

Grace, Kennedy & Company Limited

Unaudited Results For quarter ended

30 June 2004

INTERIM REPORT TO OUR STOCKHOLDERS

The Directors are pleased to present the unaudited results of the Group for the quarter ended 30 June 2004.

The Group achieved Revenues for the period of \$14,809.6 million (2003: \$10,644.6 million), an increase of \$4,165.0 million or 39.1%. The Net Profit Attributable to Stockholders increased by \$119.8 million over the corresponding period of 2003, moving from \$792.6 million to \$912.4 million, an increase of 15.1%. This represents earnings per stock unit of \$ 8.82 (2003: \$2.45).

The Food Trading Division had a satisfactory quarter. Our meat processing plant in Savanna-la-mar, Grace Food Processors Limited, has shown good performance with very strong demand for its products, particularly Grace Vienna Sausages and Grace Bacon. During the quarter, we launched four (4) flavours of the new Grace Instant Noodle Soup in Canada and Jamaica. The initial response has been very positive. Towards the end of June, we also introduced Grace Tropical Rhythms in 280 ml PET bottles in Canada, England, France, USA, and parts of the Caribbean. The merger of

Elvico, the beverage distribution company that we recently acquired in Canada through Grace Kennedy Ontario Inc., has been progressing well.

The Retail & Trading Division showed mixed results for the quarter. We increased our shareholdings in Fidelity Motors Limited from 15% to 30% and it is now accounted for as an associated company. The company is having an excellent year so far in terms of new car sales and profit and this is expected to continue. The newly merged Hardware & Lumber Group performed exceptionally well for the quarter with profits increasing significantly over the prior year. The Hardware & Lumber Group sold its janitorial business, Office Services Limited, to Manpower & Maintenance Services Limited. Hi-Lo Food Stores (Jamaica) Limited which continues to perform below expectations, is receiving special attention to improve its performance.

The Financial Services Division continued to report excellent results for the period under review. On 1 July, the merger of FGB Securities Limited, First Global Stockbrokers Limited, Grace Pension Management Limited, Grace, Kennedy Properties Limited, and First Global Insurance Limited into First Global Financial Services Limited was successfully completed. The combined entity, offering a full range of financial services, which includes products such as local and foreign currency investments, stock broking, and pension management, has combined assets of approximately \$14 billion. The reorganization of the Financial Services Division will continue, as we now turn our attention toward the formation of a financial holding company to own both First Global Financial Services Limited and First Global Bank Limited and the listing of that company in 2005,

Jamaica International Insurance Company Limited and the Bank of St. Lucia have entered into a joint venture to establish a general insurance company in St. Lucia. Jamaica International Insurance Company Limited will have a 30% ownership in the company. The new company, EC Global Insurance Limited, is expected to receive approval from the St Lucian regulators to begin its operations in August 2004.

The agency operations in the Maritime Division have reported mixed results for the quarter. The Stevedoring and Equipment Hireage subsidiary, Port Services Limited, sold its port equipment by way of public tender. The company will continue to provide Trucking and Labour Stevedoring Services. As was reported in the 1st quarter report, Grace, Kennedy's role in the maritime industry is under review and we will keep you informed of our strategic direction as this evolves.

The Information Services Division had a reasonably good performance for the second quarter. Grace, Kermedy Remittance Services Limited, in collaboration with Western Union International, the United States Embassy and the US Agency for International Development (USAID) launched a new programme, I PLEDGE, to help with educating Jamaica's youth. I PLEDGE is the acronym for I Promis to Lend Encouragement to Develop Growth in Education. This programme assists with providing mathematics books for Grades 1 - 6 at the primary level in schools across Jamaica. The initiative will incorporate Jamaicans living in the state of Florida where US\$ 1 will be contributed to the fund each time a customer sends money to Jamaica.

Caribbean Outpost opened its second location on North State Road in Lauderdale Lakes, Florida to join the first such outlet in Brooklyn, New York.

The Grace, Kennedy Group has been through a transformation in its drive to meet the changing needs of our customers both locally and internationally. With these changes, our outlook has become more focused and as a result it was decided that our mission statement should be changed to reflect these changes, along with the introduction of a vision statement. The announcement was made at the mid-Year Group Business Conference held in July 2004. The theme was "From Strategy to Execution".

The new mission statement for the Group is:-

"To satisfy the unmet needs of Caribbean people wherever we live in the world."

Our new vision statement is:-

"We will grow long term shareholder value by satisfying the unmet needs of Caribbean people, through the timely delivery of desired products and services to consumers wherever they may be located, delivered by great people empowered with the right skills, necessary tools and a shared vision"

The first set of second and third generation Jamaicans to participate in the Grace, Kennedy Jamaican Birthright Programme arrived in the island in June 2004 and they have started their summer internship throughout the Group. We welcome them into our midst and extend our appreciation to the members of staff who have opened up their homes to become host families to these students.

My thanks go to my colleague directors, management and staff who continue to be dedicated to the efforts of continuity and growth of the Grace, Kennedy Group through their dedication, commitment and service. I also wish to thank our customers, consumers, suppliers, and all stakeholders for their continuous support in helping our businesses to grow in response to our customers' needs.

Douglas R. Orane

29 July 2004

GROUP PROFIT AND LOSS ACCOUNT - Unaudited

quarter ended 30 June 2004

	3 months to 30/06/2004	6 months to 30/06/2004	3 months to 30/06/2003	6 months to 30/06/2003
	\$'000	\$'000	\$'000	\$'000 ***
Revenues	7,471,581	14,809,637	5,005,141	10,644,619
Expenses	6,994,398	13,748,819	4,505,641	9,730,851
Trading Profit	477,183	1,060,818	499,500	913,768
Other operating income	102,819	152,784	(25,996)	23,008
Profit from Operations	580,002	1,213,602	473,504	936,776
Finance Income/(costs) - net	20,961	56,271	53,815	118,067
Share of results of associated companies	5,632	57,107	17,877	88,605
Profit before Taxation	606,595	1,326,980	545,196	1,143,448
Taxation	155,440	371,555	141,752	320,951
Profit after Taxation	451,155	955,425	403,444	822,497
Minority interest in results of subsidiaries	23,830	42,988	17,215	29,871
Net Profit Attributable to the Stock	427,325	912,437	386,229	792,626

Earnings per stock unit of \$1.00

Basic	\$1.32	\$2.82	\$1.20	\$2.45
Diluted	\$1.29	\$2.75	\$1.19	\$2.43

*** : Restated to comply with IFRS

GROUP BALANCE SHEET - Unaudited

June 30, 2004

	June 2004 \$'000	December 2003 \$'000	June *** 2003 \$'000
NET ASSETS EMPLOYED			
Non-Current Assets			
Fixed assets	2,058,205	2,166,193	1,898,564
Goodwill, Trademarks	366,116	258,853	41,618
Investments in associates	373,718	1,614,553	1,628,112
Investments	4,065,023	2,861,197	1,701,450
Long term receivables	646,113	537,077	782,805
Deferred tax assets	592,804	580,700	432,509
Pension plan asset	4,070,547	3,897,041	3,599,736
	<u>12,172,526</u>	<u>11,915,614</u>	<u>10,084,794</u>
Current Assets			
Inventories	2,206,830	2,596,025	1,885,589
Receivables	4,903,158	4,792,884	4,119,685
Long term receivables - current	1,722,127	840,090	775,456
Taxation recoverable	417,798	394,907	258,903
Cash and short term investments	25,510,644	24,805,847	24,511,709
	<u>34,760,557</u>	<u>33,429,753</u>	<u>31,551,342</u>

Current Liabilities

Payables	5,889,370	5,999,062	4,916,284
Taxation	165,101	211,524	296,013
Bank and short term loans	1,851,628	1,773,247	2,629,163
Long term liabilities - current portion	88,901	100,198	95,335
Deposits	3,664,595	3,344,997	3,186,806
Securities sold under agreement to repurchase	18,695,385	17,729,384	17,010,341
	<u>30,354,980</u>	<u>29,158,412</u>	<u>28,133,942</u>
Net Current Assets	<u>4,405,577</u>	<u>4,271,341</u>	<u>3,417,400</u>
	<u>16,578,103</u>	<u>16,186,955</u>	<u>13,502,194</u>

FINANCED BY**Equity**

Share Capital	323,960	323,466	323,111
Capital and fair value reserves	2,682,515	3,448,660	3,296,230
Retained earnings	6,993,859	6,009,111	5,284,092
Reserve funds	643,207	643,207	321,936
Translation gains	1,140,646	1,143,895	1,040,849
	<u>11,784,187</u>	<u>11,568,339</u>	<u>10,266,218</u>

Minority Interest

503,297 460,032 256,397

Non-Current Liabilities

Long Term Liabilities	1,463,623	1,429,491	598,725
Deferred Tax Liabilities	1,956,627	1,890,002	1,584,779
Employee benefit obligations	870,369	839,091	796,075
	<u>4,290,619</u>	<u>4,158,584</u>	<u>2,979,579</u>
	<u>16,578,103</u>	<u>16,186,955</u>	<u>13,502,194</u>

*** : Restated to comply with IFRS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Unaudited

quarter ended 30 June 2004

	No. of Shares \$'000	Share Capital \$'000	Capital and Fair Value Reserve \$'000	Retained Earnings \$'000	Reserve Fund \$'000	Other Reserves \$'000	Total \$'000
Balance at 1 January 2003	323,075	323,075	3,236,802	4,899,671	321,936	684,994	9,466,478
Net gains/(losses) not recognised in the profit and loss account, net of tax:							
Foreign currency translation adjustments	-	-	-	-	-	355,855	355,855
Fair value adjustments	-	-	(252,559)	-	-	-	(252,559)
Revaluation surplus	-	-	-	-	-	-	-
Net excess of investments	-	-	-	-	-	-	-
Total	-	-	(252,559)	-	-	355,855	103,296
Restated Net profit	-	-	-	792,626	-	-	792,626
Issue of bonus shares	-	-	-	-	-	-	-
Issue of shares at a premium	36	36	715	-	-	-	751
Par value of bonus shares received	-	-	-	-	-	-	-
Transfers between reserves	-	-	311,272	(311,272)	-	-	-
Dividends	-	-	-	(96,933)	-	-	(96,933)
Withholding tax	-	-	-	-	-	-	-
Balance at 30 June 2003	323,111	323,111	3,296,230	5,284,092	321,936	1,040,849	10,266,21
Balance at 1 January 2004	323,466	323,466	3,448,660	6,009,111	643,207	1,143,895	11,568,33
Net gains/(losses) not recognised in the profit and loss account:							
Foreign currency translation adj	-	-	-	-	-	(3,249)	(3,249)
Fair value adjustments	-	-	127,169	-	-	-	127,169
Revaluation surplus	-	-	(702,674)	-	-	-	(702,674)
Net excess of investments	-	-	(1,813)	-	-	-	(1,813)
Total	-	-	(577,318)	-	-	(3,249)	(580,567)
Net profit	-	-	-	912,437	-	-	912,437
Issue of bonus shares	-	-	-	-	-	-	-
Issue of shares at a premium	494	494	13,003	-	-	-	13,497
Par value of bonus shares received	-	-	-	-	-	-	-
Transfers between reserves	-	-	(201,830)	201,830	-	-	-
Dividends	-	-	-	(129,519)	-	-	(129,519)
Withholding tax	-	-	-	-	-	-	-

Balance at 30 June 2004	323,960	323,960	2,682,515	6,993,859	643,207	1,140,646	11,784,18
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CONSOLIDATED STATEMENT OF CASH FLOWS - Unaudited

quarter ended 30 June 2004

	30/06/2004	30/06/2003
	\$'000	\$'000
SOURCES/ (USES) OF CASH:		
Operating Activities		
Net profit	912,437	792,626
Adjustments for items not affecting cash, changes in non-cash working capital components and other, net	247,692	(1,265,716)
Cash provided by/(used in) operating activities	1,160,129	(473,090)
Cash (used in)/provided by financing activities	(744,616)	1,387,850
Cash provided by/(used in) investing activities	300,655	(921,138)
Increase/(Decrease) in cash and cash equivalents	716,168	(6,378)
Cash and cash equivalents at beginning of year	2,160,145	1,667,918
Exchange and translation gains on net foreign cash balances	6,474	176,428
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,882,787	1,837,968

FINANCIAL INFORMATION BY BUSINESS SEGMENT - Unaudited

quarter ended 30 June 2004

Minority Interest	(29,871)
Net Profit	792,626

Notes

1. Accounting Policies

(a) 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 and financial assets.

The accounting policies followed in these interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2003.

These financial statements are presented in Jamaican dollars.

(b) Fixed Assets

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

(c) Investments

The Group classified its investments in debt and equity securities into the following categories: originated debts and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such

designation on a regular basis.

Originated debts are subsequently re-measured at amortised cost.

Available-for-sale investments are subsequently re-measured at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are recorded in the Capital and fair value reserve.

(d) Employee benefit costs

(i) Pension plan asset

The Group operates a defined benefit plan. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for actuarial gains/losses and post service 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.

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

(ii) Other employee benefit obligations

Some Group companies provide post-retirement healthcare benefits, group life, gratuity and supplementary plans to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by

independent qualified actuaries.

(e) Deferred taxation

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(f) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(g) 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 on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(h) Segment reporting

The Group is organized into five business segments which provide products and services that are subject to risks and returns dissimilar to each other:

- 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; securities trading; portfolio management; stockbroking; property rental; lease and trade financing; pension fund and mutual fund management;
- Maritime - Shipping agencies and other maritime services;
- Information - Operation of money transfer services; information technology and international telecommunications services.

(i) Comparative information

Where necessary, comparative figures have been reclassified to conform With changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to reflect the requirements of International Financial Reporting Standards.

2. Divestment

Prior to the divestment of its associated company Kingston Wharves Limited, Grace, Kennedy reassessed the estimated recoverable amount of Kingston Wharves' assets and adjusted their carrying amount for consolidation purposes through capital reserve. Subsequently, the company disposed of its approximately 44% shareholding in Kingston Wharves Limited to National Commercial Bank Jamaica Limited. The net proceeds of the sale were \$611.3 million.

Don Wehby
Chief Financial Officer
July 29, 2004
