

GraceKennedy Limited

INTERIM REPORT TO OUR STOCKHOLDERS

The Directors are pleased to present the unaudited results of the Group for the quarter ended June 30, 2006.

The Group achieved Revenues for the period of \$17,193.5 million (2005: \$16,375.0 million), an increase of \$818.5 million or 5.0%. The Net Profit Attributable to Equityholders of the Company decreased by \$68.7 million over the corresponding period of 2005, moving from \$967.3 million to \$898.6 million, a decrease of 7.1%. This represents earnings per stock unit of \$ 2.76 (2005: \$2.98).

Operations

The Food Trading Division reported reduced profits for the quarter when compared to the similar period last year. This was due primarily to a softening in consumer demand in the domestic market, which has carried over from late 2005. However, in the last two months of the quarter we have seen some improvement in demand although margins continue to remain under pressure. Cost reduction and revenue growth are receiving considerable attention at this time. As part of our revenue growth we have launched a range of new products

in both the Canadian and Jamaican markets. These include Grace Jus Soy soya milk in four flavours, and Grace Fritters Mix, Johnny Cake Mix and Cornmeal Pudding Mix. Initial responses have been very good as consumers show preference for more convenience foods. While growth in the domestic market has been slow, we have been recording impressive growth in our international business particularly in North America, England and the Caribbean. We have completed the roll-out of the new SAP software in all the companies within the division and will begin to centralize a number of functions in the third quarter, which should result in improved productivity.

The Retail & Trading Division reported mixed results for the period. This was due primarily to the downturn in the construction industry, which was caused by the significant shortage of cement. This had a negative impact on the performance of Hardware & Lumber Limited. However, we expect to see an improvement in the company's performance for the third quarter, as we began to receive increased cement supplies during June and this is expected to continue. Hi-Lo Food Stores (Jamaica) Limited experienced improved sales performance when compared to the prior year. The company achieved a reduction in expenses as a result of its various cost containment efforts despite the significant increase in energy costs. Hi-Lo had the official launch of its Port Maria branch on June 30, 2006. In addition, Hi-Lo Mandeville was upgraded

during the quarter and has begun to benefit from increased customer flows. An agreement to sell Medi-Grace Limited to Smith Russell & Company Limited, a company which is engaged in the distribution of pharmaceutical and consumer products was signed in July 2006. It is expected that the sale will be completed by the end of August 2006. Fidelity Motors Limited, Versair In-Flite Services Limited and Industrial Catering Services Limited experienced satisfactory results.

The Financial Services Division experienced a challenging half-year resulting in profits below expectations for the first six months of 2006. Despite the challenges, the Division is positioning itself to remain responsive to the macroeconomic environment and to our customers' changing needs. First Global Bank Limited and First Global Financial Services Limited are committed to a truly client-driven business. To that end, both entities will introduce new products and services to the market in 2006-2007. Jamaica International Insurance Company Limited and Allied Insurance Brokers Limited performed reasonably well over the period. Both companies will continue to lead the industry through innovation in technology, designed to streamline processes, reduce turnaround time and improve efficiencies internally. During the quarter, an agreement was reached with Guardian Life to purchase GraceKennedy's interest in MedeCus Health Insurance Agency and MedeCus Health Insurance

Company Limited. The effective date of sale was June 19, 2006. The sale price for our 50% shareholding was \$74 million.

The Information Services Division reported satisfactory results for the period under review. This was due primarily to effective cost containment measures. GraceKennedy Money Services has recently started operations in several islands in the Eastern Caribbean and hopes to offer Bill Express services in Antigua, St. Kitts, Anguilla and Montserrat. On June 22, 2006, Western Union launched its Direct to Bank service. Customer registration is currently on target and this is expected to increase as public awareness and acceptance of the service grows.

Buy-back of Shares

At GraceKennedy's Extraordinary General Meeting held on May 29, 2006, the Company approved amendments of the articles of association of the Company to facilitate the buy back by the Company of its shares. A resolution was also passed by the shareholders authorising the Directors of the Company to take decisions from time to time for the buy back by the Company of such numbers of shares as the Directors may determine subject to the provisions of the Stock Exchange rules of Jamaica and the other territories in which the Company is listed. The Stock Exchanges were subsequently advised of the decision made

by the Board to repurchase up to 2.5% of the shares in issue from time to time, over a period of three years following the expiry of twenty-one days from the date of the notice.

Reorganisation

On July 24, 2006, Mr. Erwin Burton was appointed the new Chief Operating Officer for the Retail & Trading Division, in addition to his current responsibilities as Chief Operating Officer for the Food Trading Division. Mr. Burton succeeds Mr. John Mahfood who will be concentrating on the turnaround of Hi-Lo Food Stores (Jamaica) Limited in which he currently holds the position of Chief Executive Officer. Mr. Mahfood will continue as a Director of GraceKennedy Limited. Mr. Joe Taffe has been appointed as the new Chief Operating Officer for the Information Services Division in addition to his current responsibilities as Chief Operating Officer for the Financial Services Division. Mr. Taffe succeeds Mr. Brian Goldson who has resigned from the company and the Board of GraceKennedy Limited to pursue his personal interests external to the GraceKennedy group. Ms. Joan-Marie Powell has been appointed Managing Director of GraceKennedy Remittance Services Limited.

The group has commenced taking proactive steps to streamline our internal operations in order to reduce overhead costs while at the same time improving effectiveness in delivering support services which are shared across the group.

Jamaican Birthright Programme

Once again, six enthusiastic young adults of Jamaican parentage were chosen from the United Kingdom, Canada and the United States to participate in GraceKennedy's Birthright Programme, which is currently 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.

I wish to extend my thanks and appreciation to our colleague directors, management and staff for their continued support and to our customers, suppliers and stakeholders for their loyalty and encouragement as we embark on our journey of transforming GraceKennedy for the 21st century.



Douglas R. Orane

Chairman & Chief Executive Officer

27 July 2006

GraceKennedy Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

QUARTER ENDED 30 JUNE 2006

(Unaudited)

	3 months to 30/6/2006 \$'000	6 months to 30/6/2006 \$'000	3 months to 30/06/2005 *** \$'000	6 months to 30/06/2005 *** \$'000
Revenues	8,416,989	17,193,520	8,248,938	16,375,026
Expenses	8,029,299	16,289,971	7,839,795	15,383,113
	387,690	903,549	409,143	991,913
Other income	233,635	382,698	178,102	325,805
Profit from Operations	621,325	1,286,247	587,245	1,317,718
Finance income	111,179	202,694	133,221	242,125
Finance expense	(112,234)	(215,797)	(84,080)	(169,722)
Share of results of associated companies	(13,025)	25,119	(8,923)	44,915
Profit before Taxation	607,245	1,298,263	627,463	1,435,036
Taxation	(182,173)	(389,479)	(194,772)	(432,648)
Profit for the period	425,072	908,784	432,691	1,002,388
Attributable to:				
Equity holders of the Company	421,833	898,623	414,734	967,350
Minority interest	3,239	10,161	17,957	35,038
	425,072	908,784	432,691	1,002,388
Earnings per share for profit attributable to the equity holders of the Company (expressed in \$ per share)				
Basic	\$1.29	\$2.76	\$1.28	\$2.98
Diluted	\$1.28	\$2.72	\$1.25	\$2.91

*** : Restated to comply with changes in IFRS

GraceKennedy Limited

CONSOLIDATED BALANCE SHEET

30 JUNE 2006

(Unaudited)

	June 2006 \$ '000	December 2005 *** \$ '000	June 2005 *** \$ '000
Non-Current Assets			
Fixed assets	2,256,161	2,308,182	2,166,121
Intangible assets	1,039,199	1,035,914	949,468
Investments in associates	625,079	475,205	496,511
Investments	4,196,768	3,068,676	2,970,547
Long term receivables	2,693,493	2,518,114	2,128,532
Deferred tax assets	491,472	453,988	451,457
Pension plan asset	5,438,929	5,064,748	4,592,481
	16,741,101	14,924,827	13,755,117
Current Assets			
Inventories	3,237,496	3,885,246	3,219,242
Receivables	6,050,451	5,644,739	5,088,563
Long term receivables - current portion	1,229,330	944,362	1,502,522
Taxation recoverable	589,565	538,178	527,287
Deferred tax assets - current portion	125,294	145,171	160,535
Cash and short term investments	37,467,970	35,018,313	32,474,281
	48,700,106	46,176,009	42,972,430
Current Liabilities			
Payables	7,705,015	8,128,709	7,735,287
Provisions	3,064	3,064	9,769
Taxation	321,564	456,754	261,253
Deferred tax liabilities - current portion	435,739	490,226	499,811
Bank and short term loans	3,295,885	3,130,632	2,638,853
Long term liabilities - current portion	206,273	484,286	186,100
Deposits	10,033,840	8,957,153	8,020,714
Securities sold under agreement to repurchase	21,583,619	18,985,588	17,815,508
	43,584,999	40,636,412	37,167,295
Net Current Assets	5,115,107	5,539,597	5,805,135
	21,856,208	20,464,424	19,560,252
Equity			
Capital & reserves attributable to the equity holders of the Company			
Share capital	325,860	325,744	325,299
Capital and fair value reserves	3,585,648	3,150,866	3,215,402
Retained earnings	9,787,675	9,536,534	8,779,146
Reserve funds	736,651	736,651	696,529
Translation gains and other reserves	1,581,185	1,490,795	1,305,800
	16,017,019	15,240,590	14,322,176
Minority Interest	757,278	744,234	752,455
Total Equity	16,774,297	15,984,824	15,074,631
Non-Current Liabilities			
Provisions	6,221	6,221	6,221
Long term liabilities	1,927,209	1,571,365	1,787,239
Deferred tax liabilities	2,012,681	1,892,581	1,791,497
Other post-retirement obligations	1,135,800	1,009,433	900,664
	5,081,911	4,479,600	4,485,621
	21,856,208	20,464,424	19,560,252

Approved for issue by the Board of Directors on 27 July 2006 and signed on its behalf by:


D. R. Orane Chairman


D.G. Wehby Chief Financial Officer

*** : Restated to comply with changes in IFRS

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

QUARTER ENDED 30 JUNE 2006

(Unaudited)

	Attributable to equity holders of the Company							Minority Interest	Total Equity
	No. of Shares	Share Capital	Capital and Fair Value Reserve	Retained Earnings	Reserve Fund	Other Reserves	Total		
	'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Balance at 1 January 2005	324,359	324,359	3,095,761	7,944,154	696,529	1,291,170	13,351,973	507,527	13,859,500
Net gains/(losses) not recognised in the profit and loss account, net of tax:									
Foreign currency translation adjustments	-	-	-	-	-	(10,574)	(10,574)	114	(10,460)
Fair value adjustments	-	-	103,504	-	-	-	103,504	-	103,504
Revaluation surplus	-	-	-	-	-	-	-	-	-
Other	-	-	565	-	-	-	565	-	565
Total	-	-	104,069	-	-	(10,574)	93,495	114	93,609
Profit for the period	-	-	-	967,350	-	-	967,350	35,038	1,002,388
Issue of shares at a premium	953	953	31,709	-	-	-	32,662	-	32,662
Purchase of treasury shares	(13)	(13)	(1,508)	-	-	-	(1,521)	-	(1,521)
Increase in minority interest	-	-	-	-	-	-	-	229,376	229,376
Transfers between reserves	-	-	(14,629)	14,629	-	-	-	-	-
Employee share option scheme	-	-	-	-	-	25,204	25,204	-	25,204
Dividends paid	-	-	-	(146,987)	-	-	(146,987)	-	(146,987)
Dividends paid by subsidiary to minority interest	-	-	-	-	-	-	-	(19,600)	(19,600)
Other	-	-	-	-	-	-	-	-	-
Balance at 30 June 2005	325,299	325,299	3,215,402	8,779,146	696,529	1,305,800	14,322,176	752,455	15,074,631
Balance at 1 January 2006	325,744	325,744	3,150,866	9,536,534	736,651	1,490,795	15,240,590	744,234	15,984,824
Net gains/(losses) not recognised in the profit and loss account:									
Foreign currency translation adjustments	-	-	-	-	-	69,783	69,783	798	70,581
Fair value adjustments	-	-	(68,973)	-	-	-	(68,973)	-	(68,973)
Revaluation surplus	-	-	-	-	-	-	-	-	-
Other	-	-	2,302	-	-	-	2,302	2,085	4,387
Total	-	-	(66,671)	-	-	69,783	3,112	2,883	5,995
Profit for the period	-	-	-	898,623	-	-	898,623	10,161	908,784
Issue of shares at a premium	343	343	16,401	-	-	-	16,744	-	16,744
Purchase of treasury shares	(227)	(227)	(14,948)	-	-	-	(15,175)	-	(15,175)
Increase in minority interest	-	-	-	-	-	-	-	-	-
Transfers between reserves	-	-	500,000	(500,000)	-	-	-	-	-
Employee share option scheme	-	-	-	-	-	20,607	20,607	-	20,607
Dividends paid	-	-	-	(147,482)	-	-	(147,482)	-	(147,482)
Dividends paid by subsidiary to minority interest	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Balance at 30 June 2006	325,860	325,860	3,585,648	9,787,675	736,651	1,581,185	16,017,019	757,278	16,774,297

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CASH FLOWS QUARTER ENDED 30 JUNE 2006

(Unaudited)

	30/06/2006 \$'000	30/06/2005 \$'000
SOURCES/(USES) OF CASH:		
Operating Activities		
Profit for the period	908,784	1,002,388
Adjustments for items not affecting cash, changes in non-cash working capital components and other, net	2,258,001	400,042
Cash provided by operating activities	3,166,785	1,402,430
Cash used in financing activities	(1,781,172)	(1,941,703)
Cash (used in)/provided by investing activities	(1,393,746)	1,569,301
(Decrease)/Increase in cash and cash equivalents	(8,133)	1,030,028
Cash and cash equivalents at beginning of year	4,909,946	3,775,530
Exchange and translation gains on net foreign cash balances	49,274	2,368
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,951,087	4,807,926

GraceKennedy Limited

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED 30 JUNE 2006

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 2005.

These financial statements are presented in Jamaican dollars.

(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, distribution channel agreements and policy contracts are recorded at cost and amortised over their estimated useful lives.

(d) Investments

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. 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.

(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. 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 the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(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 borrowings in current 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 dairy and meat products;
- *Retail and Trading* - Merchandising of agricultural and pharmaceutical supplies, stationery, 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; bill payment services and international telecommunications services.

(j) 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 IFRS.