

Grace, Kennedy & Co. Ltd.

Research Report



March 2005

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The research analyst who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the analyst's personal views about the subject companies and their securities.

The research analyst also certifies that the analyst has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

The Bank of Saint Lucia Limited (BOSL) has vetted this report from information provided by Grace, Kennedy & Company Limited through its subsidiary FGFS and from the websites of Planning Institute of Jamaica, Bank of Jamaica and Statistical Institute of Jamaica. Although the information contained in this report is considered reliable, BOSL makes no representation as to the accuracy or completeness of any information contained herein or otherwise provided.

Grace, Kennedy & Company Limited confirms that to the best of its knowledge and belief the information provided in the report fairly represents the facts and there are no other facts, the omission of which would make any statement in this report misleading.

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EXECUTIVE SUMMARY

Grace, Kennedy is one of the largest diversified companies in the English-speaking Caribbean.

The company was founded in 1922 as trading company when W.R. Grace of New York decided to divest its Jamaica branch, then named Grace Limited.

The company has since developed into a diversified firm with interests in food trading, retail, maritime, information services and financial services. Each division is headed by a Chief Operating Officer, who is responsible for the performance of the companies within the division.

The company is the first in the Caribbean to be listed on all major exchanges, namely the Jamaica Stock Exchange, Trinidad & Tobago Stock Exchange and the Barbados Stock Exchange. Grace, Kennedy is currently in the process of listing on the Eastern Caribbean Securities Exchange to truly make it a Caribbean company.

Over the years, the company has believed in being a good corporate citizen. There are various foundations through which the company gives back to the community and Jamaica as a whole, including the Grace, Kennedy Foundation, Grace & Staff Foundation, and Luis Fred Kennedy Environmental Foundation.

The driving force behind the company is the 20/20 Vision, a plan developed to transform the company into a global consumer products company by 2020. The plan is well underway and the group is continuously re-balancing its portfolio of businesses to achieve high growth and enter markets and industries in which it sees opportunities.

The company's financial performance over the last ten years has been good, and the company adheres to its dividend policy of paying at least the same amount in dividends in a current year than in the previous year.

GRACE, KENNEDY'S MISSION

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



CORPORATE INFORMATION

GROUP CORPORATE SECRETARY:

Karen Chin Quee Akin (Mrs.) L.L.B.
73 Harbour Street
Kingston, Jamaica

ATTORNEYS:

DunnCox
48 Duke Street
Kingston, Jamaica

REGISTERED OFFICE OF GRACE, KENNEDY & CO. LTD.:

73 Harbour Street
Kingston, Jamaica

AUDITORS:

PricewaterhouseCoopers
Scotiabank Centre, Duke Street
Kingston, Jamaica

BOARD OF DIRECTORS

Executive Directors

Douglas R. Orane, B.Sc. M.B.A., J.P. – Chairman & Chief Executive Officer

Don G. Wehby, B.Sc. (Hons.), M.Sc. (Acctg.), C.A. – Chief Financial Officer, GKCO & Chief Operating Officer, Financial Services Division

Erwin M. Burton, B.Sc., M.Sc. – Chief Operating Officer, Food Trading Division

John P. Mahfood, C.P.A., C.A. - Chief Operating Officer, Retail & Trading Division

Brian A.L. Goldson, B.Sc., M.B.A. - Chief Operating Officer, Information Services Division

Non-Executive Directors

A. Rafael Diaz

Christopher D. R. Bovell, C.D., M.A., LL.B.

Ray Chang B.A. Sc., C.A., C.F.A.

John J. Issa, O.J., C.D., B.Sc., J.P.

Peter N. Moss-Solomon

Audrey Hinchcliffe

Gordon K.G. Sharp, B.Sc. (Eng.), M.B.A.

LeRoy Bookal

Gordon V. Shirley, B.Sc. (Mech. Eng.), M.B.A., D.B.A. (on Leave of Absence)

EXECUTIVE OFFICE

Douglas R. Orane , B.Sc., M.B.A., J.P.	<i>Chairman & Chief Executive Officer</i>
Don G. Wehby , B.Sc. (Hons.), M.Sc. (Accounting.), C.A.	<i>Chief Financial Officer</i>
Fay E.G. McIntosh , B.Com., M.Sc. (Acctg.)	<i>Deputy Chief Financial Officer</i>
Karen Chin Quee Akin (Mrs.) LLB	<i>Chief Corporate Secretary/Legal Counsel</i>
James S. Moss-Solomon , B.A. (Bus.), J.P	<i>Chief Corporate Affairs Officer</i>
D. Ward Mills , B.Sc. (Econ.), Dip. Ed.	<i>Chief Human Resources Officer</i>
Phillip Alexander	<i>Chief Risk Officer</i>
Francis X. Kennedy	<i>Chief Projects Officer</i>
Edward C. Alexander , B.Sc., M.S.	<i>Chief Information Officer</i>

DIVISIONS

Don G. Wehby , B.Sc. (Hons.), M.Sc. (Accounting.), C.A.	<i>Chief Operating Officer, Financial Services Division</i>
Erwin M. Burton , B.Sc., M.Sc.	<i>Chief Operating Officer, Food Trading Division</i>
John P. Mahfood , C.P.A., C.A.	<i>Chief Operating Officer, Retail & Trading Division</i>
Brian A.L. Goldson , B.Sc., M.B.A.	<i>Chief Operating Officer, Information Services Division</i>

Stockholders' Profile as at December 31, 2004

	Stock Units	%
Directors & Senior Managers	31,984,991	9.82%
Public Listed Companies	33,463,934	10.27%
Nominee Companies	647,959	0.20%
Private Companies	47,282,502	14.51%
Private Individuals	92,294,373	28.33%
Insurance Companies, Trust Companies & Pension Funds	81,220,858	24.93%
Investment Companies/Unit Trusts	15,683,426	4.81%
Others	23,239,268	7.13%
	325,817,311	100.00%

ECONOMIC PROFILE

Jamaican Economy Overview:

Jamaica operates a mixed, free market economy with state enterprises as well as private sector businesses. The major sectors of the Jamaican economy are tourism, agriculture, mining, manufacturing, banking and insurance services.

Since the early 1980's, Jamaica has sought to implement structural reforms aimed at fostering private sector activity, and to use the role of market forces to allocate resources. Emphasis has been placed on maintaining strict fiscal discipline, market liberalization and a greater openness to trade and financial flows. As a result, the economy has largely been returned to private sector ownership through divestment and privatization programmes.

Foreign Exchange Market:

As part of the economic liberalization programme, exchange controls have been removed, and the exchange rate is determined by market conditions. The US/JA dollar exchange rate remained relatively stable during 2004, starting the year at JA\$60.62 to US\$1.00 at January 1, 2004 and depreciating 1.67% to JA\$61.63 to US\$1.00 at December 31, 2004. The rate as of February 22, 2005 was J\$ 61.93 to US\$ 1.00.

Comment [L1]: Update as at December 2004

The table below shows the rate of exchange over the past 5 years:

Rate of Exchange for Years 2000-2004

<u>Year</u>	<u>Exchange Rate</u>
December 31, 2004	JA\$61.63 : US\$1.00
December 31,2003	JA\$60.62 : US\$1.00
December 31,2002	JA\$50.97 : US\$1.00
December 31,2001	JA\$47.40 : US\$1.00
December 31,2000	JA\$45.53 : US\$1.00

The movement of foreign exchange into and out of the country is unrestricted. Jamaican residents are permitted to hold, invest and borrow foreign currency, and non-residents are permitted to invest and borrow both local and foreign currency in Jamaica. It should also be noted that remittances of dividends and capital gains are unrestricted to both residents and non-residents.

Economic Indicators:

The Jamaican economy was marked by high inflation in the early 1990's. As a result, the Government introduced a macro-economic stabilization programme in 1991. This programme focused on tight fiscal and monetary policies and has resulted in a controlled reduction in the inflation rate. The macro-economic stabilization programme has succeeded in keeping inflation low as the annual point-to-point inflation rate has decreased from 80.2% between January 1990 and January 1991 to 14.1% over the period January 2003 to January 2004. Inflation for the period January 2004 to December 2004 was 13.73%, affected by the effects of Hurricane Ivan.

Comment [L2]: Update as at December 2004

Table 2: Inflation Rate – (Point To Point) 2000-2004

Year	Inflation Rate (%)
2005*	8.4
2004	13.7
2003	14.1
2002	7.3
2001	8.8
2000	6.1

* Projected Inflation Rate

Comment [L3]: What is actual figure

Gross Domestic Product:

Gross Domestic Product increased between 1993 and 1995 at an average rate of 1.1% per year. However, in 1997 and 1998, GDP fell by 2.4% and 0.7% respectively. This decline was primarily due to difficulties in the Financial Sector and severe island-wide drought. Real GDP for the economy increased 1.9% for fiscal 2002-2003 and 2.1% for fiscal 2003-2004. The Ministry of Finance is projecting Real GDP Growth of 2.5% for fiscal year 2004-2005.

The Government assumed the obligations of the failed financial institutions to depositors in 1997. Financial Sector Adjustment Company (FINSAC) acquired troubled financial institutions with a view to rehabilitate the entities and protect depositors. FINSAC was responsible for restructuring and reorganizing the

institutions under its control in order to create strong, stable banking and insurance companies that could then be resold.

To date, FINSAC has sold the majority of its assets and this has had an overall positive impact on Jamaica's NIR over the past few years.

Net International Reserve:

Net International Reserves at January 2005 were US\$1.848 billion, which represents approximately 18.74 weeks of goods and services imports. This can be compared to US\$1.220 billion at January 2004, which represents 13.07 weeks of goods and services imports.

Comment [L4]: December 2003

The bailout of the financial services industry in the 1990's also led to an increase in Jamaica's national debt. The country's debt as a percentage of GDP at March 31, 2004 was 143.3%. Certain initiatives have been undertaken to decrease the debt burden and control the budget deficit, the most notable of which is the Partnership for Progressive. This effort is being driven by the private sector and involves

- 1) Swapping higher-interest local currency denominated debt to lower-interest foreign-currency indexed debt
- 2) Signing of an MOU between the Government and Trade Unions to restrain wages for a period of two years
- 3) Commitment on the part of the Government to reign in expenditures.

GRACE, KENNEDY COMPANY PROFILE

Company Overview:

Grace, Kennedy & Co. Ltd. is one of the largest and most dynamic corporate entities in Jamaica and the Caribbean. Since beginning its life as a small trading establishment in 1922, the company has grown into a network of approximately 60 subsidiaries and associated companies, employing approximately 1,800 fulltime staff members and 2,000 part-time and contracted workers. The Grace, Kennedy Group is divided into 5 divisions:

- Retail & Trading
- Financial Services
- Maritime
- Food Trading
- Information Services

The international reach of Grace, Kennedy & Co. Ltd. now includes the wider Caribbean, Europe, Canada, and the United States. Grace, Kennedy & Co. Ltd. is present in Trinidad & Tobago, Barbados, Belize and Guyana through its subsidiary companies in the Information Services, Food Trading, and Financial Services Divisions.

Grace, Kennedy became the first Jamaican-based company to list its shares on the Trinidad & Tobago and Barbados stock exchanges. The company listed its

shares in Trinidad on December 1, 1998 and in Barbados on October 5, 1999. The listings were greeted with significant demand for the company's stock units.

Over the years, Grace, Kennedy & Co. Ltd has performed exceptionally well, showing an increase in revenue and profit each year. In 2003, Grace, Kennedy registered a 26% increase in revenue and a 23.5% increase in profit attributable to shareholders over 2002's results. This growth is expected to continue in 2004.

Corporate Governance:

Grace, Kennedy is one of the leading Caribbean companies as it concerns corporate governance. The board of directors comprises five internal directors including the Executive Chairman / CEO and four divisional COO's.

In addition, the company has nine external directors who bring a vast amount of experience in guiding the company. The board has sub-committee's including a Compensation Committee that evaluates the packages of all internal directors including the Chairman, and an Audit Committee comprised solely of external directors.

Grace, Kennedy believes in transparency that goes hand-in-hand with the corporate values of the Group; Honesty, Integrity and Trust.

Human Resources

Grace, Kennedy is one of the leading employers in Jamaica. One of the four value drivers of the company is to invest in its people. In 2004 the company spent US\$ 977,000 on training, an increase of 62.8% over the US\$600,000 spent in 2003. The investment is paying off as profit per employee has grown from approximately US\$8,000 in 2000 to US\$17,000 in 2004.

GRACE, KENNEDY DIVISIONS

Retail & Trading:

The Retail & Trading Division comprises 5 companies. The activities of this Division include the operation of an island-wide supermarket chain, airline catering, and the supply of agricultural products, hardware, building, and medical supplies.

In 2003, Rapid & Sheffield Company Limited and Agro-Grace Limited were merged with Hardware & Lumber Group Limited. Grace, Kennedy will own approximately 70% of the shares of the merged entity that will remain listed on the Jamaica Stock Exchange. This transaction secures Grace, Kennedy's leadership in hardware and agriculture distribution in Jamaica with 15 hardware stores and 5 farm and garden stores island-wide.

The division contributed 6.3% of the Group's profit in 2003 versus 7.2% in 2002.

The companies in this Division include:

Hi-Lo Food Stores (Ja.) Ltd.	(island wide chain of supermarkets)
Industrial Catering Services Ltd.	(industrial catering)
Medi-Grace Ltd.	(distribution of pharmaceuticals)
Hardware & Lumber Ltd.	(chain of hardware/building supplies retailers)
Versair In-Flite Services Ltd.	(airline catering)

Food Trading:

The Food Trading Division comprises 10 companies whose main line of business involves food trading and distribution, and the production and supply of meat, dairy, and canned products. The companies are located in Jamaica and overseas. The division contributed 21.9% of the Group's profit in 2003 versus 20.8% in 2002.

Grace, Kennedy repurchased the Grace brand outside of Jamaica in October 1997, and this totally re-energized the Division. All Grace labels were redesigned to give the brand a new international and contemporary appeal, the Grace logo was modernized, and a worldwide advertising campaign for the brand was launched. In May 1998, this division commenced the worldwide re-launch of the Grace brand to distributors, key customers, and the media at a cost of US\$3.5 million. Grace, Kennedy has since expanded its focus to the wider market of approximately 9.5 million English-speaking Caribbean persons worldwide,

primarily in the Caribbean, USA, Canada and the United Kingdom. Grace-owned brands are now sold in 33 countries.

To date, very strong performance has been reported by the Grace brand both locally and overseas. International sales for the Grace-owned brands increased by 7% in 2003 to US\$ 33 million.

In 2003, the division launched 17 new products that generated sales of approximately J\$ 251 million.

The companies in this Division include:

Grace Foods & Services Co. Ltd.	(distribution & trading of food & consumer products)
Grace Foods International	(international food distribution & trading)
Grace, Kennedy (Belize) Ltd.	(international food distribution & trading)
Grace, Kennedy (Ontario) Inc.	(international food distribution & trading)
Grace Foods Ltd.	(owners of Grace brand)
Dairy Industries (Ja.) Ltd.	(manufacture of dairy products)
Grace Food Processors Ltd.	(processing of meat products)
Grace Food Processors (Canning) Ltd.	(manufacture of canned products)
National Processors Ltd.	(production of drink & soup mixes)

Financial Services:

The Financial Services Division comprises 11 companies whose businesses include insurance underwriting and brokering, banking, securities trading and asset management. The Financial Services Division has been the leading contributor to the Group's profits over the last two years, contributing 43.6% in 2003 and 38.8% in 2002.

In March 2004, George & Branday Limited and First Global Bank Limited were merged into one entity with a larger capital base that will make it more competitive in the banking industry. As part of this consolidation process within the division, the securities businesses of both banks, along with First Global Stockbrokers, Grace Pension Management and GK Properties were merged into First Global Financial Services Limited on July 1, 2004.

The Grace Caribbean Fixed Income Fund was launched in Jamaica in February 2004. This mutual fund is also registered in the Cayman Islands, the Bahamas, Barbados and Trinidad & Tobago. Funds under management have grown to approximately US\$ 23.4 million with an annualized yield of 5.64%. Beginning in 2005, more funds will be offered to investors in collaboration with CI Funds Management Inc. of Canada.



The companies in this Division are:

Allied Insurance Brokers Ltd.	(general insurance brokerage)
Jamaica International Insurance Co. Ltd.	(general insurance)
Knutsford Re (Turks & Caicos Island)	(group fire & book debt insurance)
First Global Insurance Agency (Turks & Caicos)	(insurance agency in Turks and Caicos Islands)
First Global Bank Ltd.	(commercial banking)
First Global Financial Services Ltd.	(securities and asset Management)
Grace, Kennedy Capital Services	(mutual fund manager based in the Cayman Islands)
Grace, Kennedy Trade Finance Ltd.	(trade finance company based in Belize)
Signia Financial Group	(merchant bank based in Barbados)
Global Capital Services	(leasing company)
EC Global Insurance Ltd.	(life and health insurance company in St. Lucia)

Information Services:

The Information Services Division comprises 6 companies whose businesses include remittance services, bill payment services, foreign currency trading, telecommunications services and information management. The division contributed 22.5% of the Group's profits in 2003 compared to 25.0% in 2002.



During 2003, the division expanded Bill Express, its bill payment system, to Grenada, Dominica and St. Lucia, joining Jamaica, Trinidad & Tobago, and Guyana.

FX Trader, the division's currency trading arm registered an 18% increase in trading volume over 2002 and remains by far the largest cambio service in Jamaica.

The companies in this Division are:

Grace, Kennedy Remittance Services (Jamaica) Ltd.	(remittance services - agents for Western Union)
Grace, Kennedy Remittance Services (Guyana) Ltd.	(remittance services – agents for Western Union)
Grace, Kennedy Remittance Services (Trinidad & Tobago) Ltd.	(remittance services – agents for Western Union)
G.K.R.S. (USA) – Caribbean Outpost .	(remittance services – agents for Western Union)
ACRA Financial Services .	(remittance services – agents for Western Union in Haiti)
Telecommunications Alliance Ltd.	(telecommunications products & services)

Maritime:

The Maritime division is currently undergoing a major restructuring. In 2003 Grace, Kennedy agreed to sell its shares in Kingston Wharves to NCB Jamaica Limited. This transaction was concluded in January 2004.

The division started a new company, Grace, Kennedy Logistics, to enhance its service its service offering.

The division contributed 5.7% of the Group's profits in 2003 compared to 8.2% in 2002.

EXPANSION PROFILE & FUTURE PLANS (including 2020 Vision)

As Grace, Kennedy & Co. Ltd. gears itself to meet the challenges of the future, the Company has set out its policy prescriptions in a programme which it has called “2020 Vision”. The vision was developed in 1995. Our vision is to be:

- A dynamic group comprising strong, viable business units.
- A group of business units that gives value to our customers, not added cost.
- A Company whose consumers demand our products, our services and our brands.
- Continuously increasing productivity to raise the standard of living of our staff.
- A Company that has a high stock market value which will benefit our shareholders, and lower the cost of capital.
- Ethical in our conduct of doing business.
- Responsible members of our community – “Grace – We Care”
- Truly international by acting on appropriate opportunities wherever they may arise in the world.
- Earning 50% of profits form outside of Jamaica by 2012.

The Retail & Trading Division will be driving growth through Hardware & Lumber that has already started reaping the benefits of the merger. The division will be investing in renovating its stores and implementing a new information system.

The Food Trading Division is focusing on developing new products that will appeal to Grace's target market. In addition, the company is looking to expand its distribution network in key markets through acquisitions.

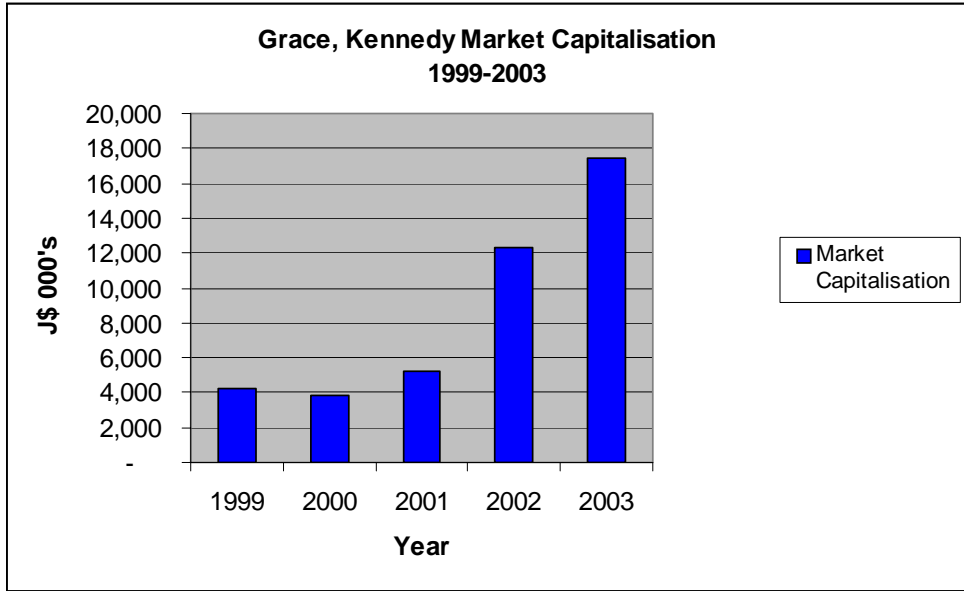
The Financial Services Division has many initiatives planned for 2005. These include credit cards being launched by First Global Bank, GK Funds starting five onshore and four offshore funds, and the joint venture project with Guardian Life commencing operations offering health insurance in Jamaica.

The Information division is embarking on offering POS services for merchants and customers to counter the slowdown in growth due to the competitive nature of the remittance business.

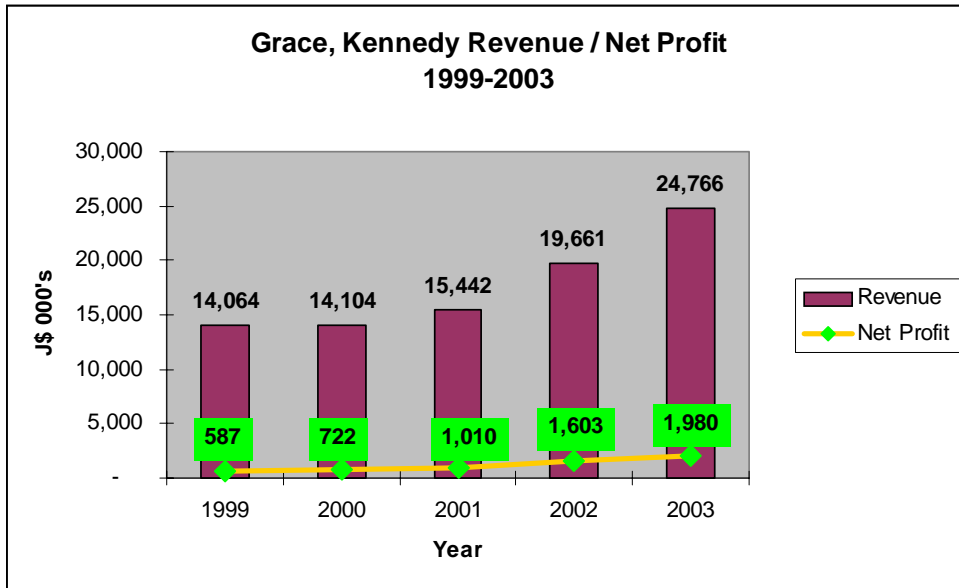
FIVE-YEAR FINANCIAL HIGHLIGHTS 1999 – 2003

Grace, Kennedy & Company Limited has performed exceptionally well over the last decade, showing steady growth in both revenues and profits. The company has achieved this success, despite a very uncertain economy. This success is reflected in the market capitalization of the Company that has increased almost 30 fold from \$1.3 billion in 1993 to \$38.4 billion in December 2004.

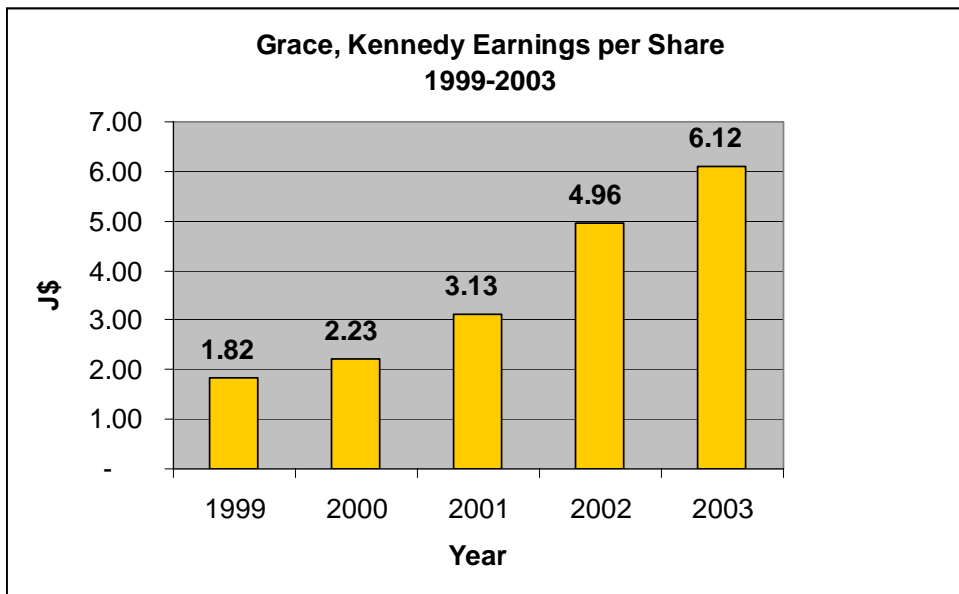
Comment [L5]: Is the figure available for December 2004?



Grace, Kennedy's revenues have grown an average of 15.20% per year, increasing to J\$ 24.8 billion in 2003 from J\$ 14.06 billion in 1999. Net Profit Attributable to Shareholders increased on average 35.52% per year over the same period, growing to J\$ 1.98 billion from J\$ 587 million.

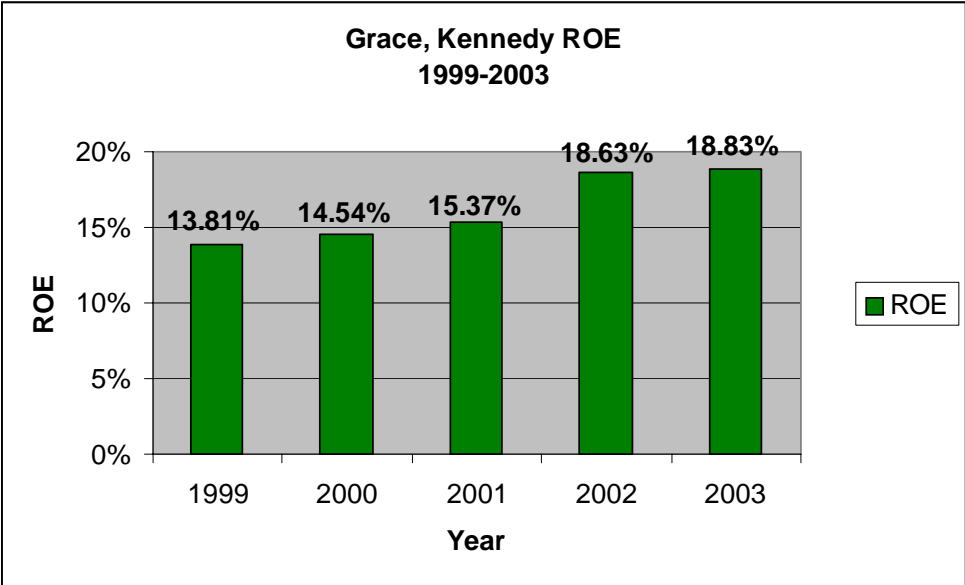


Earnings per share have increased 35.30% per year, growing to \$6.12 in 2003 from \$1.82 in 1999.



The Group has shown improvements in productivity levels. The Net Profit After Tax per Employee measured in US\$ grew from US\$7,480 in 1999 to US\$19,290 in 2003. This represents a 26.75% annual increase in productivity.

Throughout the period 1999-2003 the Group's Return on Average Equity increased consistently from 13.8% in 1999 to 18.8% in 2003.



Grace, Kennedy Five Year Financial Summary

	2003***	2002***	2001**	2000*	1999*
No. of Shares Issued	323,466	323,075	266,887	216,588	180,491
Stockholders' Equity	11,568,339	9,466,478	7,742,745	5,404,775	4,517,598
Market Capitalisation	17,450,991	12,276,850	5,177,608	3,887,755	4,241,539
Profit & Loss Account					
Turnover	24,765,501	19,660,593	15,442,090	14,103,951	14,063,653
Pretax Profit	2,668,230	2,046,696	1,333,249	1,030,077	832,500
After Tax Profit	2,040,518	1,636,571	1,056,976	769,630	650,087
Net Profit Attributable to Stockholders	1,980,191	1,603,265	1,010,320	721,519	587,010
Net Dividend - Amount	210,146	166,605	116,260	90,246	81,221
Important Ratios					
Return on Sales	8.0%	8.2%	6.5%	5.1%	4.2%
Equity/Debt ratio	3.50	4.73	3.62	3.12	2.62
Return on Equity	18.8%	18.6%	15.4%	14.5%	13.8%
PBT/Sales	10.8%	10.4%	8.6%	7.3%	5.9%
Shareholders Equity per stock unit	35.76	29.30	29.01	24.95	25.03
Earnings per share - basic ****	6.12	4.96	3.13	2.23	1.82
Net Profit after tax per employee - US\$	19.29	17.90	11.63	8.58	7.48
Bonus Issue of Shares	-	1 for 5	1 for 5	1 for 5	-
PE Ratio	8.82	7.67	6.19	8.05	12.88

* Prepared under JGAAP

** Balance sheet items restated to comply with IFRS

*** Prepared under IFRS

**** Earnings per share adjusted to reflect issue of Bonus Shares

Year-End Stock Price Quotations (adjusted for bonus issues)

Year	Last Sale Price (J\$) Jamaica Stock Exchange	Last Sale Price (TT\$) Trinidad & Tobago Stock Exchange	Last Sale Price (B\$) Barbados Stock Exchange	Bonus Shares Issued	No. of Issued Shares '000	Market Value J\$'000
2004	118.00	12.10	3.15	-	325,817	38,446,406
2003	53.95	5.80	1.60	-	323,466	17,450,991
2002	38.00	5.00	1.20	1 FOR 5	323,075	12,276,850
2001	19.40	2.85	1.04	1 FOR 5	266,887	5,177,608
2000	17.95	3.50	0.96	1 FOR 5	216,588	3,887,755
1999	23.50	3.50	1.20	-	180,491	4,241,539

Dividend Policy:

The Board of Directors has adopted a dividend policy intended to support the company's strategy for growth and to accelerate the creation of additional shareholder value.

The dividend policy of Grace, Kennedy & Company Ltd. is to distribute at least 10% of net profit attributable to stockholders. The policy is reviewed on an annual basis by the Board of Directors and must be viewed against the background of an unpredictable economy. However, the Company intends to maintain a total dividend payout in dollars, which is no less in any year than the preceding year. The Company pays dividends twice yearly.

Dividends paid to all shareholders on the Trinidad, Barbados Stock and Eastern Caribbean Exchanges will be paid in United States dollars.

Comment [L6]: How will it be paid on the ECSE (what currency)?

Taxation:

Income earned by a company, trust or organization is subject to tax at a rate of 33.33%. Individuals are subject to tax at 25%.

Dividends paid out of profits by a company listed on the Jamaica Stock Exchange are not subject to withholding tax and are tax-free for residents of Jamaica under current Jamaican laws. Investors who are not residents of Jamaica should obtain advice with respect of any tax liability for their respective jurisdictions.

Although Jamaica does not have a capital gains tax, there is a 7.5% transfer tax that is withheld at source on capital distributions for both individuals and companies.

Highlights of 9M04 Results

	9M04 \$000	% Change	9M03 \$000	3Q04 \$000	% change	3Q03 \$000
Revenues	22,320,587	35.28%	16,499,283	7,510,950	28.29%	5,854,664
Expenses	20,608,950	37.30%	15,010,066	6,860,131	29.95%	5,279,215
Trading Profit	1,711,637	14.94%	1,489,217	650,819	13.10%	575,449
Profit from Operations	1,921,827	20.22%	1,598,643	708,225	7.00%	661,867
Pre-Tax profits	2,090,628	13.58%	1,840,707	763,648	9.52%	697,259
Net Profit	1,427,529	11.55%	1,279,742	515,092	5.74%	487,116
EPS	4.41		3.96	1.59		1.51

For the nine month period ending September 30, 2004 the Group saw Revenues increase by 35.28% to total \$22.3 billion, while Expenses increased by 37.30% to total \$20.6 billion. This led to the 14.94% increase in Trading Profit which totaled \$1.7 billion for the period. Profit from Operations for the period saw a 20.22% increase over the corresponding period last year and amounted to \$210 million. Despite this increase the Group's Pre-tax Profits increased by only 13.58% as a result of the 31.45% and 28.05% decline in Finance Income and Share of associated profits, respectively. Net Profit for the period increased by 11.55% to total \$1.4 billion. EPS for the period was \$4.41 coming from \$3.96 in 2003.

In his report to shareholders the Group's Chairman stated that most of the companies in the Group have substantially restored their operations since the Hurricane, however the time to return to full normality will extend over several months. In particular, the Group's factories and export activities are being adversely affected by the loss of crops suffered by suppliers and will require the completion of a crop bearing cycle to return to pre-hurricane volumes. The main

contributors to the Group's Revenues have continued to perform well with the Retail & Trading Division achieving a significant increase in profits compared to the comparative period. The Financial Services division is now seeing the benefits of the mergers that occurred earlier this year.

RECENT DEVELOPMENTS

Food Trading Division:

- ❖ The Group recently acquired Elvico Sales, a Toronto-based beverage distribution company, through its subsidiary Grace, Kennedy (Ontario) Inc. Elvico's broad customer base, technical expertise and excellent supplier relationship will enable Grace, Kennedy to meet its strategic objectives in the Canadian market. The acquisition has more than doubled the Group's customer base in Canada with the addition of 600 new accounts.
- ❖ For 2005 the Division will continue to focus on beverages and expects to see the largest growth in the USA (New York and Florida), Canada and England.
- ❖ The division has also continued to launch new products with four new flavours of the new Grace Instant Noodle Soup in Canada and Jamaica.

Retail & Trading Division:

- ❖ The merger between Hardware & Lumber Limited and Rapid & Sheffield Limited was completed during the first quarter of 2004. Grace, Kennedy now owns approximately 70% of the shares of the merged group with Pan

Jamaican Investment Trust owning 25%. The division is beginning to realize the synergies from the merger with an excellent nine-month performance. The company contributed \$2.7 billion to Grace's revenue through September 2004.

- ❖ For 2005 the division plans to open new stores in Ocho Rios, May Pen and Savanna-la-Mar.
- ❖ Completion of the branding and conversion of the stores
- ❖ Introduction of the new IT system
- ❖ The division is projecting sales of \$9.75 billion and profits of \$325 million for 2005.

Financial Services Division:

- ❖ The Division recognized the completion of the merger between First Global Bank and George & Branday on April 1, 2004 with the new entity, First Global Bank Limited, being the Group's commercial banking arm.
- ❖ The merger of the group's securities companies, pension fund management company, stock trading company and property management company was completed on July 1, 2004. The new entity, First Global Financial Services Limited offers a full range of products and services such as portfolio and asset management, equity and fixed income trading, corporate finance and pension management. Combined, the merged businesses have assets of approximately \$14 billion.

- ❖ Plans are under way to list First Global Financial Holdings, a holding company for both First Global Bank and First Global Financial Services in 2005.
- ❖ In October 2004 Grace and the Bank of St. Lucia launched the EC Global Insurance Limited, a life and health insurance company in St. Lucia. Jamaica International Insurance Company, Grace's subsidiary, owns 30% of the company.
- ❖ The Group is about to sign a Memorandum of Understanding with Guardian Holdings to form a joint-venture health insurance firm in Jamaica by mid-year 2005.
- ❖ The Grace Caribbean Fixed Income Fund is performing exceptionally well with approximately US\$23.4 million invested in the fund to date. The Group will be launching three new mutual funds, namely GK Caribbean/US Equity fund, GK Global Fund and the GK Global Industry Focused Fund, in early 2005.

Information Division

- ❖ The Bill Express service was launched in Dominica in 2004 following the launch of the service in St. Lucia and Grenada in 2003. The division expects to introduce the service in other Caribbean countries during the year.
- ❖ The new Western Union Outpost was launched in Lauderdale Lakes, Florida as a follow up to the Caribbean Outpost in New York that is

currently ranked 18th out of 2,200 locations in the state in terms of transaction volumes.

- ❖ The information division is to begin offering merchant services to provide growth in its business.

Maritime Division

- ❖ Grace, Kennedy reported that its role in the maritime industry is under review. This culminated in the divestment of three subsidiaries in the division.
- ❖ Grace, Kennedy recently sold its 30% holding in Carib Star Shipping Limited to ZIM Integrated Shipping Limited, the majority shareholder. In addition, the company sold its shares in GK Logistics and International Shipping Limited to Gateway Shipping, a new player in the Maritime industry in which a former Grace, Kennedy director is associated.
- ❖ In January 2005, Grace, Kennedy entered into a joint venture partnership with Gateway Shipping and CMA-CGM to provide agency services for CMA-CGM in Jamaica. Grace owns 15% of the venture, Gateway Shipping owns 34%, and CMA-CGN owns 51%.

Competitive Matrix

Name	Home	12 Months Ending	Revenue (US\$ 000's)	Profit Att to Sh. Holders (US\$ 000's)	BV (US\$ 000's)	EPS (US\$)	Latest Price	Price (US\$)	Market Cap (US\$ 000's)	P/E (12M)
Conglomerates										
Grace, Kennedy	JSE	30-Sep-04	\$ 493,336	\$ 34,322	\$ 199,812	\$ 0.1059	\$ 118.10	\$ 1.90	\$ 617,362	17.99
Lascelles	JSE	30-Sep-04	\$ 258,215	\$ 24,350	\$ 216,720	\$ 0.2535	\$ 325.00	\$ 5.24	\$ 503,428	20.67
Jamaica Producers	JSE	02-Oct-04	\$ 342,165	\$ 9,952	\$ 136,498	\$ 0.0532	\$ 48.00	\$ 0.77	\$ 144,792	14.55
Pan Jam	JSE	30-Sep-04	\$ 67,533	\$ 14,049	\$ 62,792	\$ 0.0810	\$ 73.00	\$ 1.18	\$ 204,176	14.53
Ansa McAl	TTSE	30-Jun-04	\$ 480,791	\$ 41,726	\$ 228,130	\$ 0.2451	\$ 42.50	\$ 6.95	\$ 1,166,796	27.96
Neal & Massy	TTSE	30-Sep-04	\$ 491,183	\$ 34,790	\$ 184,696	\$ 0.3919	\$ 50.00	\$ 8.06	\$ 715,954	20.58
Angostura Holdings	TTSE	30-Jun-04	\$ 200,755	\$ 7,756	\$ 111,165	\$ 0.0376	\$ 5.05	\$ 0.81	\$ 168,016	21.66
BS&T	BSE	30-Sep-04	\$ 328,757	\$ 22,291	\$ 228,866	\$ 0.2985	\$ 7.60	\$ 3.80	\$ 283,795	12.73
Goddard Enterprises	BSE	30-Sep-04	\$ 252,139	\$ 12,741	\$ 128,051	\$ 0.2285	\$ 7.60	\$ 3.80	\$ 211,885	16.63

GRACE, KENNEDY PROJECTIONS 2005-2009*

US\$ Millions	2004	2005	2006	2007	2008	2009	Growth
Revenue	613.50	668.72	728.90	794.50	866.01	943.95	9.0%
Profits:							
Inside Jamaica	37.38	39.57	43.53	47.88	52.67	57.93	
Outside Jamaica	7.40	8.82	10.58	12.70	15.24	18.28	
Total Pre-Tax Profits	44.78	48.39	54.11	60.58	67.91	76.21	11.2%
Pre-Tax Margins	7.3%	7.2%	7.4%	7.6%	7.8%	8.1%	

Over the next five years, we expect Grace, Kennedy to maintain revenue growth of 9% in US dollar terms. We also expect productivity to continue to improve, reflected in pre-tax margins improving from 7.3% in 2004 to 8.1% in 2009.

*The projections are based on current expectations and estimates of global macroeconomic conditions and economic conditions of industries that are major markets for Grace, Kennedy and its subsidiaries. FGFS gives no assurance that these expectations will be achieved or that the actual results will not vary from projections.

Comment [L7]: format

GRACE, KENNEDY VALUATION



We used the following two methods determine the value of Grace, Kennedy shares:

- 1) Price / Earnings of Comparable Firms
- 2) Discounted Cash Flow

Price / Earnings Valuation:

We valued the shares of Grace, Kennedy based on the weighted-average P/E of large Caribbean conglomerates. The P/E's are weighted by the US\$ equivalent market capitalization of these giving a multiple of 19.23. Using this P/E multiple, Grace, Kennedy's shares are currently worth J\$124.82 per share.

Company	Trailing 4Q EPS	Share Price (Oct 26 2004)	P/E	Market Cap (US\$ 000's)	Market Cap Weighted P/E
Grace, Kennedy	\$ 6.49	\$ 119.40	18.40	624,157	4.10
Jamaica Producers	\$ 2.99	\$ 28.00	9.37	84,462	0.28
Lascelles	\$ 13.57	\$ 161.00	11.86	249,290	1.05
Neal & Massy	\$ 2.07	\$ 38.00	18.36	541,993	3.55
Ansa McAl	\$ 1.52	\$ 38.00	25.00	1,039,063	9.26
BS&T	\$ 0.68	\$ 7.10	10.46	265,125	0.99
					19.23

Discounted Cash Flow Valuation:

We valued Grace, Kennedy by discounting the company's net free cash flows.

The cash flows were converted in US\$, and the assumptions used in the analysis were based on US\$ projections going forward.

Assumptions:

Risk-Free Rate (US 10Y)	3.97%
Risk Premium	7.82%
Exchange Rate	\$ 62.00
Growth (2004-2008)	12%
Growth (Terminal Value)	5%

The Net Free Cash Flows were calculated as follows from Grace, Kennedy's 2003 financials that were audited by PricewaterhouseCoopers.

Free Cash Flow to Equity Investors:

Net Income	1,980,191
+ Depreciation	467,732
- Capital Expenditures	837,389
- Changes in Working Capital	1,040,095
- Debt Repaid	299,454
+ Debt Assumed	<u>1,202,009</u>
Net Free Cash Flow	<u>1,472,994</u>

The cash flows were discounted at the cost of equity which was calculated using the risk-free rate (US Treasury 10 Year Bond), and a beta determined by industry betas in the United States weighted by the percentage of profits contributed by each division of Grace, Kennedy. This yielded a cost of equity of 9.67%.

Discounting the cash flows by the cost of equity, we got a value of US\$ 667.4 million for Grace, Kennedy. Based on the 324 million shares issued, the DCF method yields a per share value of US\$ 2.06, or J\$ 127.68.

RISK ANALYSIS

Country Risk:

Jamaica's economy is highly leveraged with debt levels of approximately 143.3% at the start of fiscal year 2004-2005. The banking and insurance companies within the group are exposed to default risk on government instruments held on their balance sheets.

In addition, Jamaica's high crime rate and volatile social conditions create an environment that at times might not be conducive to productivity.

Grace, Kennedy's response to these threats is to boost investment outside of Jamaica so as to build their asset base outside of the country. The company has worked out the percentage of new investment that must be made overseas in order to achieve earning 50% of its profits from outside of Jamaica.

Interest Rate Risk:

Certain companies within the Grace, Kennedy group have exposure to interest rate fluctuations. This risk is concentrated mostly in the Financial Services Division. The Grace, Kennedy Group has recently appointed a Chief Risk Officer. In addition, the financial services division has embarked on developing a risk management team and implementing upgrades to its information systems to facilitate managing the risks in the business.

Exchange Rate Risk:

Grace, Kennedy has foreign currency-denominated liabilities on its balance sheet. As such, the company is exposed to fluctuations in exchange rates. By increasing the earnings from overseas economies, Grace is mitigating the risk of a historically weak Jamaican currency.

Operational Risk:

Grace, Kennedy and its subsidiaries operate in competitive industries, and as such they face competitive pressures that may affect financial results, in addition to other risks inherent in carrying on daily business operations. The Group encourages entrepreneurship at its subsidiaries so that they are able to quickly take advantage of opportunities as they arise and remain competitive, viable businesses.

