARICOM stock exchanges.

A significant innovation that we have adopted is corporate governance. Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. In industrialized countries, there has been an increasing movement towards raising the standards of corporate governance in order to increase the confidence of the investing public in corporations.

It is our view that raising the standards of corporate governance will in the long run increase transparency, positively impact on profitability, and minimise the risk of unforeseen losses. Grace, Kennedy has taken steps to institute international best practices in this area. A Corporate Governance Committee has been formed which comprises the six external directors on the board and is chaired by Mr. Christopher Bovell. Its terms of reference include recommending on issues such as openness, integrity and accountability, risk management, succession planning and senior executive compensation. A compensation sub-committee is chaired by Professor Gordon Shirley. An Audit Committee has been formed, chaired by retired Chairman, Mr. Rafael Diaz. Its terms of reference include recommending on issues relating to the accounting for and security of the Group's assets.