



ABOVE: **BILL MCEWAN**, President and Chief Executive Officer, Sobeys Inc.

## Food Distribution

**CHALLENGES AND OPPORTUNITIES** Canada's retail food industry is a high turnover, low margin business that has seen increasing competitive pressures over the past decade. Marketplace dynamics have changed with demographics and lifestyle preferences of Canadians who are looking for more choice and greater convenience. In these challenging conditions, opportunities are there for those that satisfy the full array of household food requirements with the best value proposition.

**STRATEGIC FOCUS** Building on our position – and our national market presence – Sobeys has established a differentiated position with our focus on food, driven by our fresh expertise, in the right-sized stores, supported by superior customer service. We have been driving our formats, merchandising programs, staffing and service levels accordingly – with the right size and right format stores for each market we serve. Our value proposition is compelling and is supported by highly competitive pricing and a focus on continuously improving our operating systems, business processes, and distribution efficiencies to further enhance value for all stakeholders.

“We are setting Sobeys apart by focusing first and foremost on our core business – food.”

**PROGRESS** With our proactive and aggressive pricing posture, coupled with improved merchandising execution, we increased sales, consistent with our expectations, in a highly competitive marketplace in fiscal 2004. Operating earnings reflect our promotional investments and a series of one-time costs throughout the year. Our progress in executing our strategy is on track. In 2004, we successfully launched the full service format and Sobeys banner in Western Canada with the rapid conversion or opening of 43 stores, and we acquired Comisso's 15-store grocery chain in Southwestern Ontario. Going forward, we will stay the course, executing our plans to improve sales per square foot by continuing to update our store network and customer offerings. We anticipate, and are prepared for, challenges along the way – but we know that we have the right strategy and are confident that growing customer satisfaction, driven by our focus on food, will result in greater value creation.

**BILL MCEWAN**  
PRESIDENT AND C.E.O., SOBEYS INC.

**SIR GRAHAM DAY**  
CHAIRMAN, SOBEYS INC.

# Real Estate

**CHALLENGES AND OPPORTUNITIES** Commercial retail real estate operations by their nature produce a relatively consistent return over the long term, while residential land development is more cyclical, being dependent on macro factors such as mortgage rates and regional economic growth.

**STRATEGIC FOCUS** Our strategic focus continues to be on the growth and development of our commercial retail property portfolio while also benefiting from the residential land development business through our investment in Genstar – a successful developer that has delivered outstanding returns to Crombie. We continue to look for residential land development opportunities in Canada and, through joint venture opportunities, in selected centres in U.S. markets.

The opportunity for long-term growth in our commercial real estate portfolio continues to rely on our leasing efforts, the quality of new developments and programs to improve our existing properties, and on the acquisition of new properties that meet our economic valuation criteria. With a full service approach and a highly experienced team, Crombie and its affiliates have become the leaders in this market in Atlantic Canada, with 73 properties, and now own 1.0 million square feet of gross leaseable area in Ontario and Quebec, for 12.9 million square feet in total.

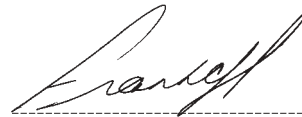
“Our real estate business continues to focus on growth and diversification outside of our traditional Atlantic Canada base. As we grow our commercial retail business we look forward to capitalizing on the synergies that exist with Empire’s food retail division and other operations.”

**PROGRESS** Performance of our real estate division was buoyed by another significant contribution from Genstar in fiscal 2004. Our commercial retail business also delivered increased earnings, while acquiring seven properties in Ontario – including six properties previously owned by Commisso’s Properties Inc. in conjunction with Sobeys’ acquisition of Commisso’s food retail stores. Our occupancy rate improved to 93.6% from 92.7% a year ago, with total real estate division earnings growing by 7.7% to reach \$41.9 million. We expect further progress in the year ahead, although expansion may slow as our targeted markets in Ontario appear somewhat overvalued at present.



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**J. STUART BLAIR**  
PRESIDENT AND C.E.O., CROMBIE PROPERTIES LIMITED



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**FRANK C. SOBEY**  
CHAIRMAN, CROMBIE PROPERTIES LIMITED



ABOVE: **STUART BLAIR**, President and Chief Executive Officer, Crombie Properties Limited



ABOVE: **STUART FRASER**, President and Chief Executive Officer, Empire Theatres Limited

## Other Operations

**CHALLENGES AND OPPORTUNITIES** The theatre business in North America is generally viewed as mature in major urban markets with increasing competition from home entertainment alternatives. Yet for many, the modern cinema remains a wonderful experience and a great gathering place for social occasions.

**STRATEGIC FOCUS** At Empire Theatres, our strategic focus has been very simple – to offer the consumer the best movie-going experience at good value in communities where we have the opportunity to be the entertainment or social occasion destination of choice.

We have grown by providing customers with a terrific “big city” cinema experience – with modern complexes featuring stadium seating, self-serve electronic ticketing, large curved screens and digital sound, modern arcade amenities, and branded food choices. As a social occasion centre, we have the opportunity to expand the entertainment offering beyond movie releases to meet local needs, with live broadcast sporting events or business meetings, for example.

“**At Empire Theatres, we have grown successfully by focusing on relatively smaller communities where we can become the entertainment destination of choice.**”

We have pursued this focus with success in Atlantic Canada. We have launched a second platform for growth in Western Canada, through a joint venture arrangement with Landmark Cinemas of Canada Limited – a like-minded operator.

**PROGRESS** Steady progress continued in fiscal 2004. Our performance exceeded our expectations; we posted record revenues and earnings while continuing our measured expansion with the opening of three new theatres in Atlantic Canada and one in Western Canada as part of our joint venture with Landmark. As well, we tested programming alternatives in key markets and are expanding our agreement with the WWE for live sporting event broadcasts. We will continue to pursue our focused strategy in the year ahead.

**STUART G. FRASER**  
PRESIDENT AND C.E.O., EMPIRE THEATRES LIMITED

# Investments

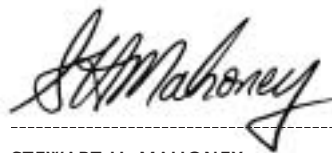
**CHALLENGES AND OPPORTUNITIES** The past four years have shown investors just how volatile equity markets can be. Despite impressive gains over the past year, annualized four-year returns for the major North American stock indexes were flat or negative by March 31, 2004. Markets remain volatile. The challenge for Empire as a long-term value investor is uncovering opportunities that meet our investment criteria.

**STRATEGIC FOCUS** In managing our investment portfolio, we take the same long-term perspective as we do with our operating businesses – and we place the same priority on good management. We focus on significant equity investments in a relatively small number of large cap companies, with high liquidity to ensure access to capital that may be required to support the growth of our operating businesses. We focus on undervalued businesses that have outstanding fundamentals and growth prospects – we are not interested in the latest hot stock or industry fad.

Our approach is highly disciplined with strict criteria and our investment committee actively monitors the portfolio to enhance returns. We currently own only 12 stocks, many of

which we will hold for the long-term – our best investments tend to be the ones we never sell.

**PROGRESS** In fiscal 2004, we benefited from our long-term disciplined approach, a strong turnaround at Wajax and the rebound in equity markets, maintaining first quartile return performance with a total annual return well above the S&P/TSX Composite Index and the S&P 500 Index in Canadian dollars – our main benchmarks. Empire's investment returns over the past four years have been 10% annualized – compared to negative returns for that period by the benchmark indexes. During fiscal 2004 we also invested further in our operations by allocating \$68 million in capital to purchase close to two million additional common shares of Sobeys. This increased our ownership interest from 62% to 65%.



STEWART H. MAHONEY  
VICE-PRESIDENT, TREASURY AND INVESTOR RELATIONS

“As with our operating businesses, we take a long-term perspective to our investment portfolio, looking to invest in businesses we know and understand with strong management and with a sound strategic direction for long-term profitable growth.”



FROM LEFT: **FRANK SOBEY**, Chairman, Crombie Properties Limited; **PAUL SOBEY**, President and Chief Executive Officer, Empire Company Limited; **STEWART MAHONEY**, Vice-President, Treasury and Investor Relations, Empire Company Limited; **VIVEK SOOD**, Manager, Treasury and Investor Relations, Empire Company Limited