



**INTERIM REPORT**

**(THREE MONTHS)  
31 MARCH 2011**



**GraceKennedy**  
**GraceKennedy Limited**

INTERIM REPORT TO OUR STOCKHOLDERS

The Directors present the unaudited results of the Group for the quarter ended March 31, 2011.

The Group achieved Revenues for the period of \$14,367.2 million (2010: \$14,476.9 million), a decrease of \$109.7 million or 0.76%. The Net Profit Attributable to owners of the Company decreased by \$142.7 million compared to the corresponding period of 2010, moving from \$754.0 million to \$611.3 million a decrease of 18.93%. This represents earnings per stock unit of \$1.85 (2010: \$2.29).

On March 1, 2011, the Board of Directors approved an interim dividend to be paid on May 27, 2011 of approximately \$181 million, which represents 55 cents per stock unit.

GK Foods closed the first quarter 2011 with sales at 6% over last year. Profits were, however, flat due to increased costs of major raw materials and other inputs over 2010. As we balance the need to recover these higher input costs against the need to serve the consumer with affordable food products, we continue to look for ways to further improve operating efficiencies and find new supply sources. Our overall business showed Grace-owned brand sales increasing by 5% over prior year with canned meats leading the way in the Domestic market and beverages in the International market.

We continue to increase traffic flow in our newer Hi-Lo locations in Portmore, Kingston and Montego Bay. Our UK subsidiary has improved its overall performance, bolstered by increased exports to Europe and Asia. The new Distribution Centre continues to attract significant local clients, particularly for cold storage products, and we look forward to building further alliances.

The GraceKennedy Financial Group experienced a decline in revenues and profits over prior year in very competitive markets.

In Money Services, the operation of the Jamaica Public Service Company Limited bill collection centres, which started in January, is performing well. The Banking and Investments segment recorded profits slightly lower than prior year. The Insurance segment experienced a decline in profits due to the reduction in investment income caused by the Jamaica Debt Exchange in 2010.

The GraceKennedy Foundation Annual Lecture was held on March 15, 2011. The lecturer was Mrs. Frances Madden, General Manager of the Grace and Staff Community Development Foundation. The Lecture was entitled *"It's Not About Me", Working with Communities: Processes and Challenges – The Grace and Staff Community Development Foundation Experience*. The model, instituted through Grace & Staff, stresses social intervention combined with the preservation of human dignity and justice; education and the development of human capital as the major focus for transformation.

The GraceKennedy Group and the Inter-Secondary School Sports Association (ISSA) again worked together to ensure the successful staging of the 2011 ISSA/GraceKennedy Boys' and Girls' Championships in April. Some 2,000 athletes from approximately 200 schools participated in the event. The event which lasted four days, provided the thousands of patrons who turned out for the event, with a great display of sportsmanship worthy of the international athletics stage.

Messrs. Erwin Burton and Joseph Taffe retired from the Company on February 28, 2011. The Board is grateful for the significant contributions made by both of these executives over their many years of sterling service to the Group and wishes for them the very best on their retirement. Mr. Michael Ranglin, currently CEO of Grace Foods UK Limited, has succeeded Mr. Burton as CEO of GK Foods and was appointed a director of GraceKennedy Limited.

We thank our consumers, customers, suppliers and all stakeholders for their continuing relationships with us as we chart our way forward. I express my gratitude to my colleague directors, management and staff for their dedication to the GraceKennedy Group in our efforts to satisfy the needs of our customers.

A handwritten signature in black ink, appearing to read 'D. Orane', enclosed within a large, loopy oval shape.

Douglas R. Orane  
Chairman & Chief Executive Officer

May 12, 2011

# GraceKennedy Limited

## CONSOLIDATED INCOME STATEMENT

### QUARTER ENDED 31 MARCH 2011

(Unaudited)

	3 months to 3/31/2011 \$'000	3 months to 3/31/2010 \$'000
<b>Revenue</b>	14,367,210	14,476,877
Expenses	13,673,810	13,537,920
	693,400	938,957
Other income	270,031	256,223
<b>Profit from Operations</b>	963,431	1,195,180
Interest income – non-financial services	82,005	112,941
Interest expense – non-financial services	(189,207)	(238,507)
Share of results of associated companies	92,239	90,095
<b>Profit before Taxation</b>	948,468	1,159,709
Taxation	(265,571)	(324,718)
<b>NET PROFIT FOR THE PERIOD</b>	682,897	834,991
<b>Profit attributable to:</b>		
<b>Owners of GraceKennedy Limited</b>	611,336	754,067
<b>Non-controlling interests</b>	71,561	80,924
	682,897	834,991

Earnings per Stock Unit for profit attributable to the owners of the company during the period:  
(expressed in \$ per stock unit):

<b>Basic</b>	\$1.85	\$2.29
<b>Diluted</b>	\$1.85	\$2.28

# GraceKennedy Limited

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### QUARTER ENDED 31 MARCH 2011

(Unaudited)

	3 months to 3/31/2011 \$'000	3 months to 3/31/2010 \$'000
Profit for the period	682,897	834,991
Other comprehensive income:		
Foreign currency translation adjustments	54,224	(78,230)
Fair value gains	285,443	684,906
Revaluation losses	(27,365)	-
Other comprehensive income for the period, net of tax	312,302	606,676
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	995,199	1,441,667
<b>Total comprehensive income attributable to:</b>		
<b>Owners of GraceKennedy Limited</b>	924,303	1,361,371
<b>Non-controlling interests</b>	70,896	80,296
	995,199	1,441,667

# GraceKennedy Limited

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2011

(Unaudited)

	Period ended March 31 2011 \$'000	Year ended December 31 2010 \$'000	Period ended March 31 2010 \$'000
<b>ASSETS</b>			
Cash and deposits	14,138,737	13,609,782	9,627,067
Investment securities	40,163,308	41,049,236	43,024,426
Receivables	8,930,950	7,580,739	8,658,422
Inventories	6,194,525	5,727,961	5,455,548
Loans receivable	9,630,014	10,401,441	11,277,892
Taxation recoverable	1,073,090	1,339,110	1,230,070
Investments in associates	818,065	725,826	789,352
Intangible assets	2,050,364	2,042,293	2,362,059
Fixed assets	6,708,509	6,692,471	6,430,916
Deferred tax assets	894,673	923,572	1,265,562
Pension plan asset	8,071,941	7,973,705	7,580,515
<b>Total Assets</b>	<b>98,674,176</b>	<b>98,066,136</b>	<b>97,701,829</b>
<b>LIABILITIES</b>			
Deposits	13,114,201	13,033,915	12,356,749
Securities sold under agreements to repurchase	24,819,897	26,521,041	26,515,930
Bank and other loans	13,351,699	13,764,164	15,393,835
Payables	13,482,271	11,785,359	12,371,008
Taxation	171,583	361,824	302,370
Provisions	6,221	8,037	8,036
Deferred tax liabilities	2,634,526	2,541,777	2,459,637
Other post-employment obligations	2,253,675	2,206,862	2,007,332
<b>Total Liabilities</b>	<b>69,834,073</b>	<b>70,222,979</b>	<b>71,414,897</b>
<b>EQUITY</b>			
<b>Capital &amp; reserves attributable to the company's owners</b>			
Share capital	574,216	574,216	573,976
Capital and fair value reserves	4,772,987	4,443,059	3,597,632
Retained earnings	17,961,424	17,459,342	16,333,388
Banking Reserves	2,222,315	2,222,315	2,222,315
Other reserves	2,059,605	1,998,873	2,331,955
	27,590,547	26,697,805	25,059,266
<b>Non-controlling interests</b>	<b>1,249,556</b>	<b>1,145,352</b>	<b>1,227,666</b>
<b>Total equity</b>	<b>28,840,103</b>	<b>27,843,157</b>	<b>26,286,932</b>
<b>Total Equity and Liabilities</b>	<b>98,674,176</b>	<b>98,066,136</b>	<b>97,701,829</b>

Approved for issue by the Board of Directors on 12 May 2011 and signed on its behalf by:

  
 \_\_\_\_\_  
 Douglas Orane Chairman

  
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 Fay McIntosh Chief Financial Officer

# GraceKennedy Limited

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

QUARTER ENDED 31 MARCH 2011

(Unaudited)

	Attributable to owners of the company							Non-controlling interests	Total Equity
	No. of Shares	Share Capital	Capital and	Retained Earnings	Banking Reserves	Other Reserves	Total		
			Fair Value Reserve						
'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 January 2010	329,633	573,976	2,781,614	17,305,066	627,685	2,409,301	23,697,642	1,147,370	24,845,012
Total comprehensive income for the period	-	-	684,903	754,067	-	(77,599)	1,361,371	80,296	1,441,667
Transfers between reserves:									
To capital reserves	-	-	131,115	(131,115)	-	-	-	-	-
From retained earnings	-	-	-	(1,594,630)	1,594,630	-	-	-	-
Employee share option scheme	-	-	-	-	-	253	253	-	253
Total transactions with owners	-	-	131,115	(1,725,745)	1,594,630	253	253	-	253
Balance at 31 March 2010	329,633	573,976	3,597,632	16,333,388	2,222,315	2,331,955	25,059,266	1,227,666	26,286,932
Balance at 1 January 2011	329,633	574,216	4,443,059	17,459,342	2,222,315	1,998,873	26,697,805	1,145,352	27,843,157
Total comprehensive income for the period	-	-	258,078	611,336	-	54,889	924,303	70,896	995,199
Transfer of non-controlling interests	-	-	-	(37,404)	-	4,096	(33,308)	33,308	-
Transfers between reserves:									
To capital reserves	-	-	71,850	(71,850)	-	-	-	-	-
Employee share option scheme	-	-	-	-	-	1,747	1,747	-	1,747
Total transactions with owners	-	-	71,850	(109,254)	-	5,843	(31,561)	33,308	1,747
Balance at 31 March 2011	329,633	574,216	4,772,987	17,961,424	2,222,315	2,059,605	27,590,547	1,249,556	28,840,103

# GraceKennedy Limited

## CONSOLIDATED STATEMENT OF CASH FLOWS

QUARTER ENDED 31 MARCH 2011

(Unaudited)

	3/31/2011 \$'000	3/31/2010 \$'000
<b>SOURCES/(USES) OF CASH:</b>		
<b>Operating Activities</b>		
Profit for the period	682,897	834,991
Adjustments for items not affecting cash, changes in non-cash working capital components and other, net	(423,905)	(503,127)
Cash provided by operating activities	258,992	331,864
Cash used in financing activities	(429,110)	(1,204,963)
Cash provided by investing activities	919,292	724,038
Increase/(Decrease) in cash and cash equivalents	749,174	(149,061)
Cash and cash equivalents at beginning of year	11,918,047	8,798,668
Exchange and translation losses on net foreign cash balances	(20,973)	(32,525)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>12,646,248</b>	<b>8,617,082</b>

# GraceKennedy Limited

## FINANCIAL INFORMATION BY OPERATING SEGMENT

QUARTER ENDED 31 MARCH 2011

(Unaudited)

3 months to 31 March 2011	Food Trading \$'000	Retail & Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Consolidation Adjustments \$'000	Group \$'000
<b>REVENUE</b>							
External sales	9,649,497	1,467,626	1,266,179	949,547	1,034,361	-	14,367,210
Inter-segment sales	36,231	1,543	4,087	8,807	-	(50,668)	-
<b>Total Revenue</b>	<b>9,685,728</b>	<b>1,469,169</b>	<b>1,270,266</b>	<b>958,354</b>	<b>1,034,361</b>	<b>(50,668)</b>	<b>14,367,210</b>

<b>RESULT</b>							
Operating results	366,781	42,863	217,036	51,033	322,533	3,857	1,004,103
Unallocated expense	-	-	-	-	-	(40,672)	(40,672)
Profit from operations	-	-	-	-	-	-	963,431
Finance income	3,647	902	12,182	3,542	8,110	53,622	82,005
Finance expense	(113,936)	(17,578)	(20,261)	(1,913)	(764)	(34,755)	(189,207)
Share of associates	83,121	-	12,639	(3,521)	-	-	92,239
<b>Profit before Taxation</b>	<b>339,613</b>	<b>26,187</b>	<b>221,596</b>	<b>49,141</b>	<b>329,879</b>	<b>(17,948)</b>	<b>948,468</b>
Taxation							(265,571)
<b>Net Profit for the period</b>							<b>682,897</b>

Attributable to:

Owners of GraceKennedy Limited	611,336
Non-controlling interests	71,561
	<b>682,897</b>

3 months to 31 March 2010	Food Trading \$'000	Retail & Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Consolidation Adjustments \$'000	Group \$'000
<b>REVENUE</b>							
External sales	9,062,395	1,434,486	1,641,108	1,274,731	1,064,157	-	14,476,877
Inter-segment sales	39,218	967	119,347	7,918	-	(167,450)	-
<b>Total Revenue</b>	<b>9,101,613</b>	<b>1,435,453</b>	<b>1,760,455</b>	<b>1,282,649</b>	<b>1,064,157</b>	<b>(167,450)</b>	<b>14,476,877</b>

<b>RESULT</b>							
Operating results	332,698	22,600	220,876	170,027	321,429	34,389	1,102,019
Unallocated income	-	-	-	-	-	93,161	93,161
Profit from operations	-	-	-	-	-	-	1,195,180
Finance income	7,981	387	17,391	7,052	16,104	64,026	112,941
Finance expense	(100,787)	(29,914)	(19,863)	(1,929)	(822)	(85,192)	(238,507)
Share of associates	90,767	-	7,525	(7,707)	(490)	-	90,095
<b>Profit before Taxation</b>	<b>330,659</b>	<b>(6,927)</b>	<b>225,929</b>	<b>167,443</b>	<b>336,221</b>	<b>106,384</b>	<b>1,159,709</b>
Taxation							(324,718)
<b>Net Profit for the period</b>							<b>834,991</b>

Attributable to:

Owners of GraceKennedy Limited	754,067
Non-controlling interests	80,924
	<b>834,991</b>

# GraceKennedy Limited

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS QUARTER ENDED 31 MARCH 2011

### Notes

#### 1. Accounting Policies

##### (a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention, as modified by the revaluation of certain fixed and financial assets.

The accounting policies followed in these interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2010.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

##### (b) Fixed Assets

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

##### (c) Intangible Assets

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. Other intangible assets, which include computer software licences, brands, distribution channel agreements and policy contracts are recorded at cost and amortised over their estimated useful lives.

##### (d) Investment securities

The Group classifies its investments in debt and equity securities into the available-for-sale category. Available-for-sale investments are subsequently re-measured at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are recorded in the Capital and fair value reserve.

**(e) Employee benefits**

*(i) 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.

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.

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

*(ii) Other 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.

*(iii) 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.

**(f) Deferred taxation**

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

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

**(g) Provisions**

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

**(h) 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 in liabilities on the balance sheet.

**(i) Segment reporting**

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 and distribution of food products; operation of a chain of supermarkets.
- *Retail and Trading* – Merchandising of agricultural supplies, hardware and lumber.
- *Banking and Investment* – Commercial banking; investment management; lease and trade financing; stock brokerage; pension management; property rental; mutual fund management.
- *Insurance* – General insurance and insurance brokerage.
- *Money Services* – Operation of money transfer services; cambio operations and bill payment services.

**2. Contingent Liabilities**

In 2000, a suit was filed jointly against a subsidiary, GraceKennedy Remittance Services Limited (“GKRS”) and a software developer by Paymaster (Jamaica) Limited (Paymaster), a bills payment company. The suit claimed damages arising out of the use by the subsidiary of certain software, to which Paymaster alleged it owned the copyright.

In the judgment handed down by the Supreme Court on 30 April 2010, the court ruled in favour of GKRS and the software developer on all claims. Accordingly, the Court awarded damages to be paid by Paymaster to GKRS and the software developer. On 10 June 2010, Paymaster filed an appeal against the decision of the Supreme Court in the Court of Appeal and applied for a stay of execution, pending the appeal. Further to an application made by Paymaster to the Court of Appeal the enquiry into damages resulting from the injunction by the Supreme Court was on 6 May 2011 stayed pending appeal. The recovery of costs was not stayed and GKRS may therefore proceed to pursue the recovery of costs against Paymaster. Management has considered the advice of the company’s attorneys and is of the opinion that Paymaster’s appeal is unlikely to succeed.