

## **GraceKennedy Limited**

### CHAIRMAN'S REPORT YEAR IN REVIEW - 2007

The year 2007 was a good one for GraceKennedy Limited. As we celebrated our 85<sup>th</sup> year, we were also firmly on track towards our '2020 Vision' of becoming a global company by the year 2020. We began experiencing the benefits of our 2006 strategic reorganization which we called 'Designing GraceKennedy for the 21<sup>st</sup> Century', with all our industry segments showing positive results. We continued our trend of innovation, and we made concrete moves towards expanding our operations within the Caribbean and internationally.

Our Mission continues to be "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."

The Directors are pleased to present the results for the year ended 31 December 2007. The Group achieved Revenues for the period of \$48.75 billion (2006: \$36.09 billion), an increase of \$12.66 billion or 35.1%. The Net Profit Attributable to Shareholders of the Company increased by \$1.591 billion over the corresponding period of 2006, moving from \$1.845 billion to \$3.436 billion, an increase of 86.2%. This represents earnings per stock unit of \$10.55 (2006: \$5.67).

Dividends paid to stockholders during the year were \$375 million, a 10% increase over the \$341 million paid in 2006, and 11% of profit attributable to stockholders in 2007.

These results demonstrate that our 2006 reorganization has definitely worked in terms of improving efficiency, innovation and profitability of the Group. We expect these benefits to continue into the future.

On November 1, 2007, GraceKennedy Limited completed the sale of 25% of the shareholding in GraceKennedy Money Services Caribbean SRL (GKMS Caribbean) to Western Union affiliate MT Caribbean Holdings (Western Union) for a consideration of US\$29 million. GKMS Caribbean is the parent company of GraceKennedy's remittance, cambio and bill payment businesses within the Caribbean. This investment solidifies the relationship between Western Union and ourselves and provides a platform for further long-term growth in the money services business. The net gain on the sale has been reflected in the year's profits and has had a significant, positive impact on our results.

### **GK FOODS**

New product development, improved customer service and a strategic approach to international expansion were some of the major factors contributing to a highly successful year for GK Foods.

One of the most significant achievements for 2007 was the acquisition of WT Holdings Ltd. ("WT Foods"), a large UK-based owner and distributor of several major ethnic brands, for a price of £23 million on February 28, 2007. The effect of this acquisition has been to increase our overall Group revenues by some 20%, and to establish GraceKennedy as the largest distributor of Afro-Caribbean ethnic foods in the UK.

In addition to seeking to expand our share of established markets, we continued to explore non-traditional markets, increasing our shipments of Grace Tropical Rhythms to Ghana, and making our first shipment of Grace Coconut Water to India.

We successfully launched our Caribbean Traditions range of frozen microwavable meals in North America and, later in the year, we introduced a range of lighter fruity juice blends under the Tropical Rhythms brand known as *Tropical Rhythms Refreshers*.

Grace owned brands grew in the international market to US\$101 million in revenues, a 113% increase over 2006. Besides organic growth, the major contributor was the acquisition of WT Foods brands, such as Encona, Nurishment and Dunn's River, which added US\$51 million to international Grace owned brands sales in 2007.

Our most recent product, Grace Instant Porridges, launched in Jamaica late in the previous year, has performed far above expectations. The product will soon be launched overseas, much to the delight of many Jamaicans who have been asking when this product will finally be available in their markets.

A major focus for GK Foods has always been on preparing a cadre of managers ready to take advantage of opportunities wherever they arise. This has obviously paid off, as the team has been able to draw on internal talent to support the WT acquisition, while ensuring continuity in our Caribbean operations.

Our marketing campaign with the theme "Grace – Pass on the Love" has achieved good traction with our target consumers in building on our "Grace – We Care" philosophy.

## GK INVESTMENTS

GK Investments comprises all of GraceKennedy's non-food entities including the First Global group, GraceKennedy Money Services, and the Hardware & Lumber group. While the individual companies faced challenges posed by various developments in their industries, a strong customer service focus and tighter management of internal controls ensured that they all experienced positive results.

Our strategy is to grow First Global Bank (FGB) organically through a wider retail network and the introduction of innovative products and services. Consistent with this approach, two new branches were opened: one in Mandeville, and the other in Liguanea, St. Andrew. FGB also launched an electronic funds transfer service, which allows its customers to make payments to their suppliers and receive credits to their accounts electronically. The bank was approved by VISA as a principal member, which will now give it greater flexibility in the types of services it can offer its credit card customers.

First Global Financial Services (FGFS), and Signia Financial Group Inc. (Signia), which represent the investment arm of the First Global Group, also had a successful year. FGFS introduced two new products – FGFS Investor Line, and FGFS Managed Assets Portfolio and carried out a proactive investor education campaign. In Barbados, Signia successfully structured, on behalf of its clients, three take over bids and a US\$16.5 million rights issue.

In the general insurance industry, JIIC (Jamaica International insurance Company Limited) continues to be the insurer of choice. In February 2007, JIIC began offering enhanced roadside assistance services through the new REACT road rescue programme. We are pleased to note that the company continued to receive a positive rating from A.M. Best.

Allied Insurance Brokers maintained its dominant position in the insurance brokerage industry, rolling out innovative programmes. One of these is **InCheck**, a

wellness programme aimed at providing employers with information to improve the health of their workforce.

Our publicly traded subsidiary, Hardware & Lumber Limited had a profitable year having recovered from the setback posed by Hurricane Ivan in 2004 and the cement crisis of 2006. Household items remained the most profitable area, while hardware recorded the strongest revenue growth.

Versair's operations were negatively affected by the shortage of fruit and vegetables following the passage of Hurricane Dean in August. A new client, Virgin Atlantic, was added during the year.

Our remittance, cambio and bill payment businesses which are now collectively referred to as GraceKennedy Money Services (GKMS) performed well in 2007. The focus during the year was on tightening internal controls, and automating our cash management processes to prevent a re-occurrence of some of the issues we encountered in 2006. The entity is now poised to pursue expansion of its services in Jamaica and the wider Caribbean through our new equity partnership with Western Union.

As part of our expansion strategy, GK Investments also made acquisitions. On April 24, 2007, we acquired a 30% stake in Trident Insurance Company Limited, a general insurance company in Barbados, in which the Leacock Group of Barbados has controlling interest. On July 19, 2007 we purchased 90% of One1 Financial Limited, an investment bank in Trinidad & Tobago. One1Financial was founded in 2005 by five young merchant bankers who continue on the management team and as minority shareholders. Both acquisitions have given us a solid footing in these dynamic Caribbean markets and we are working on expanding our range of products and services.

## **DEVELOPING OUR PEOPLE**

We recognize that a highly skilled and motivated workforce, effectively working with a shared sense of responsibility is the greatest source of competitive advantage. In this regard, we introduced two initiatives of the highest priority during the course of the year. The first initiative was a group-wide sensitization programme under the theme “Internal Controls are Everybody’s Business”. This relates to everyone in the organization accepting personal responsibility for the adequacy and maintenance of internal controls to protect our business.

The second initiative was the acceleration of our succession planning process for our senior executive positions. This is to ensure that GraceKennedy has a large, adequately prepared group of managers from the younger generation from which to select in the future for promotion to the most senior executive positions.

We re-launched the Supervisory Development Programme, aimed at strengthening the skills of our frontline managers, and we are continuing to widen the experience base of our general managers through job rotation, both locally and internationally.

In October 2007 we conducted our second group-wide Employee Satisfaction Survey. The results are now being reviewed by our management team with a view to designing actions to address areas which need improvement.

## **BOARD AND MANAGEMENT TRANSITIONS**

Mr. LeRoy Bookal was appointed Chairman of the Audit Committee of GraceKennedy Limited in November 2007. He succeeds Mr. Peter Moss-Solomon who will remain a member of the Audit Committee.

In September 2007, Mr. Don Wehby, Chief Executive Officer (CEO) of GK Investments, resigned to take up duties as Minister without Portfolio in the Ministry of Finance. Mr. Joe Taffe, formerly Deputy Chief Executive Officer, is now acting as CEO.

In July 2007, Mr. James Moss-Solomon, Chief Corporate Affairs Officer proceeded on early retirement. He remains on the Boards of a number of companies within the Group.

## **CORPORATE SOCIAL RESPONSIBILITY**

### **GraceKennedy Foundation**

The GraceKennedy Foundation marked 25 years of service to Jamaica with an event in honour of the three Chairmen who have so far guided the Foundation.

Since its inception, the GraceKennedy Foundation has invested heavily in education, funding scholarships to the University of the West Indies, the University of Technology, and the Edna Manley School for the Visual and Performing Arts.

The annual GraceKennedy Foundation Lecture was held in May entitled “Information Communication Technology – Shaping Our Lives”. Our lecturer was Mr. Kenneth Sylvester, CEO of the Caribbean Knowledge and Learning Network.

### **Grace & Staff Community Development Foundation**

Despite the challenges faced by the ongoing threat of violence, the Grace & Staff Community Development Foundation continues to make a difference in the life of the schoolchildren living in the communities adjacent to our locations.

Special thanks to GraceKennedy’s staff volunteers who provided support as mentors and teachers in the homework centres. Last year 23 persons served as mentors, while 16 persons volunteered to teach at the Central Kingston and Barbican centres. They focused on preparing the students for the Caribbean

Secondary Examination Certificate (CSEC) examinations as well as for the US-based SAT and PSAT examinations.

The Foundation's programme of inner-city intervention has attracted the attention of community practitioners locally and internationally. We are committed to sharing best practices by documenting and publishing successful processes used in community development and training others to use them.

### **Investing in our young people through sports**

We continue to support the Inter-Secondary Schools Sports Association (ISSA) in the area of schoolboy cricket, through the Grace Shield competition, and also through the Rural Cricket competition. In 2007 we extended our relationship with ISSA by coming on board as the title sponsor of the annual Boys and Girls Athletic Championships. The event is the biggest school boy and girl athletic championship in the Caribbean and is the foundation from which our future athletic stars emerge. We have committed a projected J\$42 million for up to three years of sponsorship.

We are also sponsors of the Jamaica Football Federation's ***Back to Africa*** World Cup campaign through a four-year commitment of J\$15 million. With the return of coach Rene Simoes, we are beginning to see a resurgence of widespread public support for the campaign.

### **Birthright Programme**

This programme was launched in 2005 as part of our efforts to reach out to second and third generation Jamaicans living in the United States, Canada and the United Kingdom. Each year we recruit young university students who have a passion for learning about their homeland, to live and work in Jamaica during the summer. The programme has been highly successful, with the interns going back to their respective countries as passionate ambassadors for GraceKennedy.

This is how one of our past Ambassadors described his experience,  
“GraceKennedy Limited enabled me to have one of the greatest experiences of my life. The opportunities afforded to me because of this internship were nothing short of a blessing. I now know more about my history, my culture and thus myself. It was a life changing experience that helped me grow personally and professionally.”

We had another successful year in 2007, hosting six young persons from June 21 to August 17.

### **AWARDS**

For the second consecutive year, we received the Human Resource Management Association of Jamaica's (HRMAJ) Silver Star Award. This year's award was for the HR innovation: "Teamwork through House Activities" in GK Investments.

At the Jamaica Stock Exchange Awards Ceremony held in December 2007, GraceKennedy Limited received the following awards:

Jamaica Stock Exchange Best Practices Awards for 2006:

- i) Corporate Disclosure and Investor Relations Award – 1st Runner Up
- ii) Best Practices Annual Report – 2nd Runner Up

### **THANKS TO OUR STAKEHOLDERS**

I wish to thank all our GraceKennedy people for their commitment through some challenging times as we reorganized to become a more competitive, responsive Group. It is their creativity and innovation that allow us to realize the goals we have set for ourselves, and I am committed to promoting an environment in which our bright young people can realize their own career goals.

Our customers and consumers have stood by us and have continued to guide us as to how best to meet their needs. Everyday we receive emails, letters and phone calls from consumers telling us how we are doing, and this feedback has been very valuable to us.

We thank our shareholders for their confidence in GraceKennedy which has seen us through a protracted bear market on the regional stock exchanges. We will continue to seek ways of creating value for you, always guided by the traditional GraceKennedy principles of Honesty, Integrity and Trust.

Douglas Orane

Chairman & CEO