

GraceKennedy Limited

CHAIRMAN'S REPORT

YEAR IN REVIEW - 2006

Eleven years ago we developed our 2020 Vision of transforming GraceKennedy Limited from a Jamaican trading company to a global consumer group with our roots in Jamaica.

Our mission statement is:

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

Our 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 the consumers wherever they may be located, delivered by great people empowered with the right skills, necessary tools and shared vision.

During the course of the year, we recognized that a continuing trend of increasing sales combined with declining profits required us to review and fundamentally change the way the group functions. We asked ourselves the following questions:

1. What businesses should GraceKennedy be in?
2. How will the current subsidiaries fit under a future business model?
3. What is the ideal overhead infrastructure to support a new business model?
4. How will individual support functions for subsidiaries be configured?

By asking ourselves these tough questions, we developed an initiative called “Designing GraceKennedy for the 21st Century” which caused us to develop a new structure which was implemented on December 1, 2006. We believe that we have created the foundation for the continuing growth of the GraceKennedy group including the reversal of declining profits over the past two years.

The Directors present the results for the year ended 31 December 2006. Revenues have continued to grow which is encouraging in a Jamaican market that has been generally soft in terms of consumer demand during the year. The Group recorded sales for the year of \$36.08 billion (2005: \$33.03 billion) an increase of \$3.05 billion, or 9.25%. The Net Profit Attributable to Stockholders was \$1.84 billion compared to \$2.07 billion in 2005, a decline of \$0.23 billion, or 11.11%.

Dividends paid to stockholders during the year were \$340.6 million a 4.16% increase over the \$327.0 million paid in 2005. In keeping with our dividend policy, 18.46% of profit attributable to stockholders was paid out as dividends.

Designing GraceKennedy for the 21st Century

After several months’ work, a corporate structure based on our new business model took effect on December 1, 2006. It simplifies the group by having two business entities instead of the previous four divisions. The two new entities are GK Foods and GK Investments.

GK Foods incorporates all of the food related businesses and is headed by Erwin Burton. GK Investments comprises all of the other businesses including insurance, banking, remittances, hardware and other investments and is headed by Don Wehby.

I continue as Chairman & CEO of GraceKennedy Limited. The new structure includes the following changes to the Executive Management team:

- ◆ Erwin Burton – CEO, GK Foods, and Deputy Chief Executive Officer, GraceKennedy Limited
- ◆ Don Wehby – CEO, GK Investments, and Deputy Chief Executive Officer, GraceKennedy Limited
- ◆ Fay McIntosh – Chief Financial Officer, GraceKennedy Limited
- ◆ Joe Taffe – Deputy Chief Executive Officer, GK Investments

The Group has also reduced the size of its corporate offices as part of its bid to lower the costs associated with running the organization. As a result, services such as HR and Information Technology, which had largely been provided centrally, have been moved into the subsidiary companies where they can be delivered more effectively.

The restructuring gives greater autonomy to the two new business entities and their related subsidiaries, thus enabling them to compete more effectively in their respective industries.

On the GK Investments side of the business, Don Wehby and his team have been charged with the mandate of adding to Grace Kennedy's bottom line through the effective management of a profitable portfolio of investment businesses. This will be achieved through mergers, acquisitions and investments locally and internationally, new-venture development and the organic expansion of current entities.

GK Foods is also poised for further growth. The Erwin Burton led team has consolidated several of the food manufacturing, distribution and retail subsidiaries into one company - GK Foods & Services Ltd. The streamlining within GK Foods will create a greater ability for expansion both in Jamaica and in international markets.

The reorganization costs, totalling \$100 million, associated with this exercise have been expensed in the fourth quarter. Significant savings from this reorganization are expected in calendar year 2007 and beyond.

GK Foods

The companies which now comprise GK Foods experienced a challenging year where revenues and profits are concerned. Grace-owned brands grew internationally to US\$47.3 million in revenues – a 12.4% increase over 2005. The implementation of the new SAP software system was completed in all the domestic and international companies allowing us to centralize a number of functions including accounting and procurement, which should result in improved productivity. New products introduced domestically and internationally included Grace Jus Soy soya milk in four flavours, Grace Fritters Mix, Johnny Cake Mix, Cornmeal Pudding Mix, Grace Instant Porridges and the Grace Chips a Treat line of plantain and banana chips. Initial responses have been very good as consumers show preference for more convenience foods.

GK Investments

The companies which now comprise GK Investments experienced mixed results during the year under review. Business development and improved customer service levels were the primary focus for our banking and investment companies - First Global Bank Limited (FGB) and First Global Financial Services Limited. The launch of FGB credit cards saw the FGB Platinum card exceeding expectations both in terms of number of cards issued and financial performance. Jamaica International Insurance Company Limited, now branded as JIIC, and Allied Insurance Brokers Limited focused their efforts on maintaining and building long-term profitable relationships with clients.

During the latter part of the year, weaknesses in internal controls coupled with difficulties experienced in implementing new IT systems, caused our Jamaican remittance business to make provisions totaling \$466 million. This was primarily due to doubtful receivables for which collection efforts are continuing. In addition evidence emerged that there had been fraud in the Jamaican remittance business. Corrective steps have been taken to avoid a repeat of these occurrences. The effect of this provision has been a drop in profits of our

remittance business, which significantly contributed to our group profits being below that forecasted early in 2006.

Our publicly traded subsidiary, Hardware & Lumber Limited, was seriously affected for most of the year by an island-wide shortage of cement which significantly constricted activities in the construction industry.

Divestments

As part of our review of our portfolio of companies, the GraceKennedy group is focusing on those industries in which we believe we have a distinctive competence which we can turn to a competitive advantage, and in which the industry dynamics are amenable to us achieving growth organically or by acquisition, or a combination of both. If these criteria are not present, the group will exit the industry in order to focus on other areas which will produce better long-term returns for our shareholders.

After thorough deliberation based on the above criteria, the following decisions were made -

In June 2006, GraceKennedy sold its 50% interest in Medecus Health Insurance Agency and MedeCus Health Insurance Company Limited to Guardian Life for \$74 million.

Medi-Grace Limited was sold during the 3rd quarter for \$98 million. As part of the sale agreement some product lines – Energizer Batteries, Dark & Lovely and Dial, were retained and transferred to World Brands Services Limited.

Acquisitions

Based on our review of where the group possesses distinctive competencies that can be turned to competitive advantage, we believe that two of the industries in which these characteristics prevail are the food industry and the general

insurance industry. As a result, we are pursuing a strategy of growth in both these industries organically and by acquisition.

On February 28, 2007, GraceKennedy Limited acquired the WT (Holdings) Limited Group ("WT Foods") of the United Kingdom, a leading ethnic and specialty foods supplier, from Bridgepoint Capital Limited, a European private equity firm for £23 million.

WT Foods comprises three main businesses: Enco, a leading supplier of Afro-Caribbean foods and drinks with principal brands being the Nurishment, Encona and Dunn's River brands, Chadha, a specialist supplier of Oriental products to the grocery trade, and Funnybones, an American, Mexican, Cajun, Indian and Oriental food specialist for the food service market.

The WT Foods group operates from a modern distribution facility of 119,000 sq. ft. providing ambient, chilled and frozen space, and 20,000 sq. ft. of office accommodation located in Welwyn Garden City, approximately 23 miles north of Central London.

The annualized sales of the WT Foods group is currently approximately £60 million per annum. In 2005, the total market for ethnic foods in the UK was estimated at £1.3 billion. This acquisition will increase GraceKennedy's group sales by over 20%. WT Foods provides GK Foods with access to a steadily growing ethnic and specialty foods market through a company that has strong professional management, a positive cash flow, and well established brands.

On March 6, 2007, GraceKennedy Limited acquired a 30% stake in Trident Insurance Company Limited of Barbados, subject to regulatory approval. Trident Insurance has been offering property, motor and accident insurance in Barbados for over thirty years. It is a profitable entity with significant growth potential. This is GraceKennedy's third investment in general insurance outside of Jamaica and

is in keeping with our strategy to expand our interest in general insurance in the English speaking Caribbean.

Developing our people

The execution of GraceKennedy's strategy is dependent on developing our people at all levels. By using management tools such as the Balanced Scorecard, we have been measuring factors which guide us towards attracting and keeping our talented employees. With the reorganisation of the group, the emphasis on training has been shifted to developing skills which are industry specific in relation to our subsidiaries.

During the process of our restructuring exercise last year, we took the greatest care possible under the circumstances to treat our GraceKennedy people respectfully, whether they were leaving the group or continuing in our employment. This exercise was inevitably painful as it involved the separation of eighty-nine personnel. I take this opportunity to sincerely thank those who are no longer with our GraceKennedy group for their contribution to the building of the group over the years while in our employment.

Board and management transitions

During the year, John Mahfood and Brian Goldson resigned from the board of GraceKennedy Limited.

We welcomed two directors to the Board, in the persons of Fay McIntosh and Joseph Esau.

Mrs. McIntosh joined the GraceKennedy group in 1978 as staff accountant. After working her way up the organisation, she assumed the position of Chief Financial Officer on December 1, 2006. She has served as Deputy Chief Financial Officer since October 1998.

Joseph Esau is a businessman resident in Trinidad & Tobago. He brings to the Board the additional perspective of a director with many years experience in the Caribbean.

We were saddened by the death of retiree Faustine Sharp, former Director of GraceKennedy Limited and one of our longest serving employees who died on February 23, 2007. After several promotions over the years, she was named Credit Manager for the Merchandise Division in 1977, a position she held until her retirement in May 1993.

Mrs. Sharp will long be remembered for her faithful and dedicated service to GraceKennedy Ltd. having served this company for over 49 years.

Corporate Social Responsibility

Grace & Staff Community Development Foundation

Grace and Staff Community Development Foundation impacted directly on the lives of 3,117 persons through its various programmes and activities in 2006. The Foundation also continued to work closely with several community based organizations. One such organization, Parents of Inner City Kids (PICK), received national recognition as the Coalition for Better Parenting selected Althea Beverly as the winner of the 'Parent of the Year' Award in the NGO sector. Two PICK parents attended the Parent Conference in Slovakia and two other parents received training in peace- building at Mennonite University in the USA.

The work of Grace & Staff Community Development Foundation Homework Centres continues to contribute positively to the development of our children. Over 226 students benefited from the operation of the centres. Our thanks to our staff volunteers and university students who helped in preparing the students for their exams.

GraceKennedy Foundation

The annual GraceKennedy Foundation Lecture held on March 21, 2006, entitled "Children Caught in the Crossfire" generated great interest. It was presented by eminent pediatrician Dr. Maureen Samms-Vaughan, senior lecturer in child

health and consultant development and behavioral pediatrician at the University Hospital of the West Indies. The lecture trilogy on children, comprising those for 1993, 2003 and 2006, is in constant demand by the general public and academia. These lectures have become standard reference texts for research on children-related issues. They have brought to the forefront, a greater understanding of how we treat and should treat children.

The Foundation granted all five annual scholarships and presented the Carlton Alexander awards to deserving students. The year saw the resignation of Marlene Campbell as a director and the appointments to the board of Dave Myrie, Principal of Wolmer's Boys School and Radley Reid, retired principal of Champion College.

Luis Fred Kennedy Environmental Foundation

The Luis Fred Kennedy Environmental Foundation was a major donor to the Jamaica Conservation Development Trust (JCDDT) in 2006. The contribution assisted with the reforestation of 20 acres of land in the Blue Mountain region as well as helped to provide rangers who monitor the area. We were happy to partner with the JCDDT and hope that others will see the need to further develop and protect our vulnerable watershed areas.

Investing in our young people through sports

We have increased our involvement with local sporting associations based on our perception of organized sports as one of the greatest vehicles for promoting fair play, discipline and a drive for excellence among our Jamaican youth.

In January 2007 we extended our involvement with the Inter-Secondary Schools Sports Association (ISSA) in the area of Athletics, by announcing sponsorship of the annual Boys and Girls Athletic Championships. The event is the biggest school boy and girl athletics championship in the Caribbean and is the foundation

from which our future athletic stars emerge. We have committed a projected \$42 million for up to three years of sponsorship.

We renewed our association with the Jamaica Football Federation through a four-year commitment of \$15 million to its football world cup Back to Africa campaign. This will see our subsidiary, Grace Foods & Services Company supplying products, and providing cash to purchase items not carried by GraceKennedy. We have also contracted the services of well-known nutritionist Dr. Heather Little White to provide nutrition training for the cooking staff assigned to the players. Eight years ago we had a very successful sponsorship of the Road to France campaign, which saw Jamaica qualifying for the World Cup for the first time.

We continue to support schoolboy cricket, through the Grace Shield competition, and also through the Rural Cricket competition.

Birthright Programme

Six enthusiastic young adults of Jamaican parentage were chosen from the United Kingdom, Canada and the United States to participate in GraceKennedy's Jamaican Birthright Programme, which is now in its third year. The programme is a fully paid cultural and professional internship geared towards highlighting aspects of Jamaican culture, while furthering the career goals of the candidates. We have been receiving positive feedback on this programme and have maintained contact with our Birthright participants who have become enthusiastic ambassadors for GraceKennedy and Jamaica.

Awards

In March 2006, Sir William Morris, O.J. and myself were jointly awarded the Martin Luther King Jr. humanitarian award, conferred by the Jamaica American Friendship Association.

Also in March, GraceKennedy Limited received two major awards at a gala reception for agents of Western Union held in the Dominican Republic. The two awards – Brand Champion of the Year for 2005 and the Community Empowerment Award for 2005, were among several presented by Western Union in recognition of its most outstanding representatives servicing customers throughout Latin America and the Caribbean.

Gratitude to our Stakeholders

I wish to thank all those customers, consumers, suppliers and other stakeholders who made suggestions on improving the way we do business in what was a year filled with major changes, both within and outside the group. I further thank our directors, management and staff for their dedicated commitment which has resulted in GraceKennedy Limited being able to adapt to a changing environment, and so be well positioned to thrive in the future.



Douglas Orane
Chairman & CEO

March 26, 2007

GRACEKENNEDY LIMITED

Financial Statements

31 December 2006

GraceKennedy Limited

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31 December 2006

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Independent Auditors' Report

To the Members of
GraceKennedy Limited

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of GraceKennedy Limited and its subsidiaries ("the group"), set out on pages 1 to 84, which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the accompanying balance sheet of GraceKennedy Limited standing alone as of 31 December 2006 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Members of GraceKennedy Limited
Independent Auditors' Report
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Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as of 31 December 2006, and of financial performance, changes in equity and cash flows of the group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.



Chartered Accountants

26 March 2007

[Kingston], Jamaica

GraceKennedy Limited

Consolidated Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
Assets			
Cash and deposits	5	10,071,877	5,728,483
Investment securities	6	32,973,151	31,579,264
Receivables	7	5,807,709	6,423,981
Inventories	8	3,545,919	3,885,246
Loans receivable	9	4,645,883	3,462,476
Taxation recoverable		584,161	538,178
Investments in associates	10	657,699	475,205
Intangible assets	11	984,824	1,035,914
Fixed assets	12	2,347,625	2,308,182
Deferred tax assets	13	823,127	599,159
Pension plan asset	14	5,810,890	5,064,748
Total Assets		68,252,865	61,100,836
Liabilities			
Deposits		9,789,234	8,957,153
Securities sold under agreements to repurchase		22,777,553	18,985,588
Bank and other loans	15	5,750,308	5,186,283
Payables	16	7,745,203	8,128,709
Taxation		389,219	456,754
Provisions	17	9,285	9,285
Deferred tax liabilities	13	2,684,129	2,382,807
Other post-retirement obligations	14	1,175,577	1,009,433
Total Liabilities		50,320,508	45,116,012

GraceKennedy Limited

Consolidated Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
Equity			
Capital and reserves attributable to the company's equity holders			
Share capital	18	405,686	325,744
Capital and fair value reserves	19	3,835,045	3,150,866
Retained earnings		10,513,278	9,536,534
Reserve funds	20	776,884	736,651
Other reserves		1,628,082	1,490,795
		17,158,975	15,240,590
Minority interest	21	773,382	744,234
Total equity		17,932,357	15,984,824
Total Equity and Liabilities		68,252,865	61,100,836

Approved for issue by the Board of Directors on 26 March 2007 and signed on its behalf by:

Douglas Orane

Chairman

Fay McIntosh

Chief Financial Officer

GraceKennedy Limited

Consolidated Profit and Loss Account

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
Revenues	23	36,088,247	33,031,615
Expenses	24	34,349,153	30,791,524
		1,739,094	2,240,091
Other income		808,820	655,314
Profit from Operations		2,547,914	2,895,405
Interest income – non-financial services		401,714	443,243
Interest expense – non-financial services		(457,871)	(347,610)
Share of results of associated companies	10	32,795	64,209
Profit before Taxation		2,524,552	3,055,247
Taxation	27	(653,741)	(933,553)
NET PROFIT		1,870,811	2,121,694
Attributable to:			
Stockholders of GraceKennedy Limited	28	1,845,004	2,074,936
Minority interest	21	25,807	46,758
		1,870,811	2,121,694
Earnings per Stock Unit for profit attributable to the equity holders of the company during the year -	30		
Basic		\$5.67	\$6.38
Diluted		\$5.61	\$6.26

GraceKennedy Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Attributable to equity holders of the company					Minority Interest	Total Equity	
		Number of Shares '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Reserve Fund \$'000	Other Reserves \$'000	\$'000	\$'000
Balance at 1 January 2005, as restated		324,359	324,359	3,095,761	7,944,154	696,529	1,291,170	507,527	13,859,500
Foreign currency translation adjustments		-	-	-	-	-	124,401	1,507	125,908
Revaluation surplus		-	-	12,533	-	-	-	-	12,533
Fair value gains		-	-	15,079	-	-	-	-	15,079
Other		-	-	146	-	-	-	-	146
Net income recognised directly in equity		-	-	27,758	-	-	124,401	1,507	153,666
Net profit		-	-	-	2,074,936	-	-	46,758	2,121,694
Total recognised income for 2005		-	-	27,758	2,074,936	-	124,401	48,265	2,275,360
Issue of shares at a premium	18 (a)	1,578	1,578	55,708	-	-	-	-	57,286
Purchase of treasury shares	18 (b)	(193)	(193)	(18,919)	-	-	-	-	(19,112)
Employee share option scheme:	18 (g)								
Value of services received		-	-	-	-	-	75,224	-	75,224
Transfers between reserves:									
To reserve funds		-	-	-	(40,122)	40,122	-	-	-
From capital reserves		-	-	(9,442)	9,442	-	-	-	-
Increase in minority interest arising from dilution of interest in subsidiary		-	-	-	-	-	-	229,126	229,126
Dividends paid	29	-	-	-	(326,961)	-	-	-	(326,961)
Dividends paid by subsidiary to minority interest		-	-	-	-	-	-	(40,684)	(40,684)
Other		-	-	-	(124,915)	-	-	-	(124,915)
Balance at 31 December 2005		325,744	325,744	3,150,866	9,536,534	736,651	1,490,795	744,234	15,984,824

GraceKennedy Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Attributable to equity holders of the company					Minority Interest	Total Equity	
		Number of Shares '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Reserve Fund \$'000			Other Reserves \$'000
Balance at 1 January 2006		325,744	325,744	3,150,866	9,536,534	736,651	1,490,795	744,234	15,984,824
Foreign currency translation adjustments		-	-	-	-	-	101,443	3,341	104,784
Revaluation surplus		-	-	184,220	-	-	-	-	184,220
Fair value gains		-	-	124,017	-	-	-	-	124,017
Other		-	-	2,187	-	-	-	-	2,187
Net income recognised directly in equity		-	-	310,424	-	-	101,443	3,341	415,208
Net profit		-	-	-	1,845,004	-	-	25,807	1,870,811
Total recognised income for 2006		-	-	310,424	1,845,004	-	101,443	29,148	2,286,019
Issue of shares at a premium	18 (a)	413	19,661	-	-	-	-	-	19,661
Purchase of treasury shares	18 (b)	(909)	(53,015)	(298)	-	-	-	-	(53,313)
Employee share option scheme:	18 (g)								
Value of services received		-	-	-	-	-	35,844	-	35,844
Transfers between reserves:									
To reserve funds		-	-	-	(40,233)	40,233	-	-	-
From capital reserves		-	113,296	(137,647)	24,351	-	-	-	-
To capital reserves		-	-	511,700	(511,700)	-	-	-	-
Dividends paid	29	-	-	-	(340,678)	-	-	-	(340,678)
Balance at 31 December 2006		325,248	405,686	3,835,045	10,513,278	776,884	1,628,082	773,382	17,932,357

GraceKennedy Limited

Consolidated Statement of Cash Flows

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	2006 \$'000	2005 \$'000
SOURCES/(USES) OF CASH:		
Operating Activities (Note 31)	6,358,525	4,150,015
Financing Activities		
Loans receivable, net	(1,156,759)	(857,128)
Loans received	2,892,380	2,154,247
Loans repaid	(2,226,228)	(1,609,057)
Minority interest	-	(39,177)
Cash inflow from minority interest on dilution of interest in subsidiary	-	229,126
Purchase of treasury shares	(53,015)	(19,112)
Issue of shares at a premium	19,661	57,286
Interest paid – non financial services	(474,665)	(368,080)
Dividends	(340,678)	(326,961)
	(1,339,304)	(778,856)
Investing Activities		
Additions to fixed assets	(288,792)	(590,254)
Proceeds from disposal of fixed assets	37,511	28,486
Additions to investments	(1,511,232)	(1,746,395)
Proceeds from sale of investments	837,942	262,206
Additions to intangibles	(85,984)	(760,822)
Interest received – non financial services	421,321	452,739
	(589,234)	(2,354,040)
Increase in cash and cash equivalents	4,429,987	1,017,119
Cash and cash equivalents at beginning of year	4,130,704	3,061,231
Exchange and translation gains on net foreign cash balances	85,934	52,354
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	8,646,625	4,130,704

The principal non-cash transaction was the acquisition of fixed assets under finance lease of \$30,012,000 (2005 - \$20,610,000).

GraceKennedy Limited

Company Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
Assets			
Cash and deposits	5	1,707,930	1,465,008
Investment securities	6	6,192,384	4,064,898
Receivables	7	890,984	751,461
Inventories	8	615,362	976,685
Loans receivable	9	186,120	147,343
Taxation recoverable		64,110	141,562
Investments in associates	10	219,950	154,168
Intangible assets	11	40,424	55,063
Fixed assets	12	123,986	131,956
Deferred tax assets	13	221,677	164,676
Pension plan asset	14	4,698,132	4,124,005
Total Assets		14,961,059	12,176,825
Liabilities			
Bank and other loans	15	4,079,169	3,763,042
Payables	16	1,120,230	975,661
Subsidiaries		795,928	1,202,797
Provisions	17	6,221	6,221
Deferred tax liabilities	13	1,658,463	1,462,018
Other post-retirement obligations	14	510,835	469,107
Total Liabilities		8,170,846	7,878,846

GraceKennedy Limited

Company Balance Sheet

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
Equity			
Capital and reserves attributable to the company's equity holders			
Share capital	18	405,686	325,744
Capital and fair value reserves	19	225,242	316,166
Translation gains and other reserves		184,873	149,029
Retained earnings		5,974,412	3,507,040
Total equity		6,790,213	4,297,979
Total Equity and Liabilities		14,961,059	12,176,825

Approved for issue by the Board of Directors on 26 March 2007 and signed on its behalf by:

Douglas Orane

Chairman

Fay McIntosh

Chief Financial Officer

GraceKennedy Limited

Company Profit and Loss Account

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
Turnover	23	7,231,738	7,234,125
Cost of Goods Sold	24	(5,822,805)	(5,787,877)
Gross Profit		1,408,933	1,446,248
Other income		3,251,224	1,055,951
Administration expenses	24	(1,713,092)	(1,575,994)
Profit from Operations		2,947,065	926,205
Interest income		373,912	448,905
Interest expense		(353,538)	(318,619)
Profit before Taxation		2,967,439	1,056,491
Taxation	27	(159,389)	(307,399)
NET PROFIT		2,808,050	749,092

GraceKennedy Limited

Company Statement of Changes in Equity

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Number of Stock units '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Other Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 January 2005, as restated		324,359	324,359	250,063	73,805	3,093,144	3,741,371
Fair value gains		-	-	21,079	-	-	21,079
Net income recognised directly in equity		-	-	21,079	-	-	21,079
Net profit		-	-	-	-	749,092	749,092
Total recognised income for 2005		-	-	21,079	-	749,092	770,171
Transfer between reserves		-	-	8,235	-	(8,235)	-
Issue of shares at a premium	18 (a)	1,578	1,578	55,708	-	-	57,286
Purchase of treasury shares	18 (b)	(193)	(193)	(18,919)	-	-	(19,112)
Employee share option scheme:	18 (g)						
Value of services received		-	-	-	75,224	-	75,224
Dividends paid	29	-	-	-	-	(326,961)	(326,961)
Balance at 31 December 2005		325,744	325,744	316,166	149,029	3,507,040	4,297,979
Balance at 1 January 2006		325,744	325,744	316,166	149,029	3,507,040	4,297,979
Revaluation loss		-	-	(42)	-	-	(42)
Fair value gains		-	-	22,713	-	-	22,713
Other		-	-	(1)	-	-	(1)
Net income recognised directly in equity		-	-	22,670	-	-	22,670
Net profit		-	-	-	-	2,808,050	2,808,050
Total recognised income for 2006		-	-	22,670	-	2,808,050	2,830,720
Transfer between reserves		-	113,296	(113,296)	-	-	-
Issue of shares at a premium	18 (a)	413	19,661	-	-	-	19,661
Purchase of treasury shares	18 (b)	(909)	(53,015)	(298)	-	-	(53,313)
Employee share option scheme:	18 (g)						
Value of services received		-	-	-	35,844	-	35,844
Dividends paid	29	-	-	-	-	(340,678)	(340,678)
Balance at 31 December 2006		325,248	405,686	225,242	184,873	5,974,412	6,790,213

GraceKennedy Limited

Company Statement of Cash Flows

Year ended 31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

	2006 \$'000	2005 \$'000
SOURCES/(USES) OF CASH:		
Operating Activities (Note 31)	(36,985)	29,218
Financing Activities		
Loans receivable, net	(38,777)	15,966
Loans received	822,858	1,445,979
Loans repaid	(569,465)	(1,580,861)
Purchase of treasury shares	(53,015)	(19,112)
Issue of shares at a premium	19,661	57,286
Interest paid	(337,404)	(317,817)
Dividends	(340,678)	(326,961)
	(496,820)	(725,520)
Investing Activities		
Additions to fixed assets	(10,026)	(67,053)
Proceeds from disposal of fixed assets	2,988	2,519
Additions to investments	(2,495,528)	(348,068)
Proceeds from sale of investments	3,024,304	249,686
Additions to intangibles	(13,495)	(79,188)
Interest received	385,229	449,719
	893,472	207,615
Increase/(decrease) in cash and cash equivalents	359,667	(488,687)
Cash and cash equivalents at beginning of year	379,071	867,296
Exchange and translation (losses)/gains on net foreign cash balances	(21,050)	462
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	717,688	379,071

The principal non-cash transaction was the acquisition of fixed assets under finance lease of \$38,151,000.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification

GraceKennedy Limited (the company) is a company limited by shares, incorporated and domiciled in Jamaica. The registered office of the company is 73 Harbour Street, Kingston, Jamaica.

The company is a publicly listed company having its primary listing on the Jamaica Stock Exchange, with further listings on the Barbados, Trinidad and Tobago and Eastern Caribbean Stock Exchanges.

On 1 December 2006, the Group was reorganised into two divisions namely, GK Foods and GK Investments. The GK Foods division comprises all the food related companies while GK Investments comprises all the other companies in the Group. For the purpose of segment reporting the Group continues to report its results under the four segments described below.

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 of food products.

Retail and Trading -

Merchandising of agricultural supplies, hardware and lumber; institutional and airline catering; operation of a chain of supermarkets.

Financial Services -

General insurance and insurance brokerage; commercial banking; investment management; lease and trade financing; stock brokerage; pension management; property rental; mutual fund management.

Information -

Operation of money transfer services, cambio operations and bill payment services.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated.

(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 preparation of financial statements in conformity with IFRS 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. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates.

Amendments to published standards effective in 2006

- IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.
- IAS 21 (Amendment), Net Investment in a Foreign Operation. The main change to this standard is that it excludes foreign currency derivatives that are within the scope of IAS 39 and hedge accounting which was moved to IAS 39. The Group has assessed these changes and have determined that they do not have a material effect on the Group's accounting policies as it does not utilise hedge accounting.
- IFRIC 4, Determining whether an Arrangement contains a Lease. IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. IFRIC 4 has no material effect on the Group's policies.

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment; and
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; and
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the reversal at a subsequent balance sheet date, of impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations; and
- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities has changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries and special purpose entities, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost over the fair value of net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

All subsidiaries are wholly-owned unless otherwise indicated. The subsidiaries consolidated are as follows:

Incorporated and Resident in Jamaica:

Allied Insurance Brokers Limited

First Global Bank Limited

First Global Financial Services Limited

First Global Insurance Consultants Limited

First Global Leasing Limited

Grace Foods International Limited

Grace Food Processors Limited

GK Foods & Services Limited (formerly Hi-Lo Food Stores (Jamaica) Limited)

GraceKennedy Financial Group Limited

GraceKennedy Remittance Services Limited and its subsidiaries –

Grace, Kennedy Currency Trading Services Limited

Grace, Kennedy Payment Services Limited

Horizon Shipping Limited

Hardware and Lumber Limited (58.1%)

GraceKennedy Logistics Services Limited (formerly H. Macaulay Orrett Limited)

International Communications Limited

Jamaica International Insurance Company Limited

Port Services Limited (97.2%)

Versair In-Flite Services (2006) Limited (51 %)

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Incorporated and Resident outside of Jamaica:

First Global Insurance Agency Limited, Turks and Caicos Islands
 Grace Foods Limited, Bermuda
 Grace, Kennedy (Belize) Limited, Belize (66.6%)
 GraceKennedy (Ontario) Inc., Canada and its subsidiary –
 Grace, Kennedy (Caribbean) Limited, Turks and Caicos Islands
 Grace, Kennedy (Guyana) Inc., Guyana
 Grace, Kennedy Remittance Services (Guyana) Limited, Guyana
 GraceKennedy Remittance Services (Turks and Caicos) Limited, Turks and Caicos Islands
 Grace, Kennedy Remittance Services (USA) Inc., U.S.A.
 GKRS (U.K.) Limited, United Kingdom
 GraceKennedy Financial Services (USA) Inc., U.S.A.
 Grace, Kennedy (St. Lucia) Limited, St. Lucia
 Grace, Kennedy (Trinidad & Tobago) Limited, Trinidad and Tobago
 Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited, Trinidad and Tobago
 GraceKennedy (U.K.) Limited, United Kingdom and its subsidiary –
 Grace Foods (U.K.) Limited, United Kingdom
 Grace, Kennedy (U.S.A.) Inc., U.S.A. and its subsidiary –
 Grace Foods (USA) Inc., U.S.A.
 GraceKennedy Securities (USA) Inc., U.S.A.
 Grace, Kennedy Trade Finance Limited, Belize
 Graken Holdings Limited, Turks and Caicos Islands and its subsidiaries –
 First Global (Cayman) Limited, Cayman Islands
 GK Fund Management (Cayman) Limited, Cayman Islands
 Knutsford Re, Turks and Caicos Islands

The special purpose entity consolidated is the company's employee investment trust.

As part of a reorganisation the Group liquidated the following companies Grace Food Processors (Canning) Limited, National Processors Limited and World Brands Services Limited during the year and their operations were transferred to GK Foods & Services Limited (formerly Hi-Lo Food Stores (Jamaica) Limited).

The Group disposed of two subsidiaries during the year, GraceKennedy Shipping Limited and Medi-Grace Limited.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the profit and loss account and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate. In the company balance sheet, investment in associates is shown at cost.

The Group's associated companies are as follows:

	Country of Incorporation	Group's percentage interest	
		2006	2005
Acra Financial Services Inc.	Republic of Haiti	30.0	30.0
Challenge Enterprises Limited	Jamaica	-	50.0
CSGK Finance Holdings Limited	Barbados	40.0	40.0
Dairy Industries (Jamaica) Limited	Jamaica	50.0	50.0
EC Global Insurance Company Limited	St. Lucia	30.0	30.0
Fidelity Motors Limited	Jamaica	30.0	30.0
Fish Importers Limited	Jamaica	32.7	32.7
Medecus Health Insurance Agency Limited	Jamaica	-	50.0
Telecommunications Alliance Limited	Jamaica	49.0	49.0

Effective 19 June 2006, the Group disposed of its 50% shareholding in Medecus Health Insurance Agency Limited to Guardian Life Limited. Effective 20 December 2006, Challenge Enterprises Limited was liquidated.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Jamaican dollars, which is the company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to stockholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) 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.

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 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

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit. When revalued assets are sold, the amounts included in capital and fair value reserves are transferred to retained earnings.

Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Intangible assets

Goodwill

Goodwill is recorded at cost and represents the excess of the value of consideration paid over the fair value of the net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Computer software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of the software.

Distribution channel agreements

Distribution channel agreements are recorded at cost and represent the value of the consideration paid to acquire rights to distribute beverages in specified routes. These costs are amortised over the estimated useful life of the agreements, which is 10 years.

Policy contracts

Policy contracts are amortised over their estimated useful life which is 15 years and are carried at cost less accumulated amortisation. The cost of policy contracts comprises its purchase price, any directly attributable cost of preparing the asset for its intended use and professional fees directly attributed to acquiring the asset.

(g) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(b) Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans receivable are classified as such in the balance sheet.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

(b) Loans receivable (continued)

The provision for credit losses also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The Bank of Jamaica regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS requires the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to credit loss expense in the profit and loss account.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in investment securities on the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans receivable are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' category are presented in the profit and loss account within other (losses)/gains – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in Note 7.

(h) Investments in subsidiaries

Investments in subsidiaries are stated at cost.

(i) Impairment of long lived assets

Fixed assets and other assets, including goodwill, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(j) Income taxes

Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on 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 recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case, deferred tax is also dealt with in equity.

(k) Employee benefits

Pension plan assets

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 past 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.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(k) Employee benefits (Continued)

Other post-retirement obligations

Some Group companies provide post-retirement health care 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.

Equity compensation benefits

The Group operates an equity-settled, share-based compensation plan. Share options are granted to management and key employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. When options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Incentive plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's equity holders after certain adjustments. The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

(l) Inventories

Inventories are stated 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.

GraceKennedy Limited

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Trade and insurance receivables

Trade and insurance receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of these receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the profit and loss account.

(n) 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 bank and other loans on the balance sheet.

(o) Payables

Payables are recorded at cost.

(p) Insurance business provisions

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.

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.

(q) Provisions

Provisions are recognised 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. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(r) Deposits

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective yield method.

GraceKennedy Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(s) 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 expense are recorded on the accrual basis.

(t) Borrowings

Bank loans and overdrafts are recorded at proceeds received. Finance charges, including direct issue costs are accounted for on an accrual basis in the profit and loss account using the effective yield method and are added to the carrying amount of the loan to the extent that they are not settled in the period in which they arise.

(u) 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.

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's equity holders.

GraceKennedy Limited

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2. Significant Accounting Policies (Continued)

(w) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax, returns, rebates and discounts and after eliminating transactions within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales are recognised upon delivery of products and customer acceptance or performance of services.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

In the case of the general insurance subsidiary, Jamaica International Insurance Company Limited, revenues represent gross premiums billed. That portion of premiums written in the current year, which relates to coverage in subsequent years, is deferred. Premium income is recognised over the life of policies written.

For those subsidiaries whose activity is the provision of financial services, revenues represent commissions earned and charges for services rendered.

Interest income and expense are recorded on the accrual basis. Where collection of interest income is considered doubtful or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However such amounts under IFRS are considered to be immaterial.

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.

Dividend income is recognised when the right to receive payment is established.

(x) Dividends

Dividends are recorded as a deduction from stockholders' equity in the period in which they are approved.

(y) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments, and comprise the Group's four operating divisions. Geographical segments provide products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

GraceKennedy Limited

Notes to the Financial Statements

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2. Significant Accounting Policies (Continued)

(z) 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 new IFRS, as well as, amendments to and interpretations of existing IFRS.

3. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury function which identifies, evaluates and manages financial risks in close co-operation with the Group's operating business units. The Board of Directors sets guidelines for overall risk management including specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investing excess liquidity.

(i) Market risk

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Pound sterling and the Canadian dollar. Foreign exchange risk arises from transactions for purchases, recognised assets and liabilities and net investments in foreign operations.

Net foreign currency assets/ (liabilities) of the Group were as follows:

	2006	2005
	\$'000	\$'000
United States dollar	(21,267)	(21,506)
Pound Sterling	755	759
Canadian dollar	(39)	(887)
Euro	<u>(3,180)</u>	<u>437</u>

The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

Price risk

Price 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 instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. The Group manages its price risk by trading these instruments when appropriate to reduce the impact of any adverse price fluctuations.

(ii) 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 concentrations of credit risk 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 Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. Cash transactions are limited to high credit quality financial institutions. The Group manages its credit risk by screening its customers, establishing credit limits, obtaining bankers' guarantees or collateral for loans where applicable, and the rigorous follow-up of receivables; and ensuring investments are low-risk or, are held with sound financial institutions.

(iii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the banking subsidiaries. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The following tables summarise the liquidity risk of the Group and the company by analysing the assets and liabilities into relevant maturity groupings, based on the remaining period at balance sheet date to the contractual maturity date:

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk (continued)

	Group					Total
	2006					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific maturity	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	10,071,877	-	-	-	-	10,071,877
Investments	-	28,254,804	4,270,513	394,478	53,356	32,973,151
Loans receivable	796,488	625,721	2,572,257	651,417	-	4,645,883
Other assets	10,122,904	-	-	-	10,439,050	20,561,954
Total assets	20,991,269	28,880,525	6,842,770	1,045,895	10,492,406	68,252,865
Deposits	2,301,990	7,487,244	-	-	-	9,789,234
Securities sold under repurchase agreements	19,643,326	3,134,227	-	-	-	22,777,553
Bank and other loans	2,419,065	1,482,936	1,818,403	29,904	-	5,750,308
Other liabilities	8,680,320	-	-	-	3,323,093	12,003,413
Total liabilities	33,044,701	12,104,407	1,818,403	29,904	3,323,093	50,320,508
Total liquidity gap	(12,053,432)	16,776,118	5,024,367	1,015,991	7,169,313	17,932,357
Cumulative gap	(12,053,432)	4,722,686	9,747,053	10,763,044	17,932,357	-

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk (continued)

	Group					Total
	2005					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific maturity	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	5,728,483	-	-	-	-	5,728,483
Investments	-	28,510,588	1,213,791	1,830,960	23,925	31,579,264
Loans receivable	490,830	453,532	2,265,810	252,304	-	3,462,476
Other assets	10,847,405	-	-	-	9,483,208	20,330,613
Total assets	17,066,718	28,964,120	3,479,601	2,083,264	9,507,133	61,100,836
Deposits	6,139,840	2,817,313	-	-	-	8,957,153
Securities sold under repurchase agreements	12,724,941	6,260,647	-	-	-	18,985,588
Bank and other loans	1,938,735	1,676,183	1,395,793	175,572	-	5,186,283
Other liabilities	8,588,527	-	-	-	3,398,461	11,986,988
Total liabilities	29,392,043	10,754,143	1,395,793	175,572	3,398,461	45,116,012
Total liquidity gap	(12,325,325)	18,209,977	2,083,808	1,907,692	6,108,672	15,984,824
Cumulative gap	(12,325,325)	5,884,652	7,968,460	9,876,152	15,984,824	-

GraceKennedy Limited

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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk (continued)

	Company					Total
	2006					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific maturity	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	1,707,930	-	-	-	-	1,707,930
Investments	-	2,226,434	-	-	3,965,950	6,192,384
Loans receivable	-	156,382	29,738	-	-	186,120
Other assets	1,570,456	-	-	-	5,304,169	6,874,625
Total assets	3,278,386	2,382,816	29,738	-	9,270,119	14,961,059
Bank and other loans	1,681,717	749,892	1,617,656	29,904	-	4,079,169
Other liabilities	1,916,158	-	-	-	2,175,519	4,091,677
Total liabilities	3,597,875	749,892	1,617,656	29,904	2,175,519	8,170,846
Total liquidity gap	(319,489)	1,632,924	(1,587,918)	(29,904)	7,094,600	6,790,213
Cumulative gap	(319,489)	1,313,435	(274,483)	(304,387)	6,790,213	

GraceKennedy Limited

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk (continued)

	Company					Total
	2005					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specific maturity	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	1,465,008		-	-	-	1,465,008
Investments	-	2,625,707	-	-	1,439,191	4,064,898
Loans receivable	-	98,044	49,299	-	-	147,343
Other assets	1,869,708	-	-	-	4,629,868	6,499,576
Total assets	3,334,716	2,723,751	49,299	-	6,069,059	12,176,825
Bank and other loans	1,556,268	634,153	1,343,201	229,420	-	3,763,042
Other liabilities	2,178,458	-	-	-	1,937,346	4,115,804
Total liabilities	3,734,726	634,153	1,343,201	229,420	1,937,346	7,878,846
Total liquidity gap	(400,010)	2,089,598	(1,293,902)	(229,420)	4,131,713	4,297,979
Cumulative gap	(400,010)	1,689,588	395,686	166,266	4,297,979	-

(iv) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The banking and securities trading subsidiaries' Asset and Liability Committees set limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group also manages its cash flow interest rate risk by adjusting the duration of financial instruments and switching between floating and fixed interest rate instruments when appropriate.

The Group's interest bearing financial instruments include investments, leases and loans receivable, deposits, bank and other loans, deposits payable and securities sold under repurchase agreements. The effective rates of interest impacting these instruments are disclosed in the individual notes to the financial statements associated with each item.

GraceKennedy Limited

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk (continued)

The following tables summarise carrying amounts of balance sheet assets, liabilities and equity, in order to arrive at the Group's and company's interest rate gap based on earlier of contractual repricing or maturity dates.

	Group						Total
	2006						
	Immediately rate sensitive	Within 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	2,640,824	5,855,142	-	-	-	1,575,911	10,071,877
Investments	-	4,458,945	26,600,377	1,465,996	320,925	126,908	32,973,151
Loans receivable	394,903	787,956	458,261	2,259,774	573,357	171,632	4,645,883
Other assets	-	-	-	-	-	20,561,954	20,561,954
Total assets	3,035,727	11,102,043	27,058,638	3,725,770	894,282	22,436,405	68,252,865
Deposits	3,080,311	2,301,991	4,406,932	-	-	-	9,789,234
Securities sold under agreements to repurchase	-	19,643,326	3,131,420	2,807	-	-	22,777,553
Bank and other loans	1,069,361	2,047,319	2,341,817	291,811	-	-	5,750,308
Other liabilities	-	-	-	-	-	12,003,413	12,003,413
Total liabilities	4,149,672	23,992,636	9,880,169	294,618	-	12,003,413	50,320,508
Total interest rate sensitivity gap	(1,113,945)	(12,890,593)	17,178,469	3,431,152	894,282	10,432,992	17,932,357
Cumulative gap	(1,113,945)	(14,004,538)	3,173,931	6,605,083	7,499,365	17,932,357	

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk (continued)

	Group						Total
	2005						
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	1,477,434	2,728,805	-	-	-	1,522,244	5,728,483
Investments	-	13,405,319	16,349,376	1,207,245	493,063	124,261	31,579,264
Loans receivable	470,170	271,111	346,346	2,021,183	184,021	169,645	3,462,476
Other assets	-	-	-	-	-	20,330,613	20,330,613
Total assets	1,947,604	16,405,235	16,695,722	3,228,428	677,084	22,146,763	61,100,836
Deposits	1,486,236	4,560,838	2,902,838	7,241	-	-	8,957,153
Securities sold under agreements to repurchase	-	16,039,133	2,945,400	1,055	-	-	18,985,588
Bank and other loans	1,179,489	1,068,351	2,611,414	309,417	3,378	14,234	5,186,283
Other liabilities	-	-	-	-	-	11,986,988	11,986,988
Total liabilities	2,665,725	21,668,322	8,459,652	317,713	3,378	12,001,222	45,116,012
Total interest rate sensitivity gap	(718,121)	(5,263,087)	8,236,070	2,910,715	673,706	10,145,541	15,984,824
Cumulative gap	(718,121)	(5,981,208)	2,254,862	5,165,577	5,839,283	15,984,824	-

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk (continued)

	Company						Total
	2006						
	Immediately rate sensitive	Within 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	-	1,698,339	-	-	-	9,591	1,707,930
Investments	-	-	2,226,434	-	-	3,965,950	6,192,384
Loans receivable	-	-	12,500	-	-	173,620	186,120
Other assets	-	-	-	-	-	6,874,625	6,874,625
Total assets	-	1,698,339	2,238,934	-	-	11,023,786	14,961,059
Bank and other loans	946,090	699,736	2,433,343	-	-	-	4,079,169
Other liabilities	-	-	-	-	-	4,091,677	4,091,677
Total liabilities	946,090	699,736	2,433,343	-	-	4,091,677	8,170,846
Total interest rate sensitivity gap	(946,090)	998,603	(194,409)	-	-	6,932,109	6,790,213
Cumulative gap	(946,090)	52,513	(141,896)	(141,896)	(141,896)	6,790,213	-

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk (continued)

	Company						Total
	2005						
	Immediately rate sensitive	Within 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits	-	1,381,511	-	-	-	83,497	1,465,008
Investments	-	-	2,625,707	-	-	1,439,191	4,064,898
Loans receivable	-	-	97,645	-	-	49,698	147,343
Other assets	-	-	-	-	-	6,499,576	6,499,576
Total assets	-	1,381,511	2,723,352	-	-	8,071,962	12,176,825
Bank and other loans	1,085,937	453,303	2,209,568	-	-	14,234	3,763,042
Other liabilities	-	-	-	-	-	4,115,804	4,115,804
Total liabilities	1,085,937	453,303	2,209,568	-	-	4,130,038	7,878,846
Total interest rate sensitivity gap	(1,085,937)	928,208	513,784	-	-	3,941,924	4,297,979
Cumulative gap	(1,085,937)	(157,729)	356,055	356,055	356,055	4,297,979	-

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk (continued)

	Group					
	2006					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and deposits	2.95	11.04	-	-	-	8.52
Investments	-	13.88	13.81	7.91	12.00	13.54
Loans receivable	15.35	15.26	11.82	13.88	11.21	13.70
Deposits	2.63	7.58	7.66	-	-	6.06
Securities sold under repurchase agreements	-	9.27	10.07	9.04	-	9.38
Bank and other loans	13.46	6.43	9.69	6.17	-	9.05

	Group					
	2005					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and deposits	2.51	10.59	-	-	-	7.75
Investments	-	14.96	14.06	12.43	11.77	14.34
Loans receivable	22.56	17.68	14.67	15.09	11.27	16.12
Deposits	3.27	7.57	7.42	7.90	-	6.80
Securities sold under repurchase agreements	-	10.41	11.46	12.76	-	10.57
Bank and other loans	13.31	9.64	8.39	9.28	12.19	9.83

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iv) Cash flow and fair value interest rate risk (continued)

	Company					
	2006					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and deposits	-	4.89	-	-	-	4.89
Investments	-	-	12.55	-	-	12.55
Loans receivable	-	-	14.75	-	-	14.75
Bank and other loans	15.21	7.74	9.17	-	-	10.32

	Company					
	2005					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	%	%	%	%	%	%
Cash and deposits	-	4.70	-	-	-	4.70
Investments	-	-	14.61	-	-	14.61
Loans receivable	-	-	-	-	-	-
Bank and other loans	13.13	6.18	7.31	-	-	8.86

(b) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for bank and other loans. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(f).

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Pension plan assets and post employment obligations

The cost of these benefits and the present value of the pension and the other post-retirement liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumption used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies. Past experience has shown that actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the pension and post retirement benefits cost and credits are based in part on current market conditions.

(iv) Share based payments

The Group operates a share based equity plan which is subject to valuation utilising several assumptions as discussed in Note 2 (k). Should any of the variables used in the computation be changed this would result in either an increase or decrease in the amount of expense recognised in relation to the share based equity plan.

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5. Cash and Deposits

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and in hand	4,364,426	3,019,124	200,654	115,220
Deposits	5,707,451	2,709,359	1,507,276	1,349,788
	10,071,877	5,728,483	1,707,930	1,465,008

Included in deposits is interest receivable of \$69,955,000 (2005 - \$104,091,000) and \$2,219,000 (2005 - \$30,924,000) for the Group and company respectively. The weighted average effective interest rate on deposits was 8.50% (2005 - 11.60%) and these deposits have an average maturity of under 90 days.

In the prior year there was a deposit of \$25,602,000 representing a special deposit of 1% of the prescribed liabilities of the banking subsidiary which was required by the Bank of Jamaica (BOJ) under Section 28A of the Bank of Jamaica Act, to be maintained with them wholly in the form of cash. This special deposit is no longer required to be held by the bank.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and in hand	4,364,426	3,019,124	200,654	115,220
Deposits	5,707,451	2,709,359	1,507,276	1,349,788
	10,071,877	5,728,483	1,707,930	1,465,008
Bank overdrafts (Note 15)	(1,425,252)	(1,597,779)	(990,242)	(1,085,937)
	8,646,625	4,130,704	717,688	379,071

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6. Investments Securities

These comprise:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Available-for-sale –				
Quoted equities	92,769	53,384	128	129
Government of Jamaica securities	32,846,243	31,496,483	2,226,434	2,625,707
Other	34,139	29,397	1,100	1,382
	32,973,151	31,579,264	2,227,662	2,627,218
Subsidiaries	-	-	3,964,722	1,437,680
Total	32,973,151	31,579,264	6,192,384	4,064,898

Included in the Government of Jamaica securities is interest receivable of \$690,250,000 (2005 - \$829,086,000) and \$61,332,000 (2005 - \$50,015,000) for the Group and the company respectively. Included in Government of Jamaica securities are instruments which mature between 90 days and 360 days or which the Group intends to realise within 12 months and have an effective interest rate of 13.54 % (2005 –14.1%).

Included in Government of Jamaica securities is \$956,004,000 (2005: \$830,426,000) with the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 9% (2005: 9%) of the banking subsidiary prescribed liabilities. It is not available for investment, lending or other use by the Group or the banking subsidiary.

7. Receivables

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade receivables, less provision for doubtful debts	2,517,288	2,505,450	627,487	615,289
Insurance receivables, less provision for doubtful debts	1,617,048	2,217,631	-	-
Receivable from associates	29,918	15,495	14,059	5,103
Prepayments	242,273	145,436	202,471	52,537
Other receivables	1,401,182	1,539,969	46,967	78,532
	5,807,709	6,423,981	890,984	751,461

The fair values of trade and other receivables approximate carrying values.

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7. Receivables (Continued)

As of 31 December 2006, trade receivables of \$946,857,000 (2005 - \$378,140,000) and \$261,088,000 (2005 - \$270,507,000) for the Group and company respectively were impaired. The amount of the provision was \$707,319,000 (2005 - \$162,474,000) and \$70,157,000 (2005 - \$63,049,000) for the Group and company respectively. The individually impaired receivables mainly relate to wholesalers who are in unexpected difficult economic situations and uncollectible agent balances. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
3 to 6 months	250,110	238,944	199,202	214,177
Over 6 months	696,747	139,196	61,886	56,330
	946,857	378,140	261,088	270,507

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At 1 January	162,474	149,265	63,049	64,301
Provision for receivables impairment	578,558	57,911	22,039	14,671
Receivables written off during the year as uncollectible	(15,700)	(17,600)	(10,690)	(8,586)
Unused amounts reversed	(18,013)	(27,102)	(4,241)	(7,337)
At 31 December	707,319	162,474	70,157	63,049

The creation and release of provision for impaired receivables have been included in expenses in the profit and loss account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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8. Inventories

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Raw materials and spares	263,548	302,961	-	-
Work in process	878	2,160	-	-
Finished goods	361,177	204,005	-	-
Merchandise	2,580,490	2,788,822	446,090	583,450
Goods in transit	339,826	587,298	169,272	393,235
	3,545,919	3,885,246	615,362	976,685

9. Loans Receivable

(a) Loans receivable comprise:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Finance leases, less deferred profit	397,030	237,648	-	-
Loans and receivables –				
Loans to subsidiaries	-	-	185,721	131,444
Loans to associated companies	9,220	24,264	-	15,500
Loans to others	4,160,424	3,144,505	-	-
Other receivables	79,209	56,059	399	399
	4,645,883	3,462,476	186,120	147,343

All other receivables are due within 5 years from the balance sheet date.

Included in the loans to others balance is interest receivable of \$93,750,000 (2005 - \$67,103,000) for the Group.

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9. Loans Receivable (Continued)

(b) Finance lease receivables

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Gross receivables from finance leases:				
Not later than 1 year	222,964	129,286	-	-
Later than 1 year and not later than 5 years	253,600	162,553	-	-
	476,564	291,839	-	-
Unearned future finance income on finance leases	(79,534)	(54,191)	-	-
Net investment in finance leases	397,030	237,648	-	-
The net investment in finance leases is analysed as follows:				
Not later than 1 year	173,990	97,417	-	-
Later than 1 year and not later than 5 years	223,040	140,231	-	-
Total	397,030	237,648	-	-

10. Investments in Associates

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At beginning of year	475,205	414,516	154,168	95,573
Share of results before tax	69,683	100,589	-	-
Share of tax	(36,888)	(36,380)	-	-
Share of results after tax	32,795	64,209	-	-
Additions	68,282	46,029	68,282	59,857
Write-off	-	(1,250)	-	(1,250)
Disposals	(2,500)	(14,099)	(2,500)	(12)
Movement in other reserves	83,917	(34,200)	-	-
At end of year	657,699	475,205	219,950	154,168

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10. Investments in Associates (Continued)

The assets, liabilities, revenue and net profit of the associates are as follows:

	Group	
	2006	2005
	\$'000	\$'000
Assets	4,354,292	3,621,079
Liabilities	2,793,558	2,274,235
Revenue	3,149,741	2,916,726
Net Profit	91,435	149,568

11. Intangible Assets

	Distribution Channel Agreements \$'000	Goodwill \$'000	Computer Software \$'000	Policy Contracts \$'000	Total \$'000
	Group				
Cost					
At 1 January 2005	119,433	280,873	415,652	-	815,958
Arising from business acquisitions	-	25,000	-	-	25,000
Additions	-	-	146,734	589,088	735,822
At 31 December 2005	119,433	305,873	562,386	589,088	1,576,780
Additions	-	-	85,984	-	85,984
At 31 December 2006	119,433	305,873	648,370	589,088	1,662,764
Accumulated Amortisation					
At 1 January 2005	10,296	77,259	343,094	-	430,649
Amortisation charge for the year	12,981	-	86,770	-	99,751
Impairment charge	-	10,466	-	-	10,466
At 31 December 2005	23,277	87,725	429,864	-	540,866
Amortisation charge for the year	14,551	-	71,858	39,273	125,682
Impairment charge	-	11,392	-	-	11,392
At 31 December 2006	37,828	99,117	501,722	39,273	677,940
Net Book Amount					
31 December 2006	81,605	206,756	146,648	549,815	984,824
31 December 2005	96,156	218,148	132,522	589,088	1,035,914

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11. Intangibles (Continued)

	Computer Software \$'000
	Company
Cost	
At 1 January 2005	68,993
Additions	79,188
At 31 December 2005	148,181
Additions	13,495
At 31 December 2006	161,676
Accumulated Amortisation	
At 1 January 2005	66,774
Amortisation charge for the year	26,344
At 31 December 2005	93,118
Amortisation charge for the year	28,134
At 31 December 2006	121,252
Net Book Amount	
31 December 2006	40,424
31 December 2005	55,063

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12. Fixed Assets

	Freehold Land and Buildings \$'000	Leasehold Buildings and Improvements \$'000	Plant, Equipment, Fixtures & Vehicles \$'000	Capital Work in Progress \$'000	Total \$'000
Group					
Cost or Valuation					
At 1 January 2005	738,189	510,457	2,389,870	85,232	3,723,748
Additions	29,492	75,490	247,132	258,750	610,864
Revaluation surplus	18,800	-	-	-	18,800
Transfer from CWIP	592	31,209	103,886	(135,687)	-
Disposals	(25)	(4,062)	(89,628)	(14,141)	(107,856)
At 31 December 2005	787,048	613,094	2,651,260	194,154	4,245,556
Additions	5,190	39,410	195,931	78,273	318,804
Revaluation surplus	147,599	-	-	-	147,599
Transfers	-	61,312	46,450	(107,762)	-
Disposals	-	(17,908)	(78,941)	(1,194)	(98,043)
At 31 December 2006	939,837	695,908	2,814,700	163,471	4,613,916
Accumulated Depreciation					
At 1 January 2005	9,887	276,855	1,333,917	-	1,620,659
Charge for the year	2,874	81,179	293,584	-	377,637
Transfers	592	-	(592)	-	-
On disposals	-	(2,393)	(58,529)	-	(60,922)
At 31 December 2005	13,353	355,641	1,568,380	-	1,937,374
Charge for the year	6,425	72,638	327,582	-	406,645
On disposals	-	(7,147)	(62,817)	-	(69,964)
Revaluation adjustment	(7,764)	-	-	-	(7,764)
At 31 December 2006	12,014	421,132	1,833,145	-	2,266,291
Net Book Value					
31 December 2006	927,823	274,776	981,555	163,471	2,347,625
31 December 2005	773,695	257,453	1,082,880	194,154	2,308,182

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12. Fixed Assets (Continued)

	Freehold Land and Buildings \$'000	Leasehold Buildings and Improvements \$'000	Plant, Equipment, Fixtures & Vehicles \$'000	Capital Work in Progress \$'000	Total \$'000
Company					
Cost or Valuation					
At 1 January 2005	15,000	87,588	293,152	14,141	409,881
Additions	-	5,893	61,160	-	67,053
Disposals	-	-	(4,432)	(14,141)	(18,573)
At 31 December 2005	15,000	93,481	349,880	-	458,361
Additions	-	1,376	46,801	-	48,177
Disposals	-	-	(7,276)	-	(7,276)
At 31 December 2006	15,000	94,857	389,405	-	499,262
Accumulated Depreciation					
At 1 January 2005	-	47,791	236,835	-	284,626
Charge for the year	275	7,739	36,533	-	44,547
On disposals	-	-	(2,768)	-	(2,768)
At 31 December 2005	275	55,530	270,600	-	326,405
Charge for the year	275	7,835	48,133	-	56,243
Revaluation adjustment	(550)	-	-	-	(550)
On disposals	-	-	(6,822)	-	(6,822)
At 31 December 2006	-	63,365	311,911	-	375,276
Net Book Value					
31 December 2006	15,000	31,492	77,494	-	123,986
31 December 2005	14,725	37,951	79,280	-	131,956

- (a) The tables above include carrying values of \$60,708,000 (2005 - \$66,677,000) and \$25,161,000 (2005 - \$14,885,000) for the Group and the company, respectively, representing assets being acquired under finance leases.

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12. Fixed Assets (Continued)

(b) If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cost	408,397	403,953	8,879	8,879
Accumulated depreciation	60,294	53,969	3,045	2,823
Net Book Value	348,103	349,984	5,834	6,056

(c) The Group's land and buildings were last revalued during 2006 by independent valuers. The valuations were done on the basis of open market value. The revaluation surpluses, net of applicable deferred income taxes, were credited to the capital and fair value reserves in stockholders' equity (Note 19).

13. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 ⅓ %.

The movement on the deferred income tax account is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At beginning of year	(1,783,648)	(1,570,709)	(1,297,342)	(1,079,731)
Profit and loss account charge (Note 27)	(4,894)	(206,633)	(127,495)	(207,070)
Tax charged to equity	(72,460)	(6,306)	(11,949)	(10,541)
At end of year	(1,861,002)	(1,783,648)	(1,436,786)	(1,297,342)

The deferred tax charged to equity during the year is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Fair value reserves in stockholders' equity –				
Land and buildings	1,487	6,267	592	-
Available-for-sale investments	70,973	39	11,357	10,541
	72,460	6,306	11,949	10,541

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13. Deferred Income Taxes (Continued)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. Subject to agreement with the Taxpayer Audit and Assessment Department, the Group has recognised tax losses of \$663,432,000 (2005 - \$208,374,000) to carry forward indefinitely against future taxable income. The Group also has unrecognised tax losses of \$105,965,000 (2005 - \$282,982,000) in respect of a subsidiary.

Deferred income tax assets of \$395,989,000 (2005 - \$420,545,000) have not been established for the withholding and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested; such unremitted earnings totalled \$1,187,967,000 (2005 - \$1,261,635,000).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

	Group					
	Fixed Assets \$'000	Fair Value Gains \$'000	Unrealised Foreign Exchange Gains \$'000	Pension Plan Assets \$'000	Other \$'000	Total \$'000
Deferred tax liabilities						
At 1 January 2005	251,209	204,702	23,533	1,469,772	222,742	2,171,958
(Credited)/charged to net profit	(53,144)	(11)	5,270	218,477	33,951	204,543
Charged to equity	6,267	39	-	-	-	6,306
At 31 December 2005	204,332	204,730	28,803	1,688,249	256,693	2,382,807
Charged /(credited) to net profit	29,237	(7,751)	619	248,715	(41,958)	228,862
Charged to equity	17,812	54,648	-	-	-	72,460
At 31 December 2006	251,381	251,627	29,422	1,936,964	214,735	2,684,129
				Employee Benefit Obligations \$'000	Other \$'000	Total \$'000
Deferred tax assets		Unutilised Tax Losses \$'000	Provisions \$'000			
At 1 January 2005	81,907	65,960	1,146	282,486	169,750	601,249
(Charged)/credited to net profit	(33,854)	3,498	(207)	53,991	(25,518)	(2,090)
At 31 December 2005	48,053	69,458	939	336,477	144,232	599,159
Credited /(charged) to net profit	15,522	151,686	(94)	55,380	1,474	223,968
At 31 December 2006	63,575	221,144	845	391,857	145,706	823,127

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13. Deferred Income Taxes (Continued)

Deferred tax liabilities	Company				Total \$'000
	Fixed Assets \$'000	Fair Value Gains \$'000	Pension Plan Asset \$'000	Other \$'000	
At 1 January 2005	8,479	30,675	1,140,817	36,853	1,216,824
(Credited)/ charged to net profit	(6,026)	-	233,851	6,828	234,653
Charged to equity	-	10,541	-	-	10,541
At 31 December 2005	2,453	41,216	1,374,668	43,681	1,462,018
Charged /(credited) to net profit	16,117	-	191,376	(22,997)	184,496
Charged to equity	592	11,357	-	-	11,949
At 31 December 2006	19,162	52,573	1,566,044	20,684	1,658,463
Deferred tax assets	Employee Benefit				Total \$'000
	Fixed Assets \$'000	Obligations \$'000	Tax Losses \$'000	Other \$'000	
At 1 January 2005	10,068	115,615	-	11,410	137,093
(Charged)/credited to net profit	(10,068)	40,754	-	(3,103)	27,583
At 31 December 2005	-	156,369	-	8,307	164,676
Credited to net profit	9,724	13,909	22,483	10,885	57,001
At 31 December 2006	9,724	170,278	22,483	19,192	221,677

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred tax assets	823,127	599,159	221,677	164,676
Deferred tax liabilities	(2,684,129)	(2,382,807)	(1,658,463)	(1,462,018)
	(1,861,002)	(1,783,648)	(1,436,786)	(1,297,342)
The amounts shown in the balance sheet include the following:				
Deferred tax assets to be recovered after more than 12 months	613,001	405,935	170,278	156,369
Deferred tax liabilities to be settled after more than 12 months	(2,188,345)	(1,892,581)	(1,566,044)	(1,374,668)

GraceKennedy Limited

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14. Pensions and Other Post-Retirement Obligations

The Group's 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 0.5%, 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.

Pension benefits

The amounts recognised in the balance sheet are determined as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Present value of funded obligations	3,160,584	2,512,668	1,254,726	1,033,342
Fair value of plan assets	(11,246,524)	(10,771,720)	(7,679,844)	(4,392,071)
	(8,085,940)	(8,259,052)	(6,425,118)	(3,358,729)
Unrecognised actuarial gains/(losses)	1,266,646	2,061,206	1,201,187	(1,485,254)
Limitation on asset due to uncertainty of obtaining economic benefit	1,008,404	1,133,098	525,799	719,978
Asset in the balance sheet	(5,810,890)	(5,064,748)	(4,698,132)	(4,124,005)

The pension plan assets include the company's ordinary stock units with a fair value of \$956,574,000 (2005 - \$1,203,676,000), buildings occupied by Group companies with fair values of \$695,500,000 (2005 - \$637,000,000), repurchase agreements investments of \$1,623,694,000 (2005 - \$1,634,225,000), finance lease receivables from Group companies of \$15,848,000 (2005 - \$31,404,000) and loan receivables from Group companies of \$220,195,000 (2005 - \$220,195,000).

The movement in the defined benefit obligation over the year is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Beginning of year	2,512,668	1,949,893	1,033,342	764,439
Current service cost	249,116	167,746	80,719	52,739
Interest cost	339,091	254,827	135,873	98,880
Actuarial losses	157,823	298,261	58,947	169,563
Benefits paid	(98,114)	(158,059)	(54,155)	(52,279)
End of year	3,160,584	2,512,668	1,254,726	1,033,342

GraceKennedy Limited

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14. Pensions and Other Post-Retirement Obligations (Continued)

Pension benefits (continued)

The movement in the fair value of plan assets for the year is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Beginning of year	10,771,720	10,198,658	4,392,071	7,720,934
Expected return on plan assets	1,247,984	1,208,082	543,593	926,257
Actuarial (losses)/gains	(584,036)	(648,147)	2,613,147	(4,250,865)
Contributions	157,808	171,186	40,480	48,024
Benefits paid	(98,114)	(158,059)	(54,155)	(52,279)
Adjustment to plan assets	(248,838)	-	144,708	-
End of year	11,246,524	10,771,720	7,679,844	4,392,071

The amounts recognised in the profit and loss account are as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current service cost	109,246	19,463	42,924	8,046
Interest cost	339,091	254,827	135,873	98,880
Expected return on plan assets	(1,247,984)	(1,208,082)	(543,593)	(926,257)
Net actuarial gains recognised in year	(52,700)	(132,386)	132,241	(231,140)
	(852,347)	(1,066,178)	(232,555)	(1,050,471)
Reduction in income due to limitation on asset	124,143	433,650	(338,887)	352,244
Total, included in staff costs (Note 26)	(728,204)	(632,528)	(571,442)	(698,227)

The total credit was included in administration expenses for both years.

Expected contributions to the plan for the year ended 31 December 2007 amount to \$98,786,000.

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14. Pensions and Other Post-Retirement Obligations (Continued)

Pension benefits (continued)

The actual return on plan assets was \$192,219,000 (2005 - \$559,935,000) for the Group.

Movement in the asset recognised in the balance sheet:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At beginning of year	(5,064,748)	(4,409,317)	(4,124,005)	(3,422,451)
Total income – as shown above	(852,347)	(1,066,178)	(232,555)	(1,050,471)
Contributions paid	(17,938)	(22,903)	(2,685)	(3,327)
	(5,935,033)	(5,498,398)	(4,359,245)	(4,476,249)
Reduction/(increase) in income due to limitation on asset	124,143	433,650	(338,887)	352,244
At end of year	(5,810,890)	(5,064,748)	(4,698,132)	(4,124,005)

The plan assets are comprised of :

	2006 \$'000	2005 \$'000
Equity	2,963,631	2,834,687
Debt	337,775	467,780
Government Securities	7,078,341	6,872,176
Other	866,777	597,077
	11,246,524	10,771,720

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The benefit that the company derives from the surplus of the pension plan is limited to the extent of the reduction in future contributions that it will make to the pension scheme.

GraceKennedy Limited

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14. Pensions and Other Post-Retirement Obligations (Continued)

Pension benefits (continued)

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for plan assets and liabilities is as follows:

	Group				
	2006	2005	2004	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	(11,246,524)	(10,771,720)	(10,198,658)	(7,542,501)	(6,340,622)
Defined benefit obligation	3,160,584	2,512,668	1,949,894	1,581,617	1,172,068
Surplus	(8,085,940)	(8,259,052)	(8,248,764)	(5,960,884)	(5,168,554)
Experience adjustments –					
Fair value of plan assets	(584,036)	(648,147)	1,752,673	573,211	975,227
Defined benefit obligation	(24,542)	282,615	(108,819)	248,711	(117,546)
	Company				
	2006	2005	2004	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	(7,679,844)	(4,392,071)	(7,720,934)	(5,196,682)	(4,439,757)
Defined benefit obligation	1,254,726	1,033,342	764,439	575,482	397,317
Surplus	(6,425,118)	(3,358,729)	(6,956,495)	(4,621,200)	(4,042,440)
Experience adjustments –					
Fair value of plan assets	2,613,147	(4,250,865)	1,823,542	350,034	1,007,866
Defined benefit obligation	(12,083)	169,563	(2,010)	137,565	(15,491)

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14. Pensions and Other Post-Retirement Obligations (Continued)

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:

	2006	2005
Male	21.14	21.14
Female	26.17	26.17

The average life expectancy in years of a pensioner retiring at age 60, 20 years after the balance sheet date is as follows:

Male	23.1	23.1
Female	28.1	28.1

Other post-retirement obligations

The Group operates a number of post-employment benefit schemes, principally in Jamaica. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built up to cover the obligations under these retirement benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long term increase in health costs of 10% per year (2005 - 10% per year).

The amounts recognised in the balance sheet were determined as follows:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Present value of unfunded obligations	1,539,270	1,211,070	697,210	573,828
Unrecognised actuarial losses	(363,693)	(201,637)	(186,375)	(104,721)
Liability in the balance sheet	1,175,577	1,009,433	510,835	469,107

GraceKennedy Limited

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14. Pensions and Other Post-Retirement Obligations (Continued)

Movement in the defined benefit obligation is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Beginning of year	1,211,070	1,074,654	573,828	468,243
Current service cost	83,214	70,994	26,872	21,429
Interest cost	156,478	139,596	71,233	58,810
Actuarial losses/(gains)	173,424	(16,331)	86,933	63,741
Benefits paid	(84,916)	(57,843)	(61,656)	(38,395)
End of year	1,539,270	1,211,070	697,210	573,828

The amounts recognised in the profit and loss account were as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current service cost	83,214	70,994	26,872	21,429
Interest cost	156,478	139,554	71,233	58,810
Net actuarial losses recognised in year	11,368	9,272	5,279	80,028
Total, included in staff costs (Note 26)	251,060	219,820	103,384	160,267

Movement in the liability recognised in the balance sheet:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At beginning of year	1,009,433	847,456	469,107	347,234
Total expense – as shown above	251,060	219,820	103,384	160,267
Benefits paid	(84,916)	(57,843)	(61,656)	(38,394)
At end of year	1,175,577	1,009,433	510,835	469,107

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14. Pensions and Other Post-Retirement Obligations (Continued)

Other post-retirement obligations (continued)

The total charge was included in administration expenses.

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Group		Company	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
Effect on the aggregate of the current service cost and interest cost	102,123	70,301	34,918	25,613
Effect on the defined benefit obligation	843,871	617,289	331,379	255,980

The five-year trend for the defined benefit obligation and experience adjustments is as follows:

	Group				
	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Defined benefit obligation	1,539,270	1,211,070	1,074,656	757,225	736,338
Experience adjustments	82,022	75,032	88,350	(93,088)	(32,361)

	Company				
	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
Defined benefit obligation	697,210	573,828	468,244	339,555	323,036
Experience adjustments	53,583	61,907	52,064	(2,219)	2,178

Principal actuarial assumptions used in valuing post-employment benefits

The principal actuarial assumptions used were as follows:

	2006	2005
Discount rate	12%	12.50%
Long term inflation rate	8.50%	8.50%
Expected return on plan assets	12%	12%
Future salary increases	9.50%	9.50%
Future pension increases	3.50%	3.50%

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14. Pensions and Other Post-Retirement Obligations (Continued)

Other post-retirement obligations (continued)

The average expected remaining service life of the employees in the post retirement plans are as follows:

Plans	2006	2005
	Years	Years
Gratuity Plan	18.4	18.5
Group Life Plan	22.5	18.5
Insured Group Health	18.0	17.2
Pension Plan	18.5	16.0
Self Insured Health Plan	14.3	17.0
Superannuation Plan	5.3	6.1

At normal retirement age, 90% of males and females are assumed to be married. The age difference between husband and wife is assumed to average 3 years.

Post-employment mortality for active members and mortality for pensioners and deferred pensioners are based on the 1983 Group Annuity Mortality Tables.

The in-service specimen rates (number of occurrences per 1,000 members) are as follows:

Age	Males		Females	
	Withdrawals from service	Deaths in service	Withdrawals from service	Deaths in service
20	62	0.3	45	0.2
25	47	0.4	45	0.2
30	32	0.6	40	0.3
35	18	0.9	35	0.5
40	-	1.3	30	0.7
45	-	2.5	25	1.0
50	-	4.3	-	1.6
55	-	6.6	-	2.5

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15. Bank and other loans

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Secured on assets	771,313	45,354	-	-
Unsecured	4,978,995	5,140,929	4,079,169	3,763,042
	5,750,308	5,186,283	4,079,169	3,763,042

(a) Unsecured loans of subsidiaries are supported by promissory notes or letters of comfort from the parent company. Interest rates on these loans range between 5.84% - 19.75% (2005 - 4.61% - 19.75%).

(b) Bank and other loans comprise:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Bank overdrafts	1,425,252	1,597,779	990,242	1,085,937
Bank borrowings	3,722,181	3,079,257	2,366,469	1,942,099
Finance leases	18,096	30,359	-	-
Customer deposits	241,211	191,092	-	-
Other loans	343,568	287,796	722,458	735,006
Total borrowings	5,750,308	5,186,283	4,079,169	3,763,042

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. All other borrowings are unsecured.

Included in bank borrowings is interest payable of \$33,201,000 (2005 - \$8,345,000) and \$19,726,000 (2005 - \$5,821,000) for the Group and the company, respectively.

Included in customer deposits is interest payable of \$1,077,000 (2005 - \$433,000) for the Group.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

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15. Bank and other loans (Continued)

(c) Finance lease liabilities – minimum lease payments:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Not later than 1 year	7,011	10,592	-	-
Later than 1 year and not later than 5 years	11,085	19,788	-	-
	18,096	30,380	-	-
Future finance charges on finance leases	-	(21)	-	-
Present value of finance lease liabilities	18,096	30,359	-	-

The present value of finance lease liabilities is as follows:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Between 1 and 2 years	17,023	18,095	-	-
Between 2 and 5 years	1,073	12,264	-	-
	18,096	30,359	-	-

(d) Borrowing facilities

The Group and the company have the following undrawn committed borrowing facilities:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Floating rate –				
Expiring within one year	2,436,356	2,768,945	1,126,574	1,445,260
Expiring beyond one year	520,682	581,220	453,533	387,480
Fixed rate –				
Expiring within one year	65,750	38,000	-	-
Expiring beyond one year	30,217	124,580	-	-

The facilities expiring within one year are annual facilities subject to review at various dates during the subsequent year. The other facilities have been arranged to help finance the Group's activities.

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16. Payables

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade payables	2,774,809	3,238,895	216,332	268,955
Payable to associates	67,392	115,695	158,833	84,860
Accruals	802,754	931,849	410,866	199,986
Claims outstanding	1,085,661	1,177,569	-	-
Insurance reserves	1,312,312	1,552,317	-	-
Other payables	1,702,275	1,112,384	334,199	421,860
	7,745,203	8,128,709	1,120,230	975,661

17. Provisions

Provisions comprise:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
	Warranties	Total	Warranties	Total
At beginning of year	9,285	15,495	6,221	6,221
Additional provisions	-	3,064	-	-
Unused amounts reversed	-	(1,575)	-	-
Charged to profit and loss account	-	1,489	-	-
Utilised during year	-	(7,699)	-	-
At end of year	9,285	9,285	6,221	6,221

Warranties

This relates to warranties given on roofing, which was undertaken by one of the subsidiary companies. The Group is no longer in this line of business and the warranties expire fully in 2036.

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18. Share Capital

	2006	2005
Authorised -		
Ordinary shares (units)	400,000	400,000
Issued and fully paid -	\$'000	\$'000
Ordinary stock units	408,246	327,395
Treasury shares	(2,560)	(1,651)
Issued and outstanding	405,686	325,744

- (a) During the year, the company issued 413,000 (2005 – 1,578,000) shares to its employees for cash at a premium of \$19,248,000 (2005 - \$55,708,000). The shares were issued under the Directors and Senior Managers Stock Option Plans.
- (b) During the year, the company purchased 909,000 (2005 – 193,000) of its own shares at a fair value of \$53,015,000 (2005 - \$18,919,000). The total number of treasury shares held by the company at the end of the year is 2,560,000 at a cost of \$200,269,000, (2005 – 1,651,000 shares at a cost of \$147,254,000).
- (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 are governed by the provisions of the 2002 Stock Option Plan for the Directors of GraceKennedy 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

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18. Share Capital (Continued)

(c) (continued)

At a Board Meeting held on 27 January 2006, the Directors passed a resolution for 120,000 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 are governed by the provisions of the 2002 Stock Option Plan for the Directors of GraceKennedy Limited.

The options were granted at a subscription price of \$85.59, 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 six 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.

Movement on directors' stock options:

	2006		2005	
	Executive '000	Non – Executive '000	Executive '000	Non – Executive '000
At 1 January	5,040,980	480,000	5,622,693	576,000
Exercised	-	-	(581,713)	(24,000)
Cancelled/Expired	(305,350)	-	-	(72,000)
At 31 December	4,735,630	480,000	5,040,980	480,000

(d) At the Annual General Meeting held on 29 May 2003, the stockholders passed a resolution for 10,000,000 of the authorised but unissued shares of \$1.00 each to be set aside for allocation and sale to the managers of the company. The allocation and sale of these shares will be governed by the provisions of the 2003 Stock Option Plan for the Managers of GraceKennedy Limited.

On 28 August 2003, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Senior managers	5,999,931

The options were granted at a subscription price of \$41.92, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-third of the total of the grant to each senior manager 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.

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18. Share Capital (Continued)

(d) (continued)

Movement on senior managers' stock options:

	2006	2005
At 1 January	3,848,957	5,338,168
Exercised	(337,918)	(971,211)
Cancelled/Expired	(200,247)	(518,000)
At 31 December	3,310,792	3,848,957

(e) A second grant from the Senior Managers 2003 Stock Option Plan was allocated. The allocation and sale of these shares will be governed by the provisions of the 2003 Stock Option Plan for the Managers of GraceKennedy Limited.

On 25 November 2004, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Senior managers	1,967,291

The options were granted at a subscription price of \$115.97, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire.

Movement on senior managers' stock options:

	2006	2005
At 1 January	1,869,291	1,967,291
Exercised	-	-
Cancelled/Expired	(248,572)	(98,000)
At 31 December	1,620,719	1,869,291

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18. Share Capital (Continued)

- (f) Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2006		2005	
	Average exercise price in \$ per share	Options (thousands)	Average exercise price in \$ per share	Options (thousands)
At 1 January	47.08	11,240	46.02	13,504
Granted	85.59	120	-	-
Forfeited	60.42	(754)	50.90	(687)
Exercised	41.92	(338)	36.32	(1,577)
At 31 December	46.72	10,268	47.08	11,240

Shares totalling 8,496,623 (2005 – 5,307,000) are exercisable at the balance sheet date.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	2006		2005
	Exercise price in \$ per share	Options (thousands)	Options (thousands)
2007	-	-	-
2008	-	-	-
2009	41.92	3,311	3,849
2010	115.97	1,621	1,870
2011	-	-	-
2012	28.65	5,336	5,521
		10,268	11,240

- (g) The fair value of options granted determined using the Binomial valuation model was \$213,468,000. The significant inputs into the model were the share price of \$42 and \$118 at the grant dates, exercise price of \$41.92 and \$115.97, standard deviation of expected share price returns of 33.85% and 27.39%, dividend yield of 1.28% and 0.85%, option life of six years and annual risk-free interest rate of 14%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share prices over the term of the options.

GraceKennedy Limited

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18. Share Capital (Continued)

(g) (continued)

The breakdown of the fair value of options granted is as follows:

	\$'000
Fair value of options granted	213,468
Expensed in 2003	(19,906)
Expensed in 2004	(53,899)
Expensed in 2005	(75,224)
Expensed in 2006	(35,844)
Amount to be expensed in future periods	28,595

19. Capital and Fair Value Reserves

	Group							
	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total
	2006				2005			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Share premium	-	-	-	-	113,296	-	-	113,296
Realised gains on disposal of assets	93,262	-	-	93,262	93,262	-	-	93,262
Capital distributions received	46,750	-	-	46,750	46,750	-	-	46,750
Realised gain on sale of shares	129,484	-	-	129,484	129,782	-	-	129,782
Profits capitalised by Group companies	2,457,309	-	-	2,457,309	1,981,660	-	-	1,981,660
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	-	474,001	474,001	-	-	289,781	289,781
Fair value gains, net of deferred taxes	-	-	549,711	549,711	-	-	425,695	425,695
Loan loss reserve	-	40,586	-	40,586	-	28,886	-	28,886
Other	43,942	-	-	43,942	41,754	-	-	41,754
	2,770,747	40,586	1,023,712	3,835,045	2,406,504	28,886	715,476	3,150,866

GraceKennedy Limited

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19. Capital and Fair Value Reserves (Continued)

	Company					
	Capital Reserve	Fair Value Reserves	Total	Capital Reserve	Fair Value Reserves	Total
	2006			2005		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Share premium	-	-	-	113,296	-	113,296
Capital distributions received	24,507	-	24,507	24,507	-	24,507
Bonus shares issued	(41,803)	-	(41,803)	(41,803)	-	(41,803)
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	7,911	7,911	-	7,954	7,954
Fair value gains, net of deferred taxes	-	234,627	234,627	-	212,212	212,212
	(17,296)	242,538	225,242	96,000	220,166	316,166

The share premium of \$113,296,000 was transferred to share capital during the year as the election to retain par value under Section 37 of the Companies Act 2004 expired in November. In the prior year the share premium was adjusted by \$19,817,000 in relation to the purchase of treasury shares.

20. Reserve Funds

Reserve funds represent those statutory reserves required to be maintained by the banking subsidiary, First Global Bank Limited, in compliance with the Banking Act of Jamaica.

21. Minority Interest

	2006 \$'000	2005 \$'000
At beginning of year	744,234	507,527
Share of net profit of subsidiaries	25,807	46,758
Dividends paid	-	(40,684)
Rights issue increase in Hardware & Lumber Limited	-	229,126
Other	3,341	1,507
At end of year	773,382	744,234

GraceKennedy Limited

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22. Segment Information

Primary reporting format – business segments

	2006					
	Food Trading \$'000	Retail & Trading \$'000	Financial Services \$'000	Information \$'000	Elimination \$'000	Group \$'000
REVENUE						
External sales	13,628,356	11,219,241	8,245,574	2,995,076		36,088,247
Inter-segment sales	457,744	265,681	382,238	-	(1,105,663)	-
Total Revenue	14,086,100	11,484,922	8,627,812	2,995,076	(1,105,663)	36,088,247
Segment result	236,530	203,195	1,325,052	204,949	34,034	2,003,760
Unallocated income					544,154	544,154
Profit from operations						2,547,914
Finance income	454,103	25,363	33,158	31,414	(142,324)	401,714
Finance expense	(405,680)	(134,132)	(17,477)	(8,872)	108,290	(457,871)
Share of results of associates	29,978	25,795	(23,064)	86	-	32,795
Profit before tax	314,931	120,221	1,317,669	227,577	544,154	2,524,552
Income tax expense						(653,741)
Profit for the period						1,870,811
Attributable to:						
Equity holders of the company						1,845,004
Minority Interest						25,807
						1,870,811
Segment assets	3,911,671	4,749,824	45,444,754	3,008,689	(2,217,498)	54,897,440
Investment in associates	352,595	47,172	169,899	88,033		657,699
Unallocated assets						12,697,726
Total Assets						68,252,865
Segment liabilities	1,571,774	1,885,784	38,049,883	1,871,884	(2,226,734)	41,152,591
Unallocated liabilities						9,167,917
						50,320,508
Other segment items						
Capital expenditure	147,680	92,247	105,623	59,238		404,788
Depreciation	89,066	169,870	86,739	60,970		406,645
Amortisation	42,960	42,403	40,286	33		125,682
Impairment	-	5,403	-	5,989		11,392

GraceKennedy Limited

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22. Segment Information (Continued)

	2005					Group \$'000
	Food Trading \$'000	Retail & Trading \$'000	Financial Services \$'000	Information \$'000	Elimination \$'000	
REVENUE						
External sales	13,112,987	10,132,413	6,927,329	2,858,886	-	33,031,615
Inter-segment sales	589,717	4,097	341,380	-	(935,194)	-
Total Revenue	13,702,704	10,136,510	7,268,709	2,858,886	(935,194)	33,031,615
Segment result	235,654	142,886	1,420,195	562,713	28,927	2,390,375
Unallocated income					505,030	505,030
Profit from operations						2,895,405
Finance income	506,710	34,904	26,889	43,818	(169,078)	443,243
Finance expense	(335,920)	(137,144)	(10,035)	(4,662)	140,151	(347,610)
Share of results of associates	72,284	15,331	(20,251)	(3,155)	-	64,209
Profit before tax	478,728	55,977	1,416,798	598,714	505,030	3,055,247
Income tax expense						(933,553)
Net profit						2,121,694
Segment assets	5,255,831	3,967,631	39,205,811	1,638,501	(1,497,933)	48,569,841
Investment in associates	292,274	26,777	87,947	68,207		475,205
Unallocated assets						12,055,790
Total Assets						61,100,836
Segment liabilities	1,929,266	1,631,198	33,199,379	1,403,884	(1,749,054)	36,414,673
Unallocated liabilities						8,701,339
						45,116,012
Other segment items						
Capital expenditure	197,904	384,634	102,620	72,440		757,598
Depreciation	107,645	140,311	66,937	62,744		377,637
Amortisation	39,325	21,156	-	39,270		99,751
Impairment	-	-	-	10,466		10,466

Note:

The 2005 segment result for the Retail & Trading division was adjusted downwards by \$86,800,000 to reflect an adjustment to the results of a subsidiary. This adjustment is considered to be immaterial to the Group results for 2005.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2006

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22. Segment Information (Continued)

Secondary reporting format – geographical segments

The Group is organised on a global basis into three main geographical areas.

- (a) Jamaica is the home country of the parent company, which is also the main operating company. All principal activities operate in this area.
- (b) The Caribbean – mainly food trading, insurance services and money transfer.
- (c) Other Countries – mainly food trading.

	Sales		Total assets		Capital expenditure	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Jamaica	29,690,212	27,015,950	53,400,330	47,250,472	391,413	737,917
The Caribbean	1,897,500	2,028,448	762,433	644,875	12,632	15,517
Other Countries	4,500,535	3,987,217	734,677	674,494	743	4,164
	<u>36,088,247</u>	<u>33,031,615</u>	54,897,440	48,569,841	<u>404,788</u>	<u>757,598</u>
Associates			657,699	475,205		
Unallocated assets			12,697,726	12,055,790		
Total assets			<u>68,252,865</u>	<u>61,100,836</u>		

23. Revenues

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Sales of products and services	27,842,673	26,104,286	7,231,738	7,234,125
Interest and other financial services income	8,245,574	6,927,329	-	-
	<u>36,088,247</u>	<u>33,031,615</u>	<u>7,231,738</u>	<u>7,234,125</u>

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24. Expenses

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cost of products and services sold	19,130,123	17,759,845	5,822,805	5,787,877
Interest expense and other financial services expenses	5,720,077	4,581,596	-	-
Selling, general and administration expenses	9,498,953	8,450,083	1,713,092	1,575,994
	34,349,153	30,791,524	7,535,897	7,363,871

25. Expenses by Nature

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Auditors' remuneration	50,377	50,194	8,991	8,529
Advertising and marketing	745,809	724,398	271,315	252,122
Amortisation of intangibles	125,682	99,751	28,134	26,344
Cost of inventory recognised as expense	16,620,975	15,744,090	5,822,805	5,787,877
Depreciation	406,645	377,637	55,540	44,308
Insurance	260,288	233,827	62,342	62,151
Interest expense and other financial services expenses	5,720,077	4,581,596	-	-
Legal and professional fees	295,633	262,809	237,181	221,457
Occupancy costs - Lease rental charges	224,300	228,851	99,016	90,789
Repairs and maintenance expenditure	271,015	209,417	11,257	12,638
Staff costs (Note 26)	3,650,485	3,345,285	444,115	374,375
Transportation	304,599	278,814	47,727	47,897
Other expenses	5,673,268	4,654,855	447,474	435,384
	34,349,153	30,791,524	7,535,897	7,363,871

GraceKennedy Limited

Notes to the Financial Statements

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26. Staff Costs

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Wages and salaries	3,328,220	2,916,201	854,221	784,613
Pension	(728,204)	(632,528)	(571,442)	(698,227)
Other post-retirement benefits	251,060	219,820	103,384	160,267
Share options granted to employees	35,844	75,224	35,844	75,224
Other	763,565	766,568	22,108	52,498
	3,650,485	3,345,285	444,115	374,375

The Group and company employed the following numbers of staff:

	Group		Company	
	2006 No.	2005 No.	2006 No.	2005 No.
Full time	1,672	1,846	221	266
Part time and contract workers	1,923	2,026	183	192
	3,595	3,872	404	458

GraceKennedy Limited

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27. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current tax	648,847	726,920	31,894	100,329
Deferred tax (Note 13)	4,894	206,633	127,495	207,070
	653,741	933,553	159,389	307,399

The tax on the Group's and company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the company as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit before tax	2,524,552	3,055,247	2,967,439	1,056,491
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	841,517	1,018,416	989,146	352,164
Adjusted for the effects of:				
Different tax rates in other countries	(115,379)	(35,985)	-	-
Income not subject to tax	(70,632)	(159,217)	(876,148)	(47,518)
Expenses not deductible for tax purposes	21,112	153,033	13,334	556
Adjustment to prior year provision	37,340	(1,866)	31,894	-
Share of profits of associates included net of tax	(10,932)	(21,403)	-	-
Utilisation of previously unrecognised tax losses	(50,894)	(13,790)	-	-
Other	1,609	(5,635)	1,163	2,197
Tax expense	653,741	933,553	159,389	307,399

28. Net Profit Attributable to the Stockholders of GraceKennedy Limited

Dealt with as follows in the financial statements of:

	2006 \$'000	2005 \$'000
The company	2,808,050	749,092
The subsidiaries	1,162,160	1,261,635
The associates	32,795	64,209
Profit on disposal of subsidiaries within the Group eliminated on consolidation	(2,158,001)	-
	1,845,004	2,074,936

GraceKennedy Limited

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29. Dividends

	2006	2005
	\$'000	\$'000
Paid,		
Interim – 45 cents per stock unit (2005 – 45 cents)	147,482	146,987
Final – 60 cents per stock unit (2005 – 55 cents)	193,196	179,974
	<u>340,678</u>	<u>326,961</u>

30. Earnings Per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units outstanding during the year.

	2006	2005
Net profit attributable to stockholders (\$'000)	1,845,004	2,074,936
Weighted average number of stock units outstanding ('000)	325,149	325,004
Basic earnings per stock unit (\$)	5.67	6.38

The diluted earnings per stock unit is calculated by adjusting the weighted average number of ordinary stock units outstanding to assume conversion of all dilutive potential ordinary stock units.

- (a) 5,335,630 (2005 - 5,520,980) ordinary stock units for the full year in respect of the Stock Option Plan for directors (Note 18),
- (b) 3,310,792 (2005 - 3,848,957) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18) and
- (c) 1,621,195 (2005 - 1,869,767) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18).

	2006	2005
Net profit attributable to stockholders (\$'000)	1,845,004	2,074,936
Weighted average number of stock units outstanding ('000)	325,149	325,004
Adjustment for share options ('000)	4,018	6,488
	<u>329,167</u>	<u>331,492</u>
Diluted earnings per stock unit (\$)	5.61	6.26

GraceKennedy Limited

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31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net profit	1,870,811	2,121,694	2,808,050	749,092
Items not affecting cash:				
Depreciation	406,645	377,637	56,243	44,547
Amortisation	125,682	99,751	28,134	26,344
Impairment charge	11,392	10,466	-	-
Investment write-off	-	1,938	-	1,250
(Gain)/loss on disposal of fixed assets	(9,432)	18,448	(2,534)	13,286
Share options – value of employee services expensed	35,844	75,224	35,844	75,224
Profit on disposal of investments	(199,381)	(127,901)	(2,616,816)	(32,910)
Exchange (gain)/loss on foreign balances	(11,508)	(187,483)	37,834	(75,374)
Interest income – non financial services	(401,714)	(443,243)	(373,912)	(448,905)
Interest income – financial services	(4,329,241)	(4,022,590)	-	-
Interest expense – non financial services	457,871	347,610	457,871	312,830
Interest expense – financial services	2,783,153	2,566,942	-	-
Taxation expense	653,741	933,553	159,389	307,399
Unremitted equity income in associates	(27,395)	(30,009)	-	-
Pension plan surplus	(746,142)	(655,431)	(574,127)	(701,554)
Other post-retirement obligations	166,144	161,977	41,728	121,873
	786,470	1,248,583	(41,744)	393,102
Changes in non-cash working capital components:				
Inventories	339,327	(555,915)	361,323	(464,981)
Receivables	616,272	(1,044,944)	(139,523)	(101,258)
Payables	(381,616)	1,490,221	144,270	113,838
Deposits	565,753	4,482,214	-	-
Securities sold under repurchase agreements	3,484,386	(1,982,342)	-	-
Subsidiaries	-	-	(406,869)	247,602
Provisions	-	(6,210)	-	-
Total provided by/(used in) operating activities	5,410,592	3,631,607	(82,543)	188,303

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carried forward

31. Cash Flows from Operating Activities (Continued)

Reconciliation of net profit to cash generated from operating activities:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total provided by/(used in) operating activities brought forward	5,410,592	3,631,607	(82,543)	188,303
Interest received – financial services	4,421,822	4,029,735	-	-
Interest paid – financial services	(2,812,967)	(2,721,783)	-	-
Translation gains	101,443	124,401	-	-
Taxation paid	(762,365)	(913,945)	45,558	(159,085)
Cash provided by/(used in) operating activities	6,358,525	4,150,015	(36,985)	29,218

32. Commitments

(a) Future lease payments under operating leases at 31 December 2006 were as follows:

		\$'000
In financial year	2007	219,264
	2008	215,863
	2009	210,259
	2010 and beyond	274,643

(b) At 31 December 2006, the Group had \$7,935,000 (2005 – nil) in authorised capital expenditure for which it had established contracts.

GraceKennedy Limited

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33. Summary of Banking Subsidiary

	2006	2005
	\$'000	\$'000
Assets		
Cash resources	3,339,520	1,355,309
Investments and loans	17,263,751	14,760,758
Acceptances, guarantees, indemnities and credits	670,249	340,546
Securities purchased under agreements to resell	400,000	465,581
Cheques in the course of collection	136,271	182,951
Other assets	735,761	743,764
Liabilities		
Deposits	10,406,360	9,621,955
Securities sold under agreements to repurchase	7,698,023	4,917,384
Liability on acceptances, guarantees, indemnities and credits	670,249	340,546
Other liabilities	1,018,874	656,099
Equity	2,752,046	2,312,925

The banking subsidiary is potentially liable under acceptances in respect of guarantees, commitments and letters of credit, which are reported as liabilities in its balance sheet. The subsidiary has 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.

34. Contingent Liabilities

Various companies in the Group are involved in certain 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.

GraceKennedy Limited

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35. Related Party Transactions and Balances

The following transactions were carried out with associates:

(a) Sales of goods and services	2006	2005
	\$'000	\$'000
Sales of goods	25	121
Sales of services	37,767	22,247
(b) Purchases of goods and services	2006	2005
	\$'000	\$'000
Purchases of goods	1,136,104	1,199,514
Purchases of services	4,817	3,249

The following transactions were carried out with other related parties:

(c) Key management compensation	2006	2005
	\$'000	\$'000
Salaries and other short-term employee benefits	158,171	139,453
Statutory contributions	14,235	12,601
Termination benefits	7,168	-
Post-employment benefits	(158,830)	18,521
Share-based payments	2,870	6,503
	23,614	177,078
The following amounts are in respect of Directors' emoluments –		
Fees	10,432	10,170
Management remuneration (included in staff costs)	108,419	97,545
Pensions	5,765	7,230
	124,616	114,945

GraceKennedy Limited

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35. Related Party Transactions and Balances (Continued)

	2006	2005
(d) Year-end balances arising from sales/purchases of goods and services	\$'000	\$'000
Receivable from associates	29,918	17,220
Payable to associates	67,392	152,296
(e) Loans from related parties		
Loan from associates:		
At beginning of year	14,234	14,234
Repayment	(14,234)	-
At end of year	-	14,234
Loan from Grace, Kennedy & Company Limited Pension Scheme:		
At beginning of year	220,195	1,218
Addition	-	220,195
Repayment	-	(1,218)
At end of year	220,195	220,195
Leases from Grace, Kennedy & Company Limited Pension Scheme:		
At beginning of year	31,404	20,718
Addition	-	19,871
Repayment	(15,556)	(9,185)
At end of year	15,848	31,404

The loan from associates is interest free, and has no specified repayment date. The loan from Grace, Kennedy & Company Limited Pension Scheme attracts interest at 13.75% for the first six months and thereafter at the Treasury bill rate plus 1.75%. The loan is repayable in 2008. The leases attract interest at 19.5 - 23% (2005 - 20 - 25%) and are repayable in the years 2007 - 2008.

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35. Related Party Transactions and Balances (Continued)

(f) Loans to associates

	Interest free	Other	Total	Interest free	Other	Total
	2006	2006	2006	2005	2005	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At beginning of year	15,500	8,764	24,264	15,500	3,928	19,428
Loans advanced during year	-	20,564	20,564	-	24,643	24,643
Loan repayments received	(15,500)	(20,108)	(35,608)	-	(19,807)	(19,807)
At end of year (Note 9)	-	9,220	9,220	15,500	8,764	24,264

The related interest income was \$440,000 (2005 - \$292,000). The other loans are due in 2008 and bear interest at 12.5% (2005 - 11%). No provision was required in 2006 and 2005 for loans made to associates.

(g) Loans to directors and key management

	2006	2005
	\$'000	\$'000
Beginning of the year	20,723	22,755
Loans advanced during year	-	3,670
Loan repayments received	(10,080)	(5,702)
Interest charged	1,714	2,852
Interest received	(1,714)	(2,852)
End of the year	10,643	20,723

These loans attract interest at 13 - 15% (2005 - 11-16%) and are repayable in the years 2007 - 2018. These loans are secured and are made on terms similar to those offered to other employees.

No provision has been required in 2006 and 2005 for the loans made to directors and senior managers.

(h) Share options granted to directors

The outstanding number of share options granted to the directors of the company at the end of the year was 5,335,630 (2005 - 5,520,980).

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36. Fair Values of Financial Instruments

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. 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.

The fair values of the Group's financial instruments were estimated as follows:

The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. The amounts included in the financial statements for cash and deposits, other deposits, receivables, payables, bank and other loans, securities sold under agreements 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:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Loans receivable	4,645,883	4,645,484	3,462,476	3,459,996
Financial liabilities				
Bank and other loans	5,750,308	5,727,175	5,186,283	5,116,983

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.

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. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

Loans receivable

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.

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36. Fair Values of Financial Instruments (Continued)

Bank and other loans

Bank and other loans 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.

37. Events after the Balance Sheet Date

The Group acquired 100% of the share capital of a United Kingdom company, WT (Holdings) Limited ("WT Foods"), a leading ethnic and specialty foods supplier. WT Foods comprises three main businesses: Enco, a leading supplier of Afro-Caribbean foods and drinks with principal brands being the *Nurishment*, *Encona* and *Dunn's River* brands, Chadha, a specialist supplier of Oriental products to the grocery trade, and Funnybones, an American, Mexican, Cajun, Indian and Oriental food specialist for the food service market.

The Group acquired a 30 % stake in Trident Insurance Company Limited a general insurance company of Barbados through GraceKennedy Financial Group Limited (GKFG), a wholly-owned subsidiary of GraceKennedy Limited. Under the agreement, which is subject to regulatory approval, GKFG will own approximately 900,000 Trident Insurance shares, valued at over US\$1 million.