

Grace, Kennedy & Company Limited

Year Ended December 31, 2002

CHAIRMAN'S REPORT

YEAR IN REVIEW - 2002

In 2002, we commemorated our 80th Anniversary on 14 February by giving thanks to our founding fathers and successive chairmen spanning eight decades - Dr. John Grace, Mr. Fred W. Kennedy, Mr. James Moss-Solomon Sr., Mr. Luis Fred Kennedy, Hon. Carlton Alexander, and Mr. Rafael Diaz. Their foresight and unswerving commitment to excellence have provided the present generation with a foundation of core values on which to continue to build a stronger company, based on our motto "Grace - We Care".

The theme for 2002 was "Our roots are Jamaican - Our outlook global", epitomizing the basis of our current operations at Grace, Kennedy.

One of our key strategies is to expand our products and services both internationally and locally as we strive to better understand the unsatisfied desires of our customers. The theme chosen for this year is therefore "Satisfying the Unmet Needs of Caribbean People wherever they live in the world".

The Directors are pleased to present the results for the year ended 31 December 2002. The Group recorded sales for the year of \$18.3 billion (2001: \$15.4 billion) an increase of \$2.9 billion, or 18.6%. The Net Profit Attributable to Stockholders increased by 40.5 % or \$408.9 million over the corresponding period of 2001,

moving from \$1,010.3 million to \$1,419.2 million. This represents Earnings per Stock Unit of \$4.39 (2001: \$3.13). In keeping with our dividend policy, 11.7% of after tax profits was paid out in 2002 as dividends.

Of the nine million shares approved for sale to our staff at an Extraordinary General Meeting in November 2000, 6,590,947 shares have been taken up in keeping with our policy of encouraging employee share ownership.

It was a very successful year for the Food Trading Division with most of its companies surpassing budgeted revenue and profits in both local and overseas markets. With the successful development of Grace Foods & Services Company, the decision was taken to separate the company into two entities to avoid any conflict between externally owned brands and the expanding Grace and Grace-owned brands. The new entity, World Brands Services Company, which will sell externally owned brands, has done very well in its first year of operation.

The sale of Grace-owned brands achieved a significant milestone when they surpassed the US\$ 100 million mark for the first time in 2002. Of this amount over US\$30 million was derived from sales in the international market. Today, Grace branded products are available in 25 countries through a network of over 30 distributors, resulting in an increase in exports from our own Jamaican factories as well as from our Jamaican contract manufacturers.

Grace Foods International Limited, formerly Grace, Kennedy Export Trading Limited, was awarded the top prize for Champion Exporter for 2001 by the Jamaica Exporters Association. The company was also named Best Caricom. Exporter, leader of the Champion Trader 11 Category and was inducted into the JEA 21 Million Club.

Pre-tax profits in the Food Trading Division increased from \$266.1 million in 2001 to \$358.5 million in 2002, an increase of \$92.4 million or 34.7%.

The Retail & Trading Division experienced a year of changes. Medi-Grace Limited underwent a major restructuring exercise during the first quarter and this has been reflected in exceptional items. Indications are that this initiative has begun to show positive results as evidenced by the company being named Distributor of the Year for 2002 by Pfizer Consumer Health Care.

Rapid & Sheffield Company Limited purchased Colour Choice Limited, a very popular and successful hardware store specializing in tiles, bathroom and plumbing supplies in St. Ann's Bay.

Hi-Lo Food Stores (Jamaica) Limited launched a new supermarket concept called "Basix" at Tropical Plaza, which delivers more attractive prices while operating at a lower cost structure. Agro-Grace Limited is now the number one agricultural retailer in Jamaica as a result of its purchase of CASCO in Mandeville. Between these three companies, the division now has 25 retail outlets.

Versair In-Flite Services Limited was adversely affected by the events of 9/11, but continued to be profitable by an exemplary display of improving efficiencies in several areas of its activities.

The Financial Services Division had an outstanding year. First Global Bank limited, our commercial bank, continues to perform above expectations in terms of profits and growth. First Global Stockbrokers limited, which started operations in the fourth quarter of 2001, gained significant market share to close at the number two position at the end of 2002. Our insurance interests also performed well with continued growth in both premiums written and profitability. Grace, Kennedy Capital Services Limited launched its first overseas mutual fund, the Grace, Caribbean Fixed Income Fund, on 8 October. It is a US dollar denominated fund listed on the Cayman Stock Exchange and has shown pleasing results to date.

Pre-tax profits in the Financial Services Division increased from \$386.6 million in 2001 to \$683.7 million in 2002, an increase of \$297.1 million or 76.8%.

The overall financial results of the Maritime Division were satisfactory despite the legal matters that are currently being pursued in the courts. During the course of the year, a consortium of shareholders in our publicly traded associated company Kingston Wharves Limited has been attempting to take over control of the company by proposing the removal of existing directors and appointment of new directors. An Extraordinary General Meeting of Kingston Wharves Limited, which was called by some of these shareholders has been postponed until the court makes its final decision regarding a suit between Grace, Kennedy & Company (Shipping) Limited and the Shipping Association of Jamaica Property Limited. Grace, Kennedy's board has taken the position that

if a consortium of shareholders wishes to change control of the company, then a formal offer ought to be made to us to purchase our shares. Grace Kennedy has indicated that it will divest its shares in Kingston Wharves Limited at an acceptable price.

Kingston Wharves limited is proceeding with its modernization drive although the court cases have delayed integrating stevedoring into its menu of services. The company has purchased a new Gottwald mobile ship-to-shore crane, a new container stacker and a suite of terminal management software. Additionally, the dredging of the berths which now allows for more flexibility when berthing vessels has been completed. Port Services limited has performed exceptionally well in comparison to the previous year.

The Information Services Division continues its positive trend with increased transaction volumes of remittances. The division made a significant investment in expanding its services globally with the launch of Caribbean Outpost in New York as well as researching and introducing other new services and expanding its regional networks. We purchased a 30% shareholding in Acra Financial Services Inc., a Western Union agent in Haiti. Bill Express was launched in Trinidad & Tobago and Guyana. F/X Trader continues to perform very well in Trinidad & Tobago.

During the past year the Grace, Kennedy Group experienced tremendous innovation reflecting the outpouring of creativity by our people. Some examples of these initiatives are:

- Customer service: coaching of our staff through our in-house programmes produced improved energy to satisfy customers.
- Food Trading: Tropical Rhythms continued its unprecedented growth; a plethora of new products were launched with others in the pipeline; several focus groups inside and outside of Jamaica were used to determine unmet needs.
- Retail: addition of new stores, survey of customer preferences; successful joint ventures between Versair In-Flite Services Idmitted and Air Margaritaville and Island Grill restaurants at the Sangster International and Norman Manley International Airports.

- Financial Services: First Global doubled its customer base; new products added by several companies; the launching of the Mutual Fund in Cayman; First Global Stockbrokers established.
- Information Services: NY Caribbean Outpost responded to an unmet need overseas; ID cards for consumers well received; investment in Western Union agent in Haiti.
- Maritime: met more frequently with customers, to determine their preferences; implemented new terminal management software.
- Acquisitions across the group have been focussed in businesses closer to the consumer.
- Introduced new HR Software to network the group and empower our employees.

One of the key drivers within our group is the theme "Investing in our people". A mid-year conference was held with senior staff attending and presentations were made by human resources development managers from across the group. Several ideas were generated on how to further our objectives. As a tangible example of investing in people in the wider community, I am pleased to report that two former students of the Grace & Staff Community Development Foundation's Tower Street Homework Centre, Samuel Pyne and Tamara Young, graduated last year from the Benedict College, South Carolina, USA. They were the first pioneering beneficiaries of our programme to identify US scholarships for bright young Jamaicans from our inner city communities. The second year of the College Fair had over one thousand four hundred students attending from across the island.

We examined the operational systems of the Group to determine whether they were designed to meet the day to day needs of a multinational company. Our human resource systems, despite serving us well in Jamaica, were not designed to adequately support rapid deployment of staff to new international posts. In light of our move to expand overseas, we signed an agreement with Software Technology Ltd., a Trinidad-based software marketer, to purchase HRPIus Anywhere. Staff from anywhere in the world will ultimately be able to view their personal files and other essential information to help plot their career path within the Group. In addition we have determined that our information systems and other internal capabilities need modification to ensure continued connection between

our overseas companies and Jamaica.

Grace, Kennedy & Company Limited was one of two Jamaican companies to have received the International Business Award 2002 as high performers in the import export industry in South Florida. The award was presented by the Chamber of Commerce for Doral & Airport West community.

Each year the theme of the Grace, Kennedy Foundation lecture reflects current events and in 2002, the emphasis was on changes in the Jamaican workplace as a result of globalisation. The annual lecture was entitled "Changing with Change". Three eminent Jamaicans made presentations: Dr. Neville Ying, Professor of Business Development at UWI and Director, Labour Studies Programme at Mona; the Honourable Anthony Irons, Director of Industrial Relations in the Ministry of Labour; and Mr. Lloyd Goodleigh, General Secretary of the Jamaica Confederation of Trade Unions.

Grace, Kennedy's ongoing support to the University of the West Indies was publicly recognized at a function hosted by Professor Kenneth Hall, Principal at the Mona Campus. The Company's support consists, among other things, of the S. Carlton Alexander Chair in Management Studies, the James S. Moss-Solomon Snr. Chair in Environmental Studies, an Executive in Residence, currently Mr. James Moss-Solomon Jr., as well as, several other scholarships and bursaries. Grace, Kennedy's contributions to U.W.I. exceeded \$20 million last year.

We were saddened by the death of Mrs. Lydia Kennedy, matriarch of the Kennedy family on 4 October 2002. Mrs. Kennedy was the widow of our second Chairman, the late Mr. Luis Fred Kennedy and the mother of our senior executive Mr. Francis X. Kennedy. Possessing an astute business sense, she was a source of guidance and advice over many decades.

The Board of Grace, Kennedy & Company Limited appointed Mr. Thomas Craig a Director of the Company on 26 September 2002. Mr. Craig is Managing Director and co-founder of the Monitor Group based in Boston, USA. This is in keeping with our decision to increase the percentage of external directors in line with trends of Corporate Governance practices worldwide while also increasing the number of directors with international experience.

We are faced daily with uncertainties about the future, the problems of our

society being heightened by the spillover effects of international events outside of our control. Our conscious policy decision to concentrate on what we ourselves have control over, has enabled Grace, Kennedy to continue to prosper. We have been assisted in doing this through the support of our many loyal customers, consumers, suppliers and other stakeholders. I am deeply grateful to their candid feedback which has helped us to do a better job. I thank our team of directors, management and staff for the joint effort which has successfully strengthened our company to be able to look forward to a robust future.

Douglas R. Orane
Chairman & Chief Executive Officer

Group Balance Sheet -audited

31 December 2002

	December 2002 \$'000	December 2001 \$'000
NET ASSETS EMPLOYED		
FIXED ASSETS	2,076,970	1,947,667
GOODWILL	46,291	-
INVESTMENTS	2,937,359	2,628,368
LONG TERM RECEIVABLES	514,827	183,512
 CURRENT ASSETS:		
Inventories	1,555,629	1,485,668

Receivables	2,705,833	2,329,372
Long term receivables - current portion	611,266	343,238
Taxation recoverable	291,791	302,307
Cash and short term investments	11,222,219	6,162,953
	<u>16,386,738</u>	<u>10,623,538</u>

CURRENT LIABILITIES:

Payables	4,900,889	3,933,968
Bank and short term loans	1,254,117	1,464,829
Long term liabilities - current portion	133,530	94,391
Deposits	2,140,778	927,530
Securities sold under agreement to repurchase	4,686,491	1,582,497
Taxation	229,215	189,149
	<u>13,345,020</u>	<u>8,192,364</u>
NET CURRENT ASSETS	3,041,718	2,431,174
	<u>8,617,165</u>	<u>7,190,721</u>

FINANCED BY

SHARE CAPITAL	323,075	266,887
CAPITAL RESERVE	3,239,828	2,779,571
RESERVE FUND	321,936	106,659
RETAINED EARNINGS	3,263,261	2,712,458
TRANSLATION GAINS	684,763	568,312
	<u>7,832,863</u>	<u>6,433,887</u>
MINORITY INTEREST	170,304	175,030
LONG TERM LIABILITIES	613,998	581,804
	<u>8,617,165</u>	<u>7,190,721</u>

GROUP PROFIT AND LOSS ACCOUNT -audited

For year ended 31 December 2002

	2002 \$'000	2001 \$'000
Revenues	18,309,534	15,442,090
Expenses	17,314,533	14,681,556
Operating Income	995,001	760,534
Other Income	590,865	506,910
Share of results of associated companies	166,383	89,414
Exceptional items	(2,503)	(23,609)
Profit before Taxation	1,749,746	1,333,249
Taxation	295,924	276,273
Profit after Taxation	1,453,822	1,056,976
Minority interest in results of subsidiaries	34,579	46,656
Net Profit Attributable to the Stockholders	1,419,243	1,010,320
Earnings per stock unit of		

\$1.00

\$ 4.39 \$ 3.13 ***
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***Adjusted to reflect issue of New and Bonus Shares

GROUP STATEMENT OF CASH FLOWS - audited

For year ended 31 December 2002

	<u>31/12/2002</u>	<u>31/12/2001</u>
	<u>\$'000</u>	<u>\$'000</u>
SOURCES/ (USES) OF CASH:		
Operating Activities		
Net profit	1,419,243	1,010,320
Items not affecting cash	<u>371,693</u>	<u>244,411</u>
	1,790,936	1,254,731
Changes in non-cash working capital components	<u>677,705</u>	<u>35,897</u>
Cash provided by operating activities	2,468,641	1,290,628
Cash provided by financing activities	432,479	263,059

Cash provided by/(used) in investing activities	<u>595,426</u>	<u>(1,594,072)</u>
Increase/(Decrease) in cash and cash equivalents	3,496,546	(40,385)
Cash and cash equivalents at beginning of year	1,345,150	1,375,984
Exchange and translation gains on net foreign cash balances	<u>44,451</u>	<u>9,551</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>4,886,147</u>	<u>1,345,150</u>

Statement of Changes in Equity - audited

For year ended 31 December 2002

	<u>Share Capital \$'000</u>	<u>Share Capital \$'000</u>	<u>Capital Reserve \$'000</u>	<u>Retained Earnings \$'000</u>	<u>Other Reserves \$'000</u>	<u>Total \$'000</u>
<u>Balance at 1 January 2001</u>	216,588	216,588	2,380,861	2,263,654	543,672	5,404,775
Net g/(I) not in P&L :						
FC translation adjustments					67,353	67,353
Revaluation Gain			(9,784)			(9,784)
Net excess of investments			32,153			32,153
Total	-	-	22,369	-	67,353	89,722
Net profit				1,010,320		1010,320
Issue of Bonus shares	44,480	44,480		(44,480)		-

Issue of shares at a premium	5,819	5,819	73,108			78,927
Transfers between reserves			303,233	(367,179)	63,946	-
Dividends to stockholders				(116,260)		(116,260)
Withholding tax				(33,597)		(33,597)
Balance at 31 December 2001	266,887	266,887	2,779,571	2,712,458	674,971	6,433,887
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Balance at 1 January 2002	266,887	266,887	2,779,571	2,712,458	674,971	6,433,887
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Net g/(I) not in P&L:						
FC translation adjustments					116,451	116,451
Revaluation Gain						-
Net excess of investments						-
Total	-	-	-	-	116,451	116,451
Net profit				1,419,243		1,419,243
Issue of Bonus shares	53,845	53,845		(53,845)		-
Issue of shares at a premium	2,343	2,343	37,334	-		39,677
Transfers between reserves			423,075	(638,352)	215,277	-
Movement on goodwill for consolidation			(152)			(152)
Dividends to stockholders				(166,605)		(166,605)
Withholding tax				(9,638)		(9,638)
						-
Balance at 31 December 2002	323,075	323,075	3,239,828	3,263,261	1,006,699	7,832,863
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