GRACE KENNEDY & COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

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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; stockbrokerage; pension management; property rental; mutual fund management;

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
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 Limited (formerly Newport Motors Limited)
Grace Foods International Limited (formerly 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 - First Global Insurance Company Limited (formerly Grace Financial Services Division Limited)
Medi-Grace Limited (formerly Caribbean Greetings Corporation Limited)
National Processors Limited
Port Services Limited (97.2%)

The subsidiaries consolidated are as follows
Rapid & Sheffield Company Limited
Versair In-Flite Services Limited (51%) and its subsidiary
Industrial Catering Systems Limited (51%)
World Brands Services Limited (formerly Medi-Grace Limited)

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 Remittance Services (USA) Limited, USA
Grace, Kennedy Financial Services (USA) Limited, USA
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 (USA) Inc., USA
Grace, Kennedy Trade Finance Limited, Belize
Graken Holdings Limited, Turks and Caicos Islands
Knutsford Re, Turks and Caicos Islands

(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 groups 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	
	2002	**2001**
Arca Financial Services Inc.	30	-
Carib Star Shipping Limited	30	30
Challenge Enterprises Limited	50	50
Dairy Industries (Jamaica) Limited	50	50
Express Catering Limited	12.5	-
Fish Importers Limited	32.7	32.7
Kingston Wharves and its subsidiaries	43.6	39.6
Pilkington Glass Jamaica Limited	-	40

Effective 17 January 2002, the company disposed of its investment in Pilkington Glass Jamaica Limited for $358,926. The group acquired 30% of the shareholding of Acra Financial Services on the 8 August 2002

(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) Goodwill

Goodwill is recorded at cost and represents the excess of the value of consideration paid over the net assets acquired. Amortisation is calculated on

the straight line basis to write off the carrying value over an estimated life of 5 years.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 recorded on the accrual basis.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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 2002	918,577	339,565	1,828,656	214,519	3,301,317
Additions	13,935	75,560	446,881	3,302	539,678
Transfer from CWIP	59	9,129	183,310	(192,498)	-
Disposals	-	(33,787)	(123,991)	-	(157,778)
At 31 December 2002	932,571	390,467	2,334,856	25,323	3,683,217
Accumulated Depreciation					
At 1 January 2002	236,704	134,206	982,740	-	1,353,650
Charge for the year	11,802	35,959	313,606	-	361,367
On disposals	-	(11,649)	(97,121)	-	(108,770)
At 31 December 2002	248,506	158,516	1,199,225	-	1,606,247
Net Book Value -					
31 December 2002	684,065	231,951	1,135,631	25,323	2,076,970
31 December 2001	681,873	205,359	845,916	214,519	1,947,667

	Freehold Land and Buildings	Leasehold Buildings and Improvements	Plant, Equipment, Fixtures & Vehicles	Capital Work in Progress	Total
	$'000	$'000	$'000	$'000	$'000
			COMPANY		
Cost or Valuation -					
At 1 January 2002	8,879	65,790	291,094	14,141	379,904
Additions	-	8,545	23,359	10,807	42,711
Disposals	-	(2,867)	(11,134)	-	(14,001)
At 31 December 2002	8,879	71,468	303,319	24,948	408,614
Accumulated Depreciation -					
At 1 January 2002	1,935	29,291	205,941	-	237,167
Charge for the year	222	6,076	33,418	-	39,716
On disposals	-	(412)	(7,414)	-	(7,826)
At 31 December 2002	2,157	34,955	231,945	-	269,057
Net Book Value -					
31 December 2002	6,722	36,513	71,374	24,948	139,557
31 December 2001	6,944	36,499	85,153	14,141	142,737

(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	Company
	2002	2001
	$'000	$'000
Cost	168,408	122,442
Accumulated depreciation	80,435	53,422
Additions	54,090	52,116

Disposals	(1,739)	(3,581)

4 Goodwill

	Group		Company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
At cost	53,441	-	-	-
Less: Amortisation	(7,150)	-	-	-
	46,291	-	-	-

5 Investments

Investments comprise:

		Group		Company	
		2002	2001	2002	2001
		$'000	$'000	$'000	$'000
(a)	Associated companies	1,465,050	1,297,217	360,276	333,526
	Subsidiaries	-	-	2,025,471	1,547,036
	Quoted	15,299	24,651	10,236	10,236
	Other	1,457,010	1,306,500	250,013	400,483
		2,937,359	2,628,368	2,645,996	2,291,281
(b)	Associated companies -				
	At cost or written down value	492,031	340,650	360,276	333,526
	Group's share of reserves	973,019	956,567	-	-
		1,465,050	1,297,217	360,276	333,526
(c)	Quoted investments at market value	35,926	36,040	21,310	17,013
(d)	Other -				
	Government of Jamaica local registered stocks and debentures	463,291	472,643	-	-
	US$ Bonds	429,483	620,886	249,096	303,148

Promissory notes	-	94,350	-	94,350
Global Bonds	446,511	-	-	-
Securities purchased under agreement to resell	39,145	40,462	-	-
Other	78,580	78,159	917	2,985
	1,457,010	1,306,500	250,013	400,483

6 Long Term Receivables

	Group		Company	
	2002	**2001**	**2002**	**2001**
	$'000	**$'000**	**$'000**	**$'000**
Leases, less deferred profit	230,440	61,217	-	-
Subsidiaries	-	-	147,117	141,443
Associated companies	21,384	15,500	15,500	15,500
Loans	873,287	448,969	16,631	13,077
National Housing Trust (NHT)	982	1,064	399	399
	1,126,093	526,750	179,647	170,419
Less: Due within 12 months	611,266	343,238	18,465	12,478
	514,827	183,512	161,182	157,941

NHT contributions are recoverable in the years 2003 to 2004.

7 Inventories

	Group		Company	
	2002	**2001**	**2002**	**2001**
	$'000	**$'000**	**$'000**	**$'000**
Raw materials and spares	217,690	168,680	-	-
Work in process	1,491	13,257	-	-
Finished goods	55,950	57,643	-	-
Merchandise	1,017,300	976,208	166,037	259,499
Goods in transit	263,198	269,880	102,858	184,378
	1,555,629	1,485,668	268,895	443,877

8 Receivables

	Group		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Trade receivables, less provision for doubtful debts	1,509,503	1,336,107	401,606	506,684
Receivable from associates	42,173	28,988	31,168	16,315
Prepayments	136,690	95,399	20,106	19,113
Insurance receivables	281,873	277,816	-	-
Interest receivable by banking subsidiaries	220,632	195,932	-	-
Other receivables	514,962	395,130	145,357	135,678
	2,705,833	2,329,372	598,237	677,790

9 Cash and Short Term Investments

	Group		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Cash at bank and in hand	1,712,550	2,063,503	77,993	33,685
Short term deposits	4,427,714	746,476	1,414,333	238,954
	6,140,264	2,809,979	1,492,326	272,639
Short term investments	5,081,955	3,352,974	982,366	1,843,942
	11,222,219	6,162,953	2,474,692	2,116,581

The weighted average effective interest rate on short term deposits was 18% (2001 - 19%), 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 17% (2001 - 13%).

10 Payables

	Group		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Trade payables	1,922,862	1,518,430	28,542	116,300
Payable to associates	194,576	304,360	164,553	248,428
Accruals	676,596	457,914	322,448	191,367

Claims outstanding	413,661	367,796	-	-
Insurance reserves	280,096	277,816	-	-
Interest payable by banking subsidiaries	120,421	38,112	-	-
Other payables	1,292,677	969,540	682,800	753,225
	4,900,889	3,933,968	1,198,343	1,309,320

11 Bank and Short Term Loans

	Group		Company	
	2002	**2001**	**2002**	**2001**
	$'000	**$'000**	**$'000**	**$'000**
Secured on assets	58,449	121,085	-	-
Unsecured	1,195,668	1,343,744	889,362	1,025,756
	1,254,117	1,464,829	889,362	1,025,756

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 3.75% - 20.25% (2001 - 3.66% - 14.75%).

12. Share Capital

	2002	**2001**
	$'000	**$'000**
Authorised -		
Ordinary shares of $1 each	400,000	300,000
Issued and fully paid -		
Ordinary stock units of $1 each	323,075	266,887

(a) The authorised share capital was increased during the year by the creation of 100,000,000 shares of $1 each. The issued share capital was then increased by the issue of 53,845,000 shares to stockholders at 18 December 2002, being a

bonus issue of one share for every five shares held and credited as fully paid by the capitalisation of $53,845,000 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.

(b) During the year, the company issued to its employees 2,343,000 shares for cash at a premium of $36,580,000. The shares were issued at a discount of 25% on the last sale price on the trading day prior to the offer.

(c) At the Annual General Meeting held on 25 June 2002, the stockholders passed a resolution for 7,000,000 of the authorised but unissued shares of $1.00 each to be set aside for allocation and sale to the directors of the company. The allocation and sale of these shares will be governed by the provisions of the 2002 Stock Option Plan for the Directors of Grace, Kennedy & Company Limited.

On 1 July 2002, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Executive directors	5,973,160
Non-executive-directors	600,000

The options were granted at a subscription price of $32.81, being the mid-market price of the company's shares on the Jamaica Stock Exchange at the grant date, and are exercisable over a period of ten years, at the end of which time unexercised options will expire. One-fifth of the total of the grant to each director will vest on each anniversary of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

As a result of the issue of bonus shares on 18 December 2002, the amount of shares allocated was increased and the option price per share reduced. The new option price has been set at $27.34, with adjusted allocations as follows:

	No. of Shares
Executive directors	7,167,792

Non-executive-directors	720,000

13 Capital Reserve

	Group		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
(a) Transfer from profit and loss account:				
Asset replacement rehabilitation and depreciation reserves	11,304	14,054	-	-
Profits capitalised by group companies	436,236	286,944	420,238	268,408
Other	(24,465)	2,235	-	-
	423,075	303,233	420,238	268,408
(b) Capital reserve is comprised of:				
Share premium	125,798	88,464	124,735	88,155
Realised gains on disposal of assets	77,604	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	19,927	8,623	-	-
Profits capitalised by group companies	1,760,140	1,323,904	863,168	442,930
Unrealised surplus on the revaluation of fixed assets	1,279,334	1,279,334	-	-
Goodwill arising on consolidation	(60,630)	(60,458)	-	-
Other	4,071	4,906	-	-
	3,239,828	2,779,571	1,960,364	1,503,546

14 Long Term Liabilities

(a) Long term liabilities comprise

		Group		Company	
		2002	2001	2002	2001
		$'000	$'000	$'000	$'000
Bank Loans -					
Rate	**Repayable**				
8.5%	2002	-	500	-	-
23.0%	2002	-	1,990	-	-
12.5%	2003	30,324	56,328	-	-
13.0%	2003	11,176	20,118	-	-
12.5%	2003	143	-	-	-
3.8%	2004	101,939	94,794	101,939	94,794
4.0%	2004	76,455	118,493	76,455	118,493
6.4%	2004	127,482	118,552	127,482	118,552
4.0%	2004	50,970	-	50,970	-
8.5%	2004	16,058	24,168	-	-
12.5%	2004	15,055	24,475	-	-
6.2%	2004	101,939	-	-	-
0.0%	2005	4,500	6,000	4,500	6,000
8.5%	2005	9,512	10,645	-	-
6.5%	2006	40,000	50,000	-	-
10.0%	2007	11,500	-	-	-
5.5%	2007	30,768	-	-	-
4.6%	2007	17,619	-	-	-
14.0%	2007	-	-	-	-
		645,440	526,063	361,346	337,839
Mortgage Loans -					
23.0%	2008	4,816	5,324	-	-
11.75%	2010	-	42,168	-	-
24.5%	2010	13,799	14,373	-	-
10.5%	2016	43,706	-	-	-
		62,321	61,865	-	-

	Group		Company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Other Loans and Advances-				

Other	2001-2008	-	62,857	-	1,436
Customer deposits	2002-2003	4,315	1,500	-	-
Finance leases	2002-2005	35,452	23,910	10,065	-
Subsidiaries		-	-	159,755	275,899
		39,767	88,267	169,820	277,335
Total long term liabilities		747,528	676,195	531,166	615,174
Less: Payable within 12 months		133,530	94,391	62,751	40,771
		613,998	581,804	468,415	574,403

(b)

	Group	
	2002	**2001**
	$'000	**$'000**
Secured on assets	203,705	223,413
Unsecured	543,823	452,782
	747,528	676,195

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:

		2002	**2001**
		$'000	**$'000**
In financial year	2002	-	14,829
	2003	26,274	12,841
	2004	13,323	2,913
	2005	3,717	-
		43,314	30,583
Less: Future finance charges		7,862	6,673
Present value of minimum lease payments		35,452	23,910
Less: Current portion		19,393	10,104
		16,059	13,806

The weighted average effective interest rate on leases ranged between 13% and 29% (2001 - 13% and 29%).

15 Revenues

	2002 $'000	2001 $'000
Sales of products and services	16,425,881	14,222,761
Interest and other financial services income	1,883,653	1,219,329
	18,309,534	15,442,090

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 and shipping services, revenues represent commissions earned and charges for service rendered.

16 Expenses

	2002 $'000	2001 $'000
Cost of products and services sold	11,305,546	9,812,247
Interest expense and other financial services expenses	1,060,394	630,107
Selling, general and administrative expenses	4,948,593	4,239,202
	17,314,533	14,681,556

17 Operating Income

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

	2002 $'000	2001 $'000
Depreciation	361,367	288,611
Directors' emoluments -		
Fees	3,497	1,805
Other (included in staff costs)	55,060	91,368
Pensions	11,947	7,702
Auditors' remuneration	26,947	21,403
Staff costs (Note 18)	2,141,569	2,068,936
Repairs and maintenance expenditure	132,035	100,556
Lease rental charges	67,375	51,517

18 Staff Costs

	2002 $'000	2001 $'000
Wages and salaries	1,646,373	1,487,759
Pension costs	67,491	70,286
Other	427,705	510,891
	2,141,569	2,068,936

The group employed 1,880 persons full-time at the end of the year (2001 - 1,971).

19 Other Income

	2002 $'000	2001 $'000
Investment income - non-banking services	612,879	585,858
Loss on sale of fixed assets	(2,895)	(2,553)
Interest expense - non-banking services	(263,623)	(285,940)
Other, net	244,504	209,545
	590,865	506,910

20 Exceptional Items

	2002 $'000	2001 $'000
Redundancy costs	(25,346)	(86,746)
Gain on disposal of investments	22,843	-
Reduction in provision for associated company losses	-	65,161
Other provisions	-	(2,024)
	(2,503)	(23,609)

21 Taxation

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

	2002 $'000	2001 $'000
Income tax at 33 1/3%	262,739	258,898
Overseas taxation	64,451	54,050
Adjustment to prior year provision	(12,133)	1,427
	315,057	314,375
Associated companies	40,741	18,770
	355,798	333,145
Tax credit on bonus shares issued	(59,874)	(56,872)
	295,924	276,273

(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 $205,968,000 (2001 - $324,517,000) 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:

	2002 $'000	2001 $'000

The company	126,481	79,341
The subsidiaries	1,167,120	860,335
The associated companies	125,642	70,644
	1,419,243	1,010,320

23 Dividends

	2002 $'000	2001 $'000
Paid out of franked income, net -		
Interim - 62 cents per share (2001 - 53 cents)	166,605	116,260

At 31 December 2002, the company has franked income of $60,927,000 (2001 - $227,532,000) 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 2002. (2002- 323,075,356; 2001 - 266,886,700). 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:

	2002 $'000	2001 $'000
Net profit	1,419,243	1,010,320
Items not affecting cash:		
Depreciation	361,367	288,611
Goodwill\trade marks amortised	7,150	991
Loss on disposal of fixed assets	2,895	6,101
Loss on disposal of investments	-	2,453
Minority interest in results of the year	34,579	46,656
Exchange loss on foreign balances	8,251	7,945

Unremitted equity income in associated companies	(42,549)	(108,346)
	1,790,936	1,254,731
Changes in non-cash working capital components:		
Inventories	(69,961)	(183,368)
Receivables	(376,461)	(124,619)
Taxation recoverable	10,516	(21,461)
Payables	966,921	257,285
Taxation	40,066	42,878
Translation gains	106,624	65,182
	677,705	35,897
Cash provided by operating activities	2,468,641	1,290,628

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 2002 includes aggregate net foreign liabilities for local group companies of approximately US$14,874,000 (2001 - US$15,276,000) 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 2002.

(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:

	2002		2001	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets				
Investments	2,937,359	2,906,941	2,628,368	2,635,284
Long term receivables	1,126,093	1,095,625	526,750	527,612
Financial liabilities				
Long term liabilities (including current portion)	747,528	747,528	676,195	676,195

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 reflect the group's contractual obligations and are carried at amortised cost, which is deemed to approximate the fair value of these liabilities because these liabilities are subject to such terms and conditions as are available in the market for similar transactions.

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 5%, 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 2002 were as follows:

		$'000
In financial year	2003	84,404
	2004	68,465
	2005	67,218
	2006 and beyond	90,775

(b) At 31 December 2002, the group had no authorised capital expenditure for which it had established contracts.

29 Summary of Banking Subsidiaries

(a) Summary of assets and liabilities

	2002 $'000	2001 $'000
Assets		
Cash resources	490,560	377,565
Investments and loans	6,039,377	2,022,557
Acceptances, guarantees, indemnities	193,857	342,068

Securities purchased under agreement to resell	1,422,261	795,914
Cheques in the course of collection	210,113	119,901
Other assets	402,614	290,665
Liabilities		
Deposits	2,399,615	1,209,763
Securities sold under agreement to repurchase	5,022,110	1,654,313
Liability on acceptances, guarantees, indemnities and credits	193,857	342,068
Other liabilities	363,578	328,996
Equity and reserves	779,622	413,530

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 $11,433,346,000 (2001 - $9,576,329,000).

30 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.
