

# **Grace, Kennedy & Co., LTD**

**Second Quarter ended June 30, 2001**

---

## **Interim Report to our Stockholders**

The Directors are pleased to present the unaudited results of the Group for the six-month period ended June 2001.

The Group achieved Revenues of \$7,514.1 million (2000 : \$7,040.4 million) an increase of \$473.7 million or 6.7%. The Net Profit Attributable to Stockholders increased by \$105.1 million over the corresponding period of 2000, moving from \$337.4 million to \$442.5 million. This represents Earnings per Stock Unit of \$2.02 (2000 : \$1.54), an increase of 31.2%.

The Food Trading Division showed good results for the first half of the year. Grace Foods & Services Company has surpassed its targets for eight consecutive months following its establishment after the restructuring in October 2000. This has been made possible by its new lower cost profile, the introduction of several new products and improved customer focus.

On June 29, the operations of Grace Food Processors Limited, our meat processing facility in Savanna-la-mar were suspended. After a thorough reorganisation designed to improve international competitiveness, the company was reopened on a phased basis. The cost of termination payments of \$75 million has been fully accounted for under

exceptional items. It is expected that the plant will be back to full production by September 2001 using its new methods of operations.

The Retail and Trading Division showed mixed results for the first half of the year. Rapid & Sheffield Company Limited and Industrial Catering Services Limited both had satisfactory results in the quarter with strong growth in sales and profits. The turnaround actions at Medi-Grace Limited continue and we are monitoring the company very closely.

Our most recent joint venture operations, Versair's Air Margueritaville restaurant and Fidelity Motors Limited, commenced operations in the second quarter. Air Margueritaville located in the Sangster International Airport, Montego Bay has proven to be a resounding success with tourists. Fidelity Motors Limited is managed by its majority equity partner, Goddard Enterprises Limited of Barbados. It is the Nissan distributor for Jamaica, and besides offering new motor cars, has a wide offering of car parts for both the new and used car markets.

Our Financial Services Division performed above expectations, resulting in significant growth in profits compared with the first half of 2000. Trafalgar Commercial Bank is being consolidated as a wholly owned subsidiary for the first time, This has changed our group balance sheet by increasing deposits by \$1.99 billion and cash and short-term investments by \$2.10 billion.

In June, Grace, Kennedy & Company Limited acquired a seat on the Jamaica Stock Exchange. An equities trading company has been formed, named First Global Stockbrokers Limited, which will be capitalised at over \$20 million. We intend to begin trading by the end of September.

The overall financial results of the Maritime Division were satisfactory. Kingston Termini Operators Limited was granted a three-month extension of the management contract for the I Kingston Container Terminal up to October 31. The company has been short-listed for the next stage of bidding for the new management contract, together with five other international termini operators.

The Information Services Division recorded impressive results for the first half of 2001 in comparison with the previous year. Our remittance businesses in all three territories recorded continued growth and are producing increased profits. Our remaining 40% shareholding in Computers & Controls (Jamaica) Limited was sold during the quarter to

our partner, the Gillete Group of Trinidad & Tobago.

The introduction of formal Corporate Governance practices is proceeding steadily. On June 25 a seminar entitled "Corporate Governance in the 21st Century", was held for the directors is Grace, Kennedy & Company Limited, Kingston Wharves Limited, and a cross-section of senior managers, The presenter was Mr. Richard Westlake of New Zealand, a widely respected authority on Corporate Governance. As part of the seminar, the implications of a recent survey by McKinsey & Company, a global management consultancy, were considered.

McKinsey's findings were that three quarters of investors say that Board practices are at least as important to their evaluation of a company as is financial performance. Over 80% say they would pay a premium for well-governed companies and these premiums range as follows by region: :

Asia-Pacific: A premium ranging from 20% in Japan to 27% in Indonesia,  
Latin America: A premium ranging from 21 % in Chile to 28% in Venezuela,  
Europe, USA: A premium ranging from 18% in the UK and USA to 22% in Italy

We are of the view that recent increases in our stock price have been at least in part due to a wider recognition of our corporate governance practices. Our stock price moved from \$17.95 on January 1, 2001 to \$29.00 on June 30, 2001, an increase of 62.0%.

I wish to thank my colleague directors, fellow members of staff and our valued customers and suppliers, whose loyalty and encouragement are making it possible for me to lead this Company through rapidly changing times.

Douglas R. Orane  
Chairman & Chief Executive Officer  
July 26, 2001

---

## Group Profit & Loss Account

for the quarter ended June 30, 2001  
(Unaudited)

	3 months to 30/06/2001 \$'000	6 months to 30/06/2001 \$'000	6 months to 30/06/2000 \$'000
REVENUES	3,712,667	7,514,069	7,040,421
Expenses	3,471,291	7,118,816	6,785,203
OPERATING INCOME	241,376	395,253	255,218
Other income	124,213	241,898	153,988
Share of results of associated companies	32,890	86,486	86,155
Exceptional items	(83,571)	(86,058)	(721)
PROFIT BEFORE TAXATION	314,908	637,579	494,640
Taxation	78,605	172,147	133,553
PROFIT AFTER TAXATION	236,303	465,432	361,087
Minority interest in results of subsidiaries	12,665	22,947	23,673
Profit before Extraordinary Items	223,638	442,485	337,414
Extraordinary Items	-	-	-
NET PROFIT ATTRIBUTABLE TO THE			

STOCKHOLDERS	223,638	442,485	337,414
EARNINGS PER STOCK UNIT OF \$1.00			
Before extraordinary items	1.02	2.02	1.54***
After extraordinary items	1.02	2.02	1.54***

\*\*\*Adjusted to reflect issue of New Shares

## GROUP BALANCE SHEET

	June 2001 \$'000	December 2000 \$'000	June 2000 \$'000
NET ASSETS EMPLOYED			
FIXED ASSETS	1,787,103	1,741,054	1,626,824
INVESTMENTS	2,314,591	2,393,993	1,736,916
LONG TERM RECEIVABLES	297,097	24,012	122,645
CURRENT ASSETS:			
Inventories	1,173,334	1,302,300	1,256,566
Receivables	2,335,257	2,204,753	1,968,576
Long term receivables - current portion	85,262	9,267	32,838
Taxation recoverable	283,316	280,846	206,859
Cash and short term investments	5,562,845	3,200,432	2,840,967
	9,440,014	6,997,598	6,305,806

## CURRENT LIABILITIES:

Payables	3,526,398	3,676,683	3,220,889
Bank and short term loans	1,182,949	1,040,913	749,043
Long term liabilities - current portion	88,349	90,796	90,429
Deposits	2,063,751	68,009	69,192
Taxation	199,774	146,271	137,329
	7,061,221	5,022,672	4,266,882

NET CURRENT ASSETS	2,378,793	1,974,926	2,038,924
TRADE MARKS	736	991	1,246

6,778,320 6,134,976 5,526,555

## FINANCED BY

SHARE CAPITAL	219,190	216,588	180,491
CAPITAL RESERVE	2,440,983	2,380,861	2,023,567
RESERVE FUND	42,714	42,714	11,088
RETAINED EARNINGS	2,646,724	2,263,654	2,257,019
TRAN~SLATION GAINS	536,618	500,958	370,019

	5,886,229	5,404,775	4,842,184
MINORITY INTEREST	152,214	129,374	135,032
DEFERRED LIABILITIES	0	0	0
LONG TERM LIABILITIES	739,877	600,827	549,339

6,778,320 6,134,976 5,526,555

---

## Statement of Changes in Equity

Quarter ended June 30, 2001  
(Unaudited)

	Share Capital Number	Share Capital \$'000	Capital Reserve \$'000	Retained Earnings \$'000	Other Reserves \$'000	Total \$'000
BALANCE AT I JANUARY 2000	180,491	180,491	2,001,798	1,961,119	374,189	4,517,597
Net g/(I) not in P&L:						
FC translation adjustments					137,857	137,857
Revaluation Gain			123,482			123,482
Net excess of investments			-			-
Total	-	-	123,482	-	137,857	261,339
Net profit				721,519		721,519
Issue of Bonus Shares	36,097	36,097		(36,097)		-
Bonus shares received			-	6		6
Transfers between reserves			255,581	(287,207)	31,626	-
Dividends to stockholders				(90,246)		(90,246)
Withholding Tax				(5,440)		(5,440)
BALANCE AT 31 DECEMBER 2000	216,588	216,588	2,380,861	2,263,654	543,672	5,404,775
Net g/(I) not in P&L:						
FC translation adjustment					35,660	35,660
Revaluation Gain			(9,764)			(9,764)
Net excess of investments			32,308			32,308
Total	-	-	22,544	-	35,660	58,204
Net profit				442,485		442,485
issue of Shares	2,602	2,602		-		2,602
Share premium			32,523			32,523
Bonus shares received			-	-		-
Transfers between reserves			5,055	(5,055)		-
Dividends to stockholders			(54,360)	(54,360)		(54,360)
Withholding Tax				-		-

BALANCE AT 30 JUNE 2001	219,190	219,190	2,440,983	2,646,724	579,332	5,886,229
-------------------------	---------	---------	-----------	-----------	---------	-----------

---