Grace, Kennedy & Company Limited

Notes to the Financial Statements

31 December 2001

---

1 Identification

Grace, Kennedy & Company Limited (the company) is a company limited by shares, incorporated and domiciled in 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,

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, lease and trade financing;

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,

Corporate -
Pension management; property rental; trade financing.

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
Caribbean Greetings Corporation Limited
First Global Bank Limited (formerly Trafalgar Commercial Bank Limited)
First Global Stock Brokers Limited (formerly United Agricultural Produce Traders Limited)
George & Branday Limited
Global Capital Services Limited
Grace Food Processors Limited
Grace Pension Management Limited
Grace Food Processors (Canning) Limited
Grace, Kennedy & Company (Shipping) Limited
Grace, Kennedy Currency Trading Services (formerly Newport Motors Limited)
Grace, Kennedy Export Trading Limited
Grace, Kennedy Payment Services Limited (formerly Grace, Kennedy Waste Management Limited)
Grace, Kennedy Properties Limited
Grace, Kennedy Remittance Services Limited
Grace, Kennedy Telemarketing Limited (formerly Vulcan Metal Fencing Limited)
Hamburg-Sud/Columbus Jamaica Limited
Hi-Lo Food Stores (Jamaica) Limited
H. Macaulay Orrett Limited
H. Macaulay Orrett Insurance Limited
International Communications Limited
International Shipping Limited
Jamaica International Insurance Company Limited and its subsidiary -
Grace Financial Services Division Limited
Medi-Grace Limited
National Processors Limited
Port Services Limited (97.2%)

The subsidiaries consolidated are as follows:

Rapid & Sheffield Company Limited

Versair In-Flite Services Limited and its subsidiary (51%)
    Industrial Catering Services Limited (51%)

Resident outside of Jamaica:
Grace Foods Limited, Bermuda
Grace, Kennedy (Belize) Limited, Belize (66.6%)
Grace, Kennedy (Canada) Inc. and its subsidiaries
    Grace, Kennedy (Ontario) Inc., Canada
    Grace, Kennedy (Caribbean) Limited, Turks and Caicos Islands
Grace, Kennedy Capital Services Limited, Cayman Islands
Grace, Kennedy (Guyana) Inc., Guyana
Grace, Kennedy Remittance Services (Guyana) Limited, Guyana
Grace, Kennedy Remittance Services Turks and Caicos Limited, Turks and Caicos Islands
Grace, Kennedy (St. Lucia) Limited, St. Lucia
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 (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 March 2001, the company acquired the remaining 51 % of the shares in First Global Bank Limited, formerly Trafalgar Commercial Bank Limited (Note 29).

(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	
	2001	**2000**
Cari-Freight Shipping Company Limited, U.S.A.	34.0	34.0
Carib Star Shipping Limited	30.0	30.0
Challenge Enterprises Limited	50.0	50.0
Computers & Control (Jamaica) Limited	-	40.0
Dairy Industries (Jamaica) Limited	50.0	50.0
Fish Importers Limited	32.7	32.7
Kingston Wharves Limited and its subsidiaries	39.6	39.6
Pilkington Glass Jamaica Limited	40.0	40.0
Recycle Jamaica Limited	50.0	50.0

Effective 1 May 2001, the company disposed of its investment in Computers & Controls (Jamaica) Limited for $1.

(e) Bonus shares received

The par value of bonus shares received is credited to capital reserve. The carrying value of the investments is increased accordingly.

(f) Foreign currencies

(i) Transactions during the year are converted at appropriate rates of exchange ruling on transaction dates. Assets and liabilities are translated at appropriate rates of exchange ruling at balance sheet date. Gains and losses arising from fluctuations in exchange rates are included in the group profit and loss account.

(ii) Assets and liabilities of foreign subsidiaries are translated into Jamaican dollars at year end rates and items affecting the profit and loss account are translated at average rates. The resultant gains, as well as those arising from translating the net equity interest in foreign associated companies, are reflected in stockholders' equity as translation gains.

(g) Financial instruments

Financial instruments carried on the balance sheet include cash and short term investments,

long term receivables, investments, trade and interest receivables, trade and interest payables, bank and short term loans, securities sold under agreement to repurchase, deposits and long term liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The fair values of the group's financial instruments are discussed in Note 26.

(h) Fixed assets

All fixed assets are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation and depreciated replacement cost, respectively, based on biennial valuations by external independent valuers, less subsequent depreciation of buildings.

Increases in carrying amounts arising on revaluation are credited to the capital reserve in stockholders' equity. Decreases that offset previous increases of the same asset are charged against the capital reserve; all other decreases are charged to the profit and loss account.

Depreciation is calculated mainly on the straight line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. The expected useful lives are as follows:

Freehold buildings and leasehold buildings and improvements	10-60 years
Plant, machinery, equipment, furniture and fixtures	3-10 years
Vehicles	3-5 years

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit.

(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

Cash and cash equivalents are carried in the balance sheet at cost. 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) Securities purchased/sold under resale/ repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are treated as collateralised lending and borrowing transactions. The related interest income and interest expense are recoded on the accrual basis.

(n) Trade marks

Trade marks are amortised on a straight-line basis over 4 years unless in the opinion of the directors, there is no future specified benefit which can be individually recognised, in which event the amounts are written off directly to the profit and loss account.

(o) 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 deterred profit. Lease income is recognised over the term of the lease so as to reflect a constant periodic rate of return.

(p) 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.

(q) 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 and expense are recorded on the accrual basis except that, where collection

of interest income is considered doubtful or payment is outstanding for more than 90 days, interest is taken into account on the cash basis.

Fees and commissions are recognised on an accrual basis, on completion of the underlying service or transaction.

Gains and losses arising from dealing in foreign currencies are recognised when realised and are shown net in the profit and loss account.

(r) 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.

(s) 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.

(t) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3 Fixed Assets

	Freehold Land and Buildings	Leasehold Buildings and Improvements	Plant, Equipment Fixtures & Vehicles	Capital Work in Progress	Total
	$'000	$'000	$'000	$'000	$'000
			GROUP		
Cost or Valuation -					
At 1 January 2001	1,012,711	266,045	1,548,975	33,094	2,860,825
Additions	50,536	73,478	206,287	255,699	586,000
Revaluation adjustment	(9,784)	-	(72)	-	(9,856)
Transfer from CWIP	-	8,560	65,714	(74,274)	-
Acquired in subsidiary	-	7,055	42,803	-	49,858
Disposals	(134,886)	(15,573)	(35,051)	-	(185,510)
At 31 December 2001	918,577	339,565	1,828,656	214,519	3,301,317
Accumulated Depreciation -					

At I January 2001	282,249	107,400	730,122	-	1,119,771
Charge for the year	9,889	30,931	247,791	-	288,611
Acquired in subsidiary	-	4,485	28,587	-	33,072
On disposals	(55,434)	(8,610)	(23,760)	-	(87,804)
At 31 December 2001	236,704	134,206	982,740	-	1,353,650
Net Book Value -					
31 December 2001	681,873	205,359	845,916	214,519	1,947,667
31 December 2000	730,462	158,645	818,853	33,094	1,741,054

	Freehold Land and Buildings	Leasehold Buildings and Improvements	Plant, Equipment Fixtures & Vehicles	Capital Work in Progress	Total
			COMPANY		
	$'000	$'000	$'000	$'000	$'000
Cost or Valuation -					
At 1 January 2001	8,879	61,453	287,810	14,141	372,283
Additions	-	4,832	15,325	-	20,157
Disposals	-	(495)	(12,041)	-	(12,536)
At 31 December 2001	8,879	65,790	291,094	14,141	379,904
Accumulated Depreciation -					
At 1 January 2001	1,713	23,903	180,320	-	205,936
Charge for the year	222	5,543	34,481	-	40,246
On disposals	-	(155)	(8,860)	-	(9,015)
At 31 December 2001	1,935	29,291	205,941	-	237,167
Net Book Value -					
31 December 2001	6,944	36,499	85,153	14,141	142,737
31 December 2000	7,166	37,550	107,490	14,141	166,347

(a) Freehold land and buildings of the group were revalued during 2000 by D.C. Tavares & Finson Limited, independent valuers, and the revaluation surplus of $110,108,000 was credited to capital reserve. Additions subsequent to valuations are stated at cost.

(b) The following amounts are included in the table in respect of assets being acquired under

finance leases (Note 14(c)):

	Group 2001	Company 2001
	$'000	$'000
Cost	122,442	46,998
Accumulated depreciation	53,422	25,337
Additions	52,116	4,548
Disposals	(3,581)	-

4 Investments

Investments comprise:

	Group		Company	
	2001	2000	2001	2000
		$'000	$'000	$'000
(a) Associated companies	1,297,217	1,235,634	333,526	353,549
Subsidiaries		-	1,547,036	1,155,577
Quoted	24,651	15,099	10,236	10,236
Other	1,306,500	1,143,260	400,483	361,803
	2,628,368	2,393,993	2,291,281	1,881,165
(b) Associated companies -				
At cost or written down value	340,650	359,192	333,526	353,549
Group's share of reserves	956,567	876,442	-	-
	1,297,217	1,235,634	333,526	353,549
(c) Quoted investments at market value	36,040	16,340	17,013	6,618
(d) Other -				
Government of Jamaica				
Local registered stocks and debentures	472,643	480,440	-	-
US$ Bonds	620,886	527,459	303,148	359,637
Promissory notes	94,350	-	94,350	-
Securities purchased under				

agreement to resell	40,462	44,485	-	-
Other	78,159	90,876	2,985	2,166
	1,306,500	1,143,260	400,483	361,803

5 Long Term Receivables

	Group		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Leases, less deterred profit	61,217	2,211	-	-
Subsidiaries	-	-	141,443	147,443
Associated companies	15,500	20,127	15,500	20,127
Loans	448,969	9,877	13,077	2,923
National Housing Trust (NHT)	1,064	1,064	399	399
	526,750	33,279	170,419	170,892
Less: Due within 12 months	343,238	9,267	12,478	-
	183,512	24,012	157,941	170,892

NHT contributions are recoverable in the years 2002 to 2004.

6 Inventories

	Group		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Raw materials and spares	168,680	102,385	-	-
Work in process	13,257	9,747	-	-
Finished goods	57,643	35,577	-	-
Merchandise	976,208	895,206	259,499	271,573
Goods in transit	269,880	259,385	184,378	168,178
	1,485,668	1,302,300	443,877	439,751

7 Receivables

	Group		Company	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
Trade receivables, less provision for doubtful debts	1,336,107	1,421,944	506,684	572,479
Receivable from associates	28,988	46,621	16,315	43,237
Prepayments	95,399	97,267	19,113	14,735
Insurance receivables	277,816	214,652	-	-
Interest receivable by banking subsidiaries	195,932	79,603	-	-
Other receivables	395,130	344,666	135,678	126,873
	2,329,372	2,204,753	677,790	757,324

8 Cash and Short Term Investments

	Group		Company	
	2001	2000	2001	2000
	$'000	$'000	$'000	$'000
Cash at bank and in hand	2,063,503	1,044,198	33,685	35,279
Short term deposits	746,476	1,372,699	238,954	929,003
	2,809,979	2,416,897	272,639	964,282
Short term investments	3,352,974	783,535	1,843,942	783,535
	6,162,953	3,200,432	2,116,581	1,747,817

The weighted average effective interest rate on short term deposits was 19% (2000 - 22%), and these deposits have an average maturity of under 90 days. Short term investments which mature between 90 days to 360 days have an effective interest rate of 13% (2000 - 20%).

9 Payables

	Group		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Trade payables	1,518,430	1,501,247	116,300	204,407
Payable to associates	304,360	355,660	248,428	271,748
Accruals	457,914	361,844	191,367	120,145
Claims outstanding	367,796	345,763	-	-
Insurance reserves	277,816	221,083	-	-
Interest payable by banking subsidiaries	38,112	6,988	-	-
Other payables	969,540	884,098	753,225	739,791
	3,933,968	3,676,683	1,309,320	1,336,091

10 Bank and Short Term Loans

	Group		Company	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
Secured on assets	121,085	108,922	-	-
Unsecured	1,343,744	931,991	1,025,756	691,396
	1,464,829	1,040,913	1,025,756	691,396

Unsecured loans of subsidiaries are supported by promissory notes or a letter of comfort from the parent company. Interest rates on these loans range between 3.66% - 14.75% (2000 - 6.83% - 25%).

11 Trade Marks

	2001 $'000	2000 $'000
Cost	2,000	2,000
Less: Amortisation	(2,000)	1,009
	-	991

12 Share Capital

	2001 $'000	2000 $'000
Authorised -		
Ordinary shares of $1 each	300,000	300,000
Issued and fully paid -		
Ordinary stock units of $1 each	266,887	216,588

(a) During the year, the company issued to its employees 5,819,000 shares for cash at a premium of $72,799,000. The shares were issued at a discount of 25% on the last sale price on the trading day prior to the offer.

(b) The issued share capital was increased during the year by the issue of 44,480,000 shares to stockholders at 21 December 2001, being a bonus issue of one share for every five shares held and credited as fully paid by the capitalisation of $44,480,000 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	
	2001 $'000	2000 $'000	2001 $'000	2000 $'000
(a) Transfer from profit and loss account:				
Capital distributions received	-	5,522	-	5,522
Gain on disposal of fixed assets	-	3,897	-	-
Par value of bonus shares received	-	6	-	
Asset replacement rehabilitation and depreciation reserves	14,054	15,914	-	-
Profits capitalised by group companies	286,944	232,302	268,408	204,801
Other	2,235	(2,060)	-	-

	303,233	255,581	268,408	210,323

(b) Capital reserve is comprised of:

Share premium	88,464	15,356	88,155	15,356
Realised gains on disposal of assets	101,214	101,214	87,305	87,305
Capital distributions received	38,515	38,515	42,459	42,459
Par value of bonus shares received	36,872	36,872	884,500	884,500
Bonus shares issued	(41,803)	(41,803)	(41,803)	(41,803)
Asset replacement, rehabilitation and depreciation reserves	8,623	36,726	-	-
Profits capitalised by group companies	1,323,904	994,803	442,930	174,522
Unrealised surplus on the revaluation of fixed assets	1,279,334	1,289,118	-	-
Goodwill arising on consolidation	(60,458)	(92,789)		
Other	4,906	2,849	-	-
	2,779,571	2,380,861	1,503,546	1,162,339

14. Long Term Liabilities

(a) Long term liabilities comprise:

		Group		Company	
		2001	2000	2001	2000
		$'000	$'000	$'000	$'000
Bank Loans -					
Rate	Repayable				
21.0%	2001	-	1,743	-	-
8.5%	2002	500	1,357	-	-
13%	2002	-	5,651	-	-
23%	2002	1,990	5,970	-	-
28%	2002	-	1,900	-	-
4.2%	2003	94,794	91,057	94,794	91,057
5.0%	2003	118,493	113,821	118,493	113,821
6.0%	2003	118,552	113,873	118,552	113,873
12.5%	2003	56,328	88,080	-	-
8.5%	2004	24,168	32,277	-	-

12.5%	2004	24,475	33,895	-	-
13.5%	2004	20,118	29,059	-	-
0%	2005	6,000	-	6,000	-
8.5%	2005	10,645	-	-	-
7%	2006	50,000	-	-	-
14%	2007	-	24,166	-	-
		526,063	542,849	337,839	318,751
Mortgage Loans-					
18.0%	2004	-	30	-	-
23.0%	2008	5,324	5,869	-	-
11.75%	2010	42,168	-	-	-
24.5%	2010	14,373	14,823	-	-
		61,865	20,722	-	-

		Group		Company	
		2001	**2000**	**2001**	**2000**
		$'000	**$'000**	**$'000**	**$'000**
Other Loans and Advances -					
Other	2001-2008	62,857	20,856	1,436	2,084
Customer deposits	2001-2003	1,500	47,454	-	-
Finance leases	2001-2004	23,910	19,408	-	-
Associated company	2002-2003	-	40,334	-	39,716
Subsidiaries		-	-	275,899	192,872
		88,267	128,052	277,335	234,672
Total long term liabilities		676,195	691,623	615,174	553,423
Less: Payable within 12 months		94,391	90,796	40,771	2,698
		581,804	600,827	574,403	550,725

(b)

	Group	
	2001	**2000**
	$'000	**$'000**
Secured on assets	223,413	250,113
Unsecured	452,782	441,510
	676,195	691,623

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

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

		2001 $'000	2000 $'000
In financial year	2001	-	10,856
	2002	14,829	9,378
	2003	12,841	7,418
	2004	2,913	1,112
		30,583	28,764
Less: Future finance charges		6,673	9,356
Present value of minimum lease payments		23,910	19,408
Less: Current portion		10,104	5,964
		13,806	13,444

The weighted average effective interest rate on leases ranged between 13% and 29% (2000 - 13% and 31%).

15 Revenues

	2001 $'000	2000 $'000
Sales of products and services	14,222,761	13,318,259
Interest and other financial services income	1,219,329	785,692
	15,442,090	14,103,951

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 the general insurance subsidiary, Jamaica International Insurance Company Limited, 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.

16 Expenses

	2001 $'000	2000 $'000
Cost of products and services sold	9,812,247	9,734,025
Interest expense and other financial services expenses	630,107	434,160
Selling, general and administrative expenses	4,239,202	3,558,434
	14,681,556	13,726,619

17 Operating Income

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

	2001 $'000	2000 $'000
Depreciation	288,611	234,164
Directors' emoluments -		
Fees	1,805	2,485
Other (included in staff costs)	91,368	93,426
Pensions (included in staff costs)	7,702	7,802
Auditors' remuneration	21,403	19,717
Staff costs (Note 18)	2,068,936	1,894,593
Repairs and maintenance expenditure	100,556	104,462
Lease rental charges	51,517	72,024

18 Staff Costs

	2001 $'000	2000 $'000
Wages and salaries	1,487,759	1,340,191
Pension costs	70,286	99,572
Other	510,891	454,830
	2,068,936	1,894,593

The group employed 1,971 persons at the end of the year (2000 - 2,077).

19 Other Income

	2001 $'000	2000 $'000

Investment income - non-banking services	585,858	579,743
(Loss)/gain on sale of fixed assets	(2,553)	4,908
Interest expense - non-banking services	(285,940)	(339,800)
Other, net	209,545	230,655
	506,910	475,506

20 Exceptional Items

	2001 $'000	2000 $'000
Brand (re) launch expenses	-	(24,908)
Redundancy costs	(86,746)	(128,494)
Other provisions	(2,024)	3,720
Gain on disposal of subsidiary	-	8,224
Gain on disposal of investments	-	127,905
Reduction in provision for associated company losses	65,161	30,307
	(23,609)	9,314

21 Taxation

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

	2001 $'000	2000 $'000
Income tax at 33 1/3%	258,898	220,749
Overseas taxation	54,050	53,681
Adjustment to prior year provision	1,427	(335)
	314,375	274,095
Associated companies	18,770	40,001
	333,145	314,096
Tax credit on bonus shares issued	(56,872)	(53,649)
	276,273	260,447

(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

$324,517,000 (2000 - $396,558,000) are available for set off against future taxable profits of local entities.

22 Net Profit Attributable to the Stockholders of Grace, Kennedy & Company Limited

Dealt with as follows in the financial statements of:

	2001 $'000	2000 $'000
The company	79,341	144,064
The subsidiaries	860,335	449,531
The associated companies	70,644	127,924
	1,010,320	721,519

23 Dividends

	2001 $'000	2000 $'000
Paid out of franked income, net -		
Interim - 53 cents per share (2000 - 50 cents)	116,260	90,246

At 31 December 2001, the company has franked income of $227,532,000 (2000 - $287,816,000) available for distribution to stockholders without further deduction of tax.

24 Earnings Per Stock Unit

The calculation of earnings per stock unit is based on the group net profit and the average number of stock units in issue, after the bonus issue in December 2001. (2001 - 266,886,700; 2000 - 216,588,145). The earnings per stock unit for the prior year have been restated to give effect to the issue of shares during the year.

25 Operating Activities

Reconciliation of net profit to cash generated from operating activities:

	2001 $'000	2000 $'000
Net profit	1,010,320	721,519
Items not affecting cash:		
Depreciation	288,611	234,164
Trade marks amortised	991	510
Deferred liabilities	-	(4,440)

Loss/(gain) on disposal of fixed assets	6,101	(4,908)
Loss/(gain) on disposal of investments	2,453	(129,489)
Minority interest in results of the year	46,656	48,111
Exchange loss on foreign cash balances	7,945	13,958
Unremitted equity income in associated companies	(108,346)	(141,725)
	1,254,731	737,700
Changes in non-cash working capital components:		
Inventories	(183,368)	215,874
Receivables	(124,619)	(239,656)
Taxation recoverable	(21,461)	(69,176)
Payables	257,285	255,167
Taxation	42,878	(9,551)
Translation gains	65,182	67,509
	35,897	220,167
Cash provided by operating activities	1,290,628	957,867

26 Financial Instruments

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group operates internationally and is exposed to this risk arising from various currency exposures primarily with respect to the United States dollar.

The consolidated balance sheet at 31 December 2001 includes aggregate net foreign liabilities for local group companies of approximately US$15,276,000 (2000 - US$17,601,000) in respect of transactions arising in the ordinary course of business. Currency risk for foreign group companies,to currencies other than their originating currency, is not considered to be significant to the group's overall position at 31 December 2001.

(b) 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's interest bearing financial instruments include other investments, leases and loans receivable, short term investments, bank and short term loans, deposits payable and long term liabilities. The effective rates of interest impacting these instruments are

disclosed in the individual notes to the financial statements associated with each item.

(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. The group has no significant exposure to market risk as the financial instruments subject to this risk are not material to the group.

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group has no significant concentration of credit risk attaching to trade receivables as the group has a large and diverse customer base, with no significant balances arising from any single economic or business sector, or any single entity or group of entities. The company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Trade receivable balances are shown net of provision for doubtful debts.

Cash and short term investments are held with substantial financial institutions. A significant level of investments is held in various forms of government instruments.

(e) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the group 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 close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the management of the group aims at maintaining flexibility in funding by keeping committed lines of credit available.

(f) Fair values

The amounts included in the financial statements for cash, short term investments, receivables payables, bank, short term loans, securities sold under agreement to repurchase 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:

	2001		2000	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial assets				
Investments	2,628,368	2,635,284	2,393,993	2,359,696
Long term receivables	526,750	527,612	33,279	32,792
Financial liabilities				
Long term liabilities (including current portion)	676,195	676,195	691,623	691,623

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:

Investments
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
Long term liabilities, which incur interest at prevailing market rates and reflect the group's contractual obligations, are carried at amortised cost which is deemed to approximate the fair value of these liabilities.

27 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 pension 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 to February 2001, and 5% since that date, 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.

The results of the actuarial valuation as of 31 December 1999 disclosed that the scheme was adequately funded at that date.

28 Commitments

(a) Future lease payments under operating leases at 31 December 2001 were as follows:

		$'000
In financial year	2002	69,894
	2003	39,378
	2004	36,134
	2005 and beyond	70,506

(b) At 31 December 2001, the group had capital expenditure authorised and contracted for amounting to $41,000,000.

29 Acquisition

Effective March 2001, the group acquired the remaining 51% of the share holdings in First Global Bank Limited (formerly Trafalgar Commercial Bank Limited), its commercial banking associated company. The acquired business contributed revenues of $314,920,000 and operating income of $19,060,000 to the results of the group for the period from 1 March 2001 to 31 December 2001, and its assets and liabilities at 31 December 2001 were respectively $2,986,685,000 and $2,825,938,000

Details of assets and liabilities acquired and reserves arising from the acquisition are as follows:

	2001 $'000

Cash resources	539,568
Investments and loans	976,113
Acceptances, guarantees, indemnities and credits	15,156
Securities purchased under agreement to resell	262,691
Cheques in the course of collection	26,872
Other assets	80,238
Deposits	(571,348)
Securities sold under agreement to repurchase	(1,174,123)
Liability on acceptances, guarantees, indemnities and credits	(15,156)
Other liabilities	(55,623)
Net assets at the date of acquisitions	84,388
Previously consolidated by the group	(43,680)
Fair value of net assets acquired by the group	40,708
Total purchase consideration (cash payment)	(8,500)
Reserve arising on consolidation	32,208

The fair value of the net assets approximated to the book value of the net assets acquired. There were no acquisitions in the year ended 31 December 2000.

30 Summary of Banking Subsidiaries

(a) Summary of assets and liabilities

	2001 $'000	2000 $'000
Assets		
Cash resources	377,565	14,691
Investments and loans	2,022,557	189,343
Acceptances, guarantees, indemnities and credits	342,068	194,548
Securities purchased under agreement to resell	795,914	-
Cheques in the course of collection	119,901	-
Other assets	290,665	117,961
Liabilities		
Deposits	1,209,763	116,191
Securities sold under agreement to repurchase	1,654,313	-
Liability on acceptances, guarantees, indemnities and credits	342,068	194,548
Other liabilities	328,996	38,175
Equity and reserves	413,530	167,629

The banking subsidiaries are potentially liable under acceptances in respect of guarantees, commitments and letters of credit, which are reported as liabilities in their balance sheets. The subsidiaries have equal and offsetting claims against customers in the event of a call on these commitments, which are reported as assets. These amounts are not included in the consolidated balance sheet for the group.

(b) Assets under management

Assets under management, which are not beneficially owned by the group, but which the banking subsidiaries manage on behalf of investors, have been excluded from the balance sheet. At balance sheet date, the book value of these assets amounted to $9,576,329,000 (2000 - $'6,264,915,000)

31 Contingent Liabilities

(a) A suit has been filed jointly against a subsidiary and a software developer, by Paymaster (Jamaica) Limited (Paymaster), a bills payment company. The suit claims damages arising out of the use by the subsidiary of certain software, which it is alleged that Paymaster holds under exclusive licence from the software developer. The matter arose when the subsidiary implemented the use of this software under an agreement with the developer. An injunction was obtained by Paymaster to prevent further use of the software by the subsidiary, until the matter has been decided in Court. Management has ceased use of the software in question, and written off the costs related to its acquisition. Management is of the opinion that the plaintiff claim is unlikely to succeed against the subsidiary, as they were unaware of any existing exclusivity at the time of contracting with the developer. Consequently, no provision has been made for this claim in the financial statements.

(b) Various companies in the group are involved in certain other legal proceedings incidental to the normal conduct of business. The management of these companies believes that none of these proceedings, individually or in aggregate, will have a material effect on the group.