Grace, Kennedy & Company Limited

Year Ended December 31, 2003

Chairman's Report

Year in Review - 2003

"Satisfying the unmet needs of Jamaicans and other Caribbean people wherever we live is the vision of Grace, Kennedy for the first two decades of the 21st century. It is" providing us with a clearly defined pathway for our business strategies referred to as our 2020 Vision. At the same time, it facilitates us living by our motto "Grace - We Care", through us carefully attending to the needs of the people in this world to whom we are both geographically and culturally the closest. Our consumers in Jamaica, the wider Caribbean and the diaspora in the developed world have rewarded us with their repeated business, which has allowed us to convert their relationships with us into another financially successful year for Grace, Kennedy.

Our accounting reporting standards changed in 2003 with the adoption of the International Financial Reporting Standards (IFRS), formerly the International Accounting Standards (IAS). All financial statements for the comparative year 2002 have been restated to reflect this change in compliance with IFRS. The effect of adopting IFRS is explained in the notes to the accounts and in the Statement of Changes in Equity. The most significant changes to the balance sheet include the recognition of financial assets that are managed by our banking subsidiaries (IAS 39) and the reporting of employee benefits due to existing and past employees which include a net combined surplus on the pension fund and post-retirement healthcare benefits (IAS 19).

We are pleased to report that the Group achieved Revenues for the year of $24.77 billion (2002: $19.66 billion) an increase of $5.11 billion or 26.0%. The Net Profit Attributable to Stockholders increased by $376.9 million over the corresponding period of 2002, moving from $1,603.3 million to $1,980.2 million, an increase of 23.5%. This represents Earnings per Stock Unit of $6.12 (2002: $4.96). Our operating profits totalled $1,986.3 million, an increase of 55.3% in comparison to the previous year's result of $1,279.1 million.

Dividends paid to stockholders during the year totalled $210.1 million, a 26.1 % increase over the $166.6 million paid in 2002. In keeping with our dividend policy, 10.6% of Profit Attributable to Stockholders was paid out as dividends. The market value of the Company increased from $12.28 billion at the end of 2002 to $17.45 billion at the.end of 2003, an increase of 42.1 %.

Consequent to the stock option plan that was approved at Grace, Kennedy's Annual General meeting in May 2003, options were offered to 127 managers and other key personnel within the Group. This is part of a plan to encourage the recipients to invest in and to build their careers with the Company by becoming stakeholders not only as employees but also as shareholders.

The Food Trading Division continued to perform well for the year. Several new products were launched by the Division with the latest being Grace Readi Meals, Diet Tropical Rhythms and family size Tropical Rhythms Sorrel Ginger. Grace Tropical Rhythms was named the 2002-2003 Winner of the Canadian Grand Prix New Product Award. The Grace-owned brands have -done well on the international market with overall sales of US$33 million, an increase of 7%. Grace owned brands are now sold in 35 countries in the world. In March 2004, Grace, Kennedy (Ontario) Inc. acquired the assets of Elvico Sales Inc., a beverage wholesaler in Toronto. This acquisition will more than double the number of customers served by the company.

World Brands Services Limited became the exclusive distributor of Vitamalt in Jamaica, the most recognised alcohol-free malt beverage which is brewed by Ceres, one of the companies of the Danish Brewery Group A/S.

The merger of Rapid & Sheffield Company Limited and Agro-Grace Limited with Hardware & Lumber Limited is in the process of completion, with Grace, Kennedy &

Company Limited now owning approximately 70% of the shares of the merged entity, Pan Jamaican Investment Trust Limited owning 25%, and several hundred shareholders holding the balance. Further expansion continued with the opening of two new Rapid & Sheffield stores in Mandeville and Montego Bay. Hi-Lo Food Stores (Jamaica) Limited has been realigning its portfolio of store locations throughout the year with the sale of Hi-Lo Basix Tropical Plaza and the purchasing of Value Master Supermarket in Negril, Bottomline Wholesale in Kingston, the relocation of Hi-Lo Mandeville, and the opening of Hi-Lo Savanna-la-Mar and Hi-Lo Basix at the University of the West Indies, Mona Campus. A new information system was purchased at a cost of approximately $175 million to assist in increasing efficiency throughout the division.

The Financial Services Division performed exceptionally well for the year as it proceeded with its expansion programme both locally and internationally. The merchant bank joint venture in Barbados in which we acquired 40% was renamed Signia Financial Group Limited. First Global Bank Limited expanded its services to Montego Bay when it opened its second branch after acquiring the local retail business of Citibank, N.A. In an effort to better meet the needs of its customers, First Global Bank Limited began Internet Banking services. This service will be expanded to the customers of George & Branday Limited as both banks will merge to form First Global Bank Limited in 2004. The securities companies of both banks will also be merged along with First Global Stockbrokers Limited, Grace Pension Management Limited and Global Capital Services to form First Global Financial Services Limited.

The Grace Caribbean Fixed Income Fund was officially launched in Jamaica in February 2004 following its previous registrations in the Cayman Islands, Barbados, the Bahamas and Trinidad & Tobago. Funds under management have grown to approximately US$11 million with an annualise.d yield of about 7.6%. Jamaica International Insurance Company Limited opened its second local branch called Care Outpost in Montego Bay and received its licence to operate an insurance agency in the Turks & Caicos Islands, under the name First Global Insurance Limited.

The Maritime Division recorded fair results for the year. A new company was formed, Grace, Kennedy Logistics Limited, which now represents two of the division's major principals. These are Spliethoff of Amsterdam which specializes in shipping general cargo and operates in all major trade lanes around the world, and Trans-Continental Express Shippers out of Queens, New York, which specializes in shipping personal effects.

Early in the year, the decision was taken to sell our shareholdings in Kingston Wharves Limited as part of our ongoing process of streamlining our portfolio of businesses across the Grace, Kennedy group. NCB Jamaica Limited made an offer for the shares and the sale was concluded in January 2004 across the Jamaica Stock Exchange. The block of shares which is just under 44% of the issued share capital of Kingston Wharves Limited, was sold at $1.30 per share, totalling J$610 million. The purchase of this block by a well capitalised, well managed firm augurs well for the continued development of Kingston Wharves Limited.

The Information Services Division recorded good results for the year. Our bill payment service, Bill Express, was launched during the year in Grenada, Dominica and St. Lucia joining the three countries in which it was first offered, namely Jamaica, Trinidad & Tobago and Guyana. The proprietary Navigator software has started to show benefits in terms of improvement in productivity for the staff and agency network. A management tool known as Six Sigma was introduced in the division to drive transformational change. Two new products which were introduced were Bill Express Online and the Western Union V.I.P. Customer Card.

The situation in Haiti continues to be of much concern in light of the civil unrest and is causing difficulties in operating the Western Union agency there in which we are a shareholder. We continue to monitor the events as they unfold.

On 31 December 2003, Mr. E. Donovan Anderson, Corporate Secretary for the Grace, Kennedy Group, retired after over 33 years of service. We thank him for his contribution and wish him a long and contented retirement. Mrs. Karen Chin Quee Akin, formerly of The Bank of Nova Scotia Jamaica Limited, has assumed the position of Chief Corporate Secretary and Legal Counsel for the group. Mr. Thomas Craig, worldwide partner, managing director and co-founder of the US based Monitor Group resigned from the Board of Directors of Grace, Kennedy & Company Limited with effect from 29 January 2004. Although Mr. Craig will no longer be on the board we will continue to benefit from his knowledge, expertise and wide ranging international experience in strategy, governance and commerce, as he has agreed to continue in an advisory capacity as Special International Advisor to the Board.

The University of Technology publicly recognised the Grace, Kennedy Foundation for its ongoing support of the University's Scholarship Programme since 1987. The presentation was made as part of the University's 45 th Anniversary celebrations. A number of workshops were developed by the Grace & Staff Community Development

Foundation in collaboration with actors/comedians Owen "Blacka" Ellis and Winston Bello Bell as a response to the Government's Values and Attitudes programme. The objectives of this programme are to explore concerns and strategies for effective parenting and the impact of individual values, attitudes and actions on family and community life.

Our desire to strengthen relationships worldwide not only extends directly to consumers of our goods and services but also to the families of many of these consumers. We have therefore taken the initiative to launch what we call the Grace, Kennedy Jamaican Birthright Programme. This programme seeks to reconnect second and third generation Jamaicans living overseas with their homeland. In 2004, six young Jamaican university students will be chosen to work for the summer within our subsidiaries in Jamaica. They will live with Grace, Kennedy host families who have volunteered to have these young people in their homes.

As corporate citizens, we try to assist with the overall well being of our communities through our many outreach programmes and other contributions. An epidemic to which many of us pay minimal attention is HIV/AIDS. According to the Caribbean Epidemiology Centre, two in every 100 Caribbean residents between the ages of 15 and 50 are infected. Grace, Kennedy was the first company in Jamaica to adopt a formal HIV/AIDS policy over ten years ago. In December 2003, we relaunched our policy with the commencement of a revitalised sensitisation programme through in-house seminars, including training several employees who have volunteered to be seminar presenters.

Seventy-seven frontline managers participated in a specially designed Supervisory Management Course in recognition of the importance of enhancing the quality of management and leadership at all levels. At the more senior level, our Executive Development Programme exposed a cross section of our managers to information and concepts presented by our own Directors as well as Professors from the Mona Institute of Business locally and from universities in the USA.

Based on feedback from our staff regarding their desire to know more about the group and its various activities, an Expo was held in June 2003 designed to increase staff awareness of all our products and services. This was so well received by employees that another one was held on 14 February 2004, the Company's birthday entitled "From Grace With Love". The event included a concert as well as many activities for children in an effort to convey the importance we place on families sharing and enjoying experiences together.

We view our customers, consumers, suppliers and all stakeholders as part of the Grace, Kennedy family and appreciate their continued loyalty and encouragement. The support and dedication of our committed team of directors, management and staff to the continued growth of Grace, Kennedy & Company Limited has succeeded in keeping our company vibrant and strong.

Douglas R. Orane
Chairman & Chief Executive Officer

GROUP PROFIT AND LOSS ACCOUNT - Audited

year ended 31 December 2003

	2003 $'000	2002**** $'000
Revenues	24,765,501	19,660,593
Expenses	22,779,209	18,381,508
Operating Income	1,986,292	1,279,085
Other Income	571,647	590,478
Share of results of associated companies	110,291	177,133
Profit before Taxation	2,668,230	2,046,696

Taxation	627,712	410,125
Profit after Taxation	2,040,518	1,636,571
Minority interest in results of subsidiaries	60,327	33,306
Net Profit Attributable to the Stockholders	1,980,191	1,603,265
Earnings per stock unit of $1.00	$6.12	$4.96

******Adjusted to comply with IFRS**

Group Balance Sheet - audited

December 31 2003

	December 2003 $'000	December 2002**** $'000
NET ASSETS EMPLOYED		
FIXED ASSETS	2,166,193	1,930,878
GOODWILL	258,853	46,291
INVESTMENTS	4,475,750	3,110,872
LONG TERM RECEIVABLES	537,077	526,245
DEFERRED TAX ASSETS	580,700	422,811

PENSION PLAN SURPLUS	3,897,041	3,425,236
CURRENT ASSETS:		
Inventories	2,596,025	1,555,629
Receivables	4,792,884	3,333,363
Long term receivables - current portion	840,090	611,266
Taxation recoverable	394,907	291,791
Cash and short term investments	24,805,847	20,910,321
	33,429,753	26,702,370
CURRENT LIABILITIES:		
Payables	5,999,062	5,495,535
Bank and short term loans	1,773,247	1,254,117
Long term liabilities - current portion	100,198	133,530
Deposits	3,344,997	2,140,778
Securities sold under agreement to repurchase	17,729,384	14,308,297
Taxation	211,524	229,213
	29,158,412	23,561,470
NET CURRENT ASSETS	4,271,341	3,140,900
	16,186,955	12,603,233

FINANCED BY

SHARE CAPITAL	323,466	323,075
CAPITAL AND FAIR VALUE RESERVE	3,448,660	3,236,802
RESERVE FUND	643,207	321,936
RETAINED EARNINGS	6,009,111	4,899,671
TRANSLATION GAINS	1,143,895	684,994
	11,568,339	9,466,478
MINORITY INTEREST	460,032	227,776
LONG TERM LIABILITIES	1,429,491	613,998
DEFERRED TAX LIABILITIES	1,890,002	1,528,906
EMPLOYEE BENEFIT OBLIGATIONS	839,091	766,075
	16,186,955	12,603,233

ON BEHALF OF THE BOARD

....

D. R. Orane — Chairman

D G. Wehby — Chief Financial Officer

****Adjusted to comply with IFRS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Audited

YEAR ENDED 31 DECEMBER 2003

	No. of Shares '000	Share Capital $'000	Capital Reserve $'000	Retained Earnings $'000	Other Reserves $'000	Total $'000
Balance at 01 January 2002						
As previously stated	266,887	266,887	2,779,571	2,712,458	674,971	6,433,887
Effect of adopting IFRS	-	-	(150,874)	1,459,739	(8)	1,308,857
As restated	266,887	266,887	2,628,697	4,172,197	674,963	7,742,744
Net gains/(losses) not recognised in the profit and loss account, net of tax:						
Foreign currency translation adjustments		-	-	-	116,690	116,690
Revaluation surplus	-	-	26,838	-	-	26,838
Net excess of investments	-	-	113,507	-	-	113,507
Total	-	-	140,345	-	116,690	257,035
Net profit	-	-	-	1,603,265	-	1,603,265
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:	-	-	-			-

To Reserve Fund	-	-	-	(215,277)	215,277	-
To Capital Reserves	-	-	431,281	(431,281)	-	-
From Capital Reserves	-	-	(855)	855	-	-
Dividends	-	-	-	(166,605)	-	(166,605)
Withholding tax	-	-	-	(9,638)	-	(9,638)
Balance at 31 December 2002	323,075	323,075	3,236,802	4,899,671	1,006,930	9,466,478
Balance at 1 January 2003						
As previously stated	323,075	323,075	3,239,828	3,263,261	1,006,699	7,832,863
Effect of adopting IFRS	-	-	(3,026)	1,636,410	231	1,633,615
As restated	323,075	323,075	3,236,802	4,899,671	1,006,930	9,466,478
Net gainsl(losses) not recognised in the profit and loss account, net of tax:						
Foreign currency translation adjustments		-	-	-	458,901	458,901
Revaluation surplus	-	-	31,037	-	-	31,037
Net excess of investments	-	-	(128,964)	-	-	(128,964)
Other	-	-	14,330	-	-	14,330
Total	-	-	(83,597)	-	458,901	375,304
Net profit	-	-	-	1,980,191	-	1,980,191
Issue of bonus shares	-	-	-	-	-	-
Issue of shares at a premium	391	391	6,915	-	-	7,306
Transfers between reserves:						
To Reserve Fund	-	-	-	(321,271)	321,271	-
To Capital Reserves	-	-	296,530	(296,530)	-	-
From Capital Reserves	-	-	(7,990)	7,990	-	-
Dividends	-	-	-	(210,146)	-	(210,146)
Withholding tax	-	-	-	(50,794)	-	(50,794)
Balance at 31 December 2003	323,466	323,466	3,448,660	6,009,111	1,787,102	11,568,339

Notes

1. Basis of preparation
These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and financial assets.

The Group adopted International Financial Reporting Standards for the financial year ended 31 December 2003. The financial effect of adopting these standards is reported in the Statement of changes in equity.

2. Comparative information
Comparative information has been restated to conform with the provisions of IFRS. Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Employee benefits
(i) Pension plan asset
The Group participates in a defined benefit pension plan. The asset in respect of the plan is the fair value of plan assets at the balance sheet date minus the present value of the defined benefit obligation, together with any adjustments for actuarial gains/losses and past services costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Under the provisions of the Trust Deed of the pension plan the Group cannot be paid any surplus amount arising upon a termination of the pension plan. Any surplus amount has to be used to increase the benefits payable to the employees in accordance with the Trust Deed upon termination of the pension plan. The Trust Deed also provides that it cannot be altered to authofte the making of any payment or repayment to any of the employers (i.e. the Group) out of the fund.

Actuariial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to the pension plan are charged or credited to income over the overage remaining service lives of the related employees.