

# Grace, Kennedy & Company Limited

Year Ended December 31, 2004

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## Chairman's Report

### Year in Review - 2004

As we pursue our 2020 Vision of transforming our company from a Jamaican trading company to a global consumer group with our roots in Jamaica, we have embraced a new mission statement:

**"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"**

Imbued with a renewed sense of purpose and a more clearly defined expression of our essence, position and personality we have introduced a new corporate logo. We believe that this will identify our corporate persona more clearly and consistently to our customers and partners. The new corporate logo is:

## GraceKennedy

This is our new identity and a solid representation of the values of honesty, integrity and trust - the foundation on which Grace, Kennedy & Company Limited was built and continues to operate. The official launch of the new corporate logo took place on GraceKennedy's birthday which was celebrated on February 14, 2005. The familiar Grace logo enclosed in its distinctive ellipse will continue unchanged as our cherished food brand.

The Directors of Grace, Kennedy & Company Limited are pleased to report that the Group achieved Revenues for the year of \$30.70 billion (2003: \$24.77 billion) an increase of \$5.93 billion or 24%. The Net Profit Attributable to Stockholders increased by \$245.1 million over the corresponding period of 2003, moving from \$1,980.2 million to \$2,225.5 million, an increase of 12.4%. This represents Earnings per Stock Unit of \$6.87 (2003: \$6.12). Our operating profits totalled \$2,415.3 million, an increase of 21.6% in comparison to the previous year's, result of \$1,986.3 million.

Dividends paid to stockholders during the year totalled \$291.9 million, a 38.9% increase over the \$210.1 million paid in 2003. In keeping with our dividend policy, 13.1% of Profit Attributable to Stockholders was paid out as dividends. The market value of the Company increased from \$17.45 billion at the end of 2003 to \$38.45 billion at the end of 2004, an increase of 120.0%.

Hurricane Ivan which hit Jamaica on September 10 - 11 had a negative effect on most businesses in Jamaica causing disruption for varying periods of time, especially to those businesses which produce and distribute goods. Our factories and export activities were adversely affected by the loss of crops suffered by our suppliers and inbound remittance fees were discounted very heavily during that period to facilitate the rebuilding process. In October of last year, the company lowered its forecast for 2004 profits attributable to shareholders to a range between 3% and 5% increase over 2003. This was based on the consideration of certain factors, which we took into account at the time, but our actual results show a 12.4% increase. These results reflect the following: Firstly, Hurricane Ivan did have an overall adverse effect, but the group recovered more quickly than expected. Secondly, after actuarial review, our pension fund's 2004 surplus was larger than originally forecast.

Thirdly, three of our major activities - our domestic food business, our bank and our remittance businesses performed substantially better than the forecast for the fourth quarter.

#### **Food Trading**

During the year, Grace, Kennedy (Ontario) Inc. acquired the assets of Elvico Sales Limited, a beverage wholesaling company in Canada. This acquisition has contributed to doubling our customer base in Canada and increasing the distribution outlets for the Grace Brand products especially the beverages. Grace-owned brands internationally grew to US\$36 million, a 7% increase. 2004 was a year of heavy investment in brand building through advertising and promotions, and consequently this reduced profits in this segment. Our food brands are now sold in 36 countries through 64 distributors.

World Brands Services Limited was appointed Jamaica's exclusive distributor for S.C. Johnson, a major US based company producing household products, which include outstanding brands such as Glade air freshener, as well as Raid and Baygon insecticides.

#### **Retail & Trading**

The merger between Hardware & Lumber Limited and Rapid & Sheffield Company Limited has been successful and has contributed to the increasingly positive results in sales and profits for this division. Hardware & Lumber Limited sold its janitorial business, Office Services Limited, to Manpower & Maintenance Services Limited. Our shareholding in Fidelity Motors Limited has been increased from 15% to 30% and it is now accounted for as an associated company.

The installation of a major information system was carried out in Hi-Lo Food Stores (Jamaica) Limited. This system is expected to improve customer satisfaction at check-out, and to enable better management of inventories thus ensuring a consistent availability of goods. This software system will be extended to Hardware & Lumber Limited in 2005.

#### **Financial Services**

The Financial Services Division successfully completed the reorganisation of its banking entities and its securities, pension management, leasing and stockbroking companies during the year. EC Global Insurance Limited, a joint venture between Jamaica International Insurance Company Limited and the Bank of St. Lucia Limited, which offers general insurance in St. Lucia, was officially launched at a function held at the Sandals Grande St. Lucian Beach Resort & Spa on 26 September. GraceKennedy and Guardian Holdings Limited entered into a 50/50 joint venture to set up a company in Jamaica which will offer health insurance. The company should begin to offer its services during the first half of 2005.

### **Information Services**

Our money transfer operations continued to grow during the year. Increasingly, comprehensive compliance programmes to combat money laundering have substantially added to the cost of running these businesses. Pricing initiatives undertaken with Western Union during the year have resulted in satisfactory double digit transaction growth out of the USA and Canada. These steady reductions in remittance fees appear to be stimulating an expansion of the total size of the remittance market, an encouraging development for the Caribbean economies that we serve.

In the wake of Hurricane Ivan, GraceKennedy and Western Union set up a special fund known as the "GraceKennedy/Western Union Build Back Jamaica Initiative" to assist Jamaicans in need after the hurricane, and to provide a channel for Jamaicans in the Diaspora and Jamaica's friends overseas to contribute easily and expeditiously to the rebuilding process in Jamaica. Each company committed to 50% of the initial \$30 million that was used to set up the fund.

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

### **Maritime Activities**

We reported during the year that we were reviewing our involvement in the maritime industry as part of the process of streamlining our core businesses and transforming our company from a Jamaican trading company to a global consumer group. We divested our shareholdings in Kingston Wharves Limited, sold the port equipment and spare parts of Port Services Limited and sold two of our shipping agencies to a former board member, Mr. Robert Kinlocke. We take this opportunity to thank Mr. Kinlocke who resigned on December 31, 2004, for his years of valuable service as a Director of GraceKennedy and wish him every success in his future endeavours.

The two companies retained from the Maritime division, Grace, Kennedy & (Company) Shipping Limited and Port Services Limited continue to operate, with the former continuing to represent all its existing principals and the latter continuing to provide stevedoring services. These companies are now under the corporate umbrella.

### **Management and Board Changes**

On April 30, 2004, Mr. Adrian Wallace, Chief Risk Officer for the GraceKennedy group retired after 22 years of service. We thank him for his dedicated service and wish him a contented retirement. Mr. Philip Alexander has been appointed Chief Risk Officer and Mrs. Jacqueline

Leckie-Johnson, Chief Internal Auditor. The group has embarked on a programme to embed enterprise risk management throughout its activities.

The Board of Directors welcomes the appointment of Mr. LeRoy Bookal as an external Director of the company. Mr. Bookal, a Certified Internal Auditor and Certified Management Accountant, comes with a wide range of experience. He is the former Auditor General of the World Bank, retired General Auditor of Texaco Inc. and former Chairman of the International Institute of Internal Auditors headquartered in the USA.

We pay tribute to the memory of the late Professor Gladstone Mills who was a long serving director of the Grace, Kennedy Foundation. He joined the Foundation at its inception in 1982 and served as Chairman from 1989 until his retirement in 2002.

#### **Corporate Social Responsibility**

The Grace, Kennedy Foundation expanded its educational outreach by inaugurating a scholarship at the Edna Manley College for the Visual and Performing Arts. Also, of significance was the Youth Symposium on the theme "My responsibilities as a citizen" which was attended by over 150 young persons from high schools, community colleges, teachers' colleges and UTECH.

"The Citizen and the Law: Perspectives Old and New", was the title of the 2004 Grace, Kennedy Foundation lecture series which was presented by Queen's Counsel Dennis Morrison.

The Grace and Staff Community Development Foundation increased the number of social intervention officers from three to seven, and expanded the scope of their work. They helped to solidify the work of the Central Kingston Task Team comprising our neighbourhood residents determined to create a stable, peaceful environment. The officers were active in coordinating the inspection and assessment of needs following Hurricane Ivan. At the request of the Minister of National Security, the Foundation presented the Social Intervention Roadmap, which is an outline of working with communities to design and implement developmental programmes using the participatory approach.

In addition, following Hurricane Ivan, GraceKennedy provided relief supplies to Jamaica, Grenada and Haiti.

Summer 2004 saw the roll out of GraceKennedy's Jamaican Birthright Programme where second and third generation Jamaicans overseas participated in an internship programme throughout the GraceKennedy group. We received excellent feedback about the programme and appreciate

the courtesies extended to these students by the host families.

In 2004, we invested J\$15 million in equity in the Kingston City Centre Improvement Company Limited to facilitate the redevelopment and rehabilitation of downtown Kingston.

#### **Investing in our People**

In order to enhance our capabilities, we introduced in 2004 a management tool called the Balanced Scorecard. This management tool allows us to focus on the cause and effect relationships between the development of our people, effective internal processes and customer satisfaction which ultimately lead to the financial results desired by our shareholders. This process recognizes the development and empowerment of our people as the foundation for the other areas, and has required our commitment to investing in our people as the source of our ultimate competitive advantage.

During the latter part of the year, we initiated the Accelerated Development Programme where by candidates at both the junior and senior levels will be recruited, put through a process of rotation and training and then placed in the various divisions.

Consequent to the stock option plan that was approved at GraceKennedy's annual general meeting in May 2003, options were offered to 66 managers and other personnel within the group. This brings to 193 the number of people who have been offered stock options since the plan's inception. Initial indications are that the plan is working well in retaining people critical to the running of the group, as the turnover within this cadre in the last two years has been less than 3% per annum.

#### **Outlook**

We are optimistic about the future because of the combination of our own Caribbean people asking us to provide more goods and services for them, and because of the calibre of our own employees within GraceKennedy who will make this a reality. In 2000, we had set an ambitious objective to earn at least 50% of our profits from economies outside of Jamaica. Even though we have increased the revenues and profits from our internationally focussed businesses, our growth in the domestic Jamaican economy has consistently exceeded our expectations. Hence, in 2004 we earned 85% of our profits from businesses based on the Jamaican economy.

Last year, we set a new stretch target which is to grow profits from economies outside of Jamaica at 20% per annum. We are in the process of assessing the resources needed to make this become a reality.

During 2004, GraceKennedy continued to prepare for the Caribbean Single Market and Economy by investing in building our brands throughout the Caribbean and investing in our people and processes outside of Jamaica. We are making the necessary preparations for listing on the Eastern Caribbean Stock Exchange which will increase opportunities for CARICOM citizens to invest in GraceKennedy.

We appreciate the continued support of our customers, consumers, suppliers and all stakeholders in our efforts to provide better service and create greater value. The dedication and commitment of our team of directors, management and staff has contributed to keeping our company vibrant and strong.

Douglas R. Orane  
Chairman & Chief Executive Officer

March 16, 2005

## CONSOLIDATED PROFIT AND LOSS ACCOUNT - Audited

### YEAR ENDED 31 DECEMBER 2004

	2004	2003
	\$'000	\$'000
<b>Revenues</b>	30,703,792	24,765,501
Expenses	<u>28,288,527</u>	<u>22,779,209</u>
<b>Trading Profit</b>	2,415,265	1,986,292
Other operating income	<u>421,034</u>	<u>365,027</u>
<b>Profit from Operations</b>	2,836,299	2,351,319
Finance Income/(costs) - net	313,777	206,620
Share of results of associated companies	<u>83,065</u>	<u>110,291</u>
<b>Profit before Taxation</b>	3,233,141	2,668,230
Taxation	<u>906,162</u>	<u>627,712</u>
<b>Profit after Taxation</b>	2,326,979	2,040,518
Minority interest in results of subsidiaries	<u>101,712</u>	<u>60,327</u>

<b>Net Profit Attributable to the Stockholders</b>	2,225,267	1,980,191
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Earnings per stock unit of \$1.00		
Basic	\$6.87	\$6.12
	=====	=====
Diluted	\$6.72	\$6.01
	=====	=====

## CONSOLIDATED BALANCE SHEET - Audited

31 DECEMBER 2004

	December 2004 \$'000	December 2003 \$'000
<b>NET ASSETS EMPLOYED</b>		
<b>Non-Current Assets</b>		
Fixed assets	2,175,647	2,166,193
Goodwill, Trademarks	312,751	258,853
Investments in associates	414,516	1,614,553
Investments	2,947,076	2,861,197
Long term receivables	1,746,285	537,077
Deferred tax assets	601,249	580,700
Pension plan asset	4,409,317	3,897,041
	<u>12,606,841</u>	<u>11,915,614</u>
<b>Current Assets</b>		
Inventories	3,329,331	2,596,025
Receivables	5,636,348	4,792,884
Long term receivables - current	789,424	840,090
Taxation recoverable	531,965	394,907
Cash and short term investments	29,789,656	24,805,847
	<u>40,076,724</u>	<u>33,429,753</u>
<b>Current Liabilities</b>		
Payables	7,304,489	5,916,603
Provisions	8,979	76,238



Taxation	467,916	211,524
Bank and short term loans	2,052,007	1,773,247
Long term liabilities - current portion	177,060	100,198
Deposits	4,185,409	3,344,997
Securities sold under agreement to repurchase	<u>20,335,155</u>	<u>17,729,384</u>
	<u>34,531,015</u>	<u>29,152,191</u>
<b>Net Current Assets</b>	<u>5,545,709</u>	<u>4,277,562</u>
	<u>18,152,550</u>	<u>16,193,176</u>
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<b>FINANCED BY</b>		
<b>Equity</b>		
Share Capital	325,817	323,466
Capital and fair value reserves	2,955,592	3,448,660
Retained earnings	8,017,959	6,009,111
Reserve funds	696,529	643,207
Translation gains	<u>1,217,365</u>	<u>1,143,895</u>
	<u>13,213,262</u>	<u>11,568,339</u>
<b>Minority Interest</b>	507,527	460,032
<b>Non-Current Liabilities</b>		
Long Term Liabilities	1,474,367	1,429,491
Deferred Tax Liabilities	2,103,422	1,890,002
Employee benefit obligations	847,456	839,091
Provisions	<u>6,516</u>	<u>6,221</u>
	<u>4,431,761</u>	<u>4,164,805</u>
	<u>18,152,550</u>	<u>16,193,176</u>
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Approved for issue by the Board of Directors on 16 March 2005 and signed on its behalf by:

D. R. Orane  
Chairman

D.G. Wehby  
Chief Financial Officer

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Audited**

**YEAR ENDED 31 DECEMBER 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
<b>Balance at 1 January 2003</b>	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	-	-	-	-	-	458,901	458,901
Revaluation surplus	-	-	31,037	-	-	-	31,037
Fair value adjustments	-	-	(128,964)	-	-	-	(128,964)
Other	-	-	14,330	-	-	-	14,330
<b>Total</b>	-	-	(83,597)	-	-	458,901	375,304
Restated Net profit	-	-	-	1,980,191	-	-	1,980,191
Issue of bonus shares	-	-	-	-	-	-	-
Issue of shares at a premium	391	391	6,915	-	-	-	7,306
Par value of bonus shares received	-	-	-	-	-	-	-
Transfers between reserves:							
To reserve funds	-	-	-	(321,271)	321,271	-	-
To capital reserves -							
Profits capitalised in subsidiaries	-	-	294,815	(294,815)	-	-	-
Other	-	-	1,715	(1,715)	-	-	-
From capital reserves	-	-	(7,990)	7,990	-	-	-
Other	-	-	-	(50,794)	-	-	(50,794)
Dividends	-	-	-	(210,146)	-	-	(210,146)
<b>Balance at 31 December 2003</b>	<b>323,466</b>	<b>323,466</b>	<b>3,448,660</b>	<b>6,009,111</b>	<b>643,207</b>	<b>1,143,895</b>	<b>11,568,339</b>

<b>Balance at 1 January 2004</b>	323,466	323,466	3,448,660	6,009,111	643,207	1,143,895	11,568,339
Net gains/(losses) not recognised in the profit and loss account:							
Foreign currency translation adjustments	-	-	-	-	-	73,470	73,470
Revaluation surplus	-	-	(658,513)	-	-	-	(658,513)
Fair value adjustments	-	-	326,466	-	-	-	326,466
Other	-	-	(43,938)	-	-	-	(43,938)
Total	-	-	(375,985)	-	-	73,470	(302,515)
Net profit	-	-	-	2,225,267	-	-	2,225,267
Issue of bonus shares	-	-	-	-	-	-	-
Issue of shares at a premium	2,351	2,351	71,541	-	-	-	73,892
Par value of bonus shares received	-	-	-	-	-	-	-
Transfers between reserves:	-	-	-	-	-	-	-
To reserve funds	-	-	-	(53,322)	53,322	-	-
From capital reserves	-	-	(188,624)	188,624	-	-	-
Other	-	-	-	(59,803)	-	-	(59,803)
Dividends	-	-	-	(291,918)	-	-	(291,918)
<b>Balance at 31 December 2004</b>	<b>325,817</b>	<b>325,817</b>	<b>2,955,592</b>	<b>8,017,959</b>	<b>696,529</b>	<b>1,217,365</b>	<b>13,213,262</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS - Audited**

**YEAR ENDED 31 DECEMBER 2004**

	2004 \$'000	2003 \$'000
<b>SOURCES/(USES) OF CASH:</b>		
<b>Operating Activities</b>		
Net profit	2,225,267	1,980,191
Adjustments for items not affecting cash, changes in non-cash working capital components and other, net	<u>(499,882)</u>	<u>(1,497,715)</u>
Cash provided by operating activities	1,725,385	482,476
Cash (used in)/provided by financing activities	(526,604)	1,261,884
Cash provided by/(used in) investing activities	<u>334,685</u>	<u>(1,376,960)</u>
Increase in cash and cash equivalents	1,533,466	367,400
Cash and cash equivalents at beginning of year	2,160,145	1,667,918
Exchange and translation gains on net foreign cash balances	<u>10,253</u>	<u>124,827</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>3,703,864</u>	<u>2,160,145</u>
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**FINANCIAL INFORMATION BY BUSINESS SEGMENT - Audited**

**YEAR ENDED 31 DECEMBER 2004**

12 months to 31 December 2004	Food Trading \$'000	Retail & Trading \$'000	Financial Services \$'000	Maritime \$'000	Information \$'000	Consolidation Adjustments \$'000	Group \$'000
<b>REVENUE</b>							
External sales	11,414,118	10,467,354	6,021,565	256,889	2,543,866		30,703,792
Inter-segment sales	440,875	2,814	130,088	29,297	-	(603,074)	-
Total Revenue	<u>11,854,993</u>	<u>10,470,168</u>	<u>6,151,653</u>	<u>286,186</u>	<u>2,543,866</u>	<u>(603,074)</u>	<u>30,703,792</u>
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