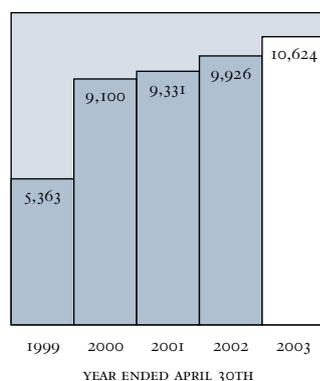


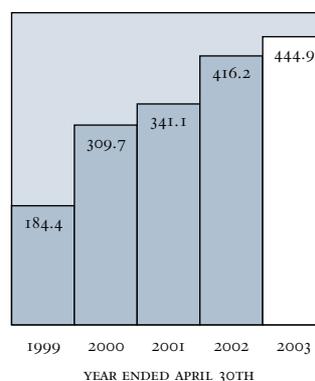
## Management's Discussion & Analysis

total revenue  
(*\$ in millions*)



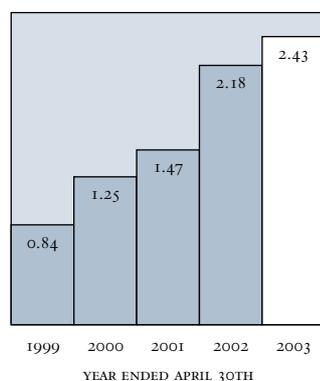
**Total Revenue** Revenue increased 7 percent in fiscal 2003, primarily the result of continued growth in our food distribution and real estate businesses.

operating income  
(*\$ in millions*)



**Operating Income** Operating income increased 7 percent in fiscal 2003, reaching \$444.9 million.

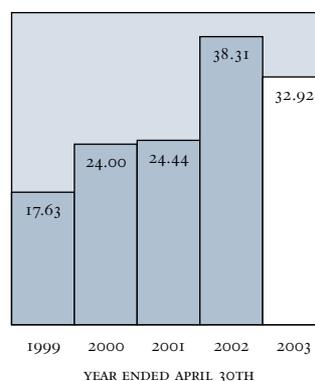
operating earnings  
per share <sup>(1)</sup>  
(*\$ per share*)



<sup>(1)</sup> earnings before net capital gain (loss) and other items, excluding goodwill amortization.

**Operating Earnings Per Share** Operating earnings per share, before goodwill amortization increased 11 percent to \$2.43 a share, compared to \$2.18 last year.

net asset value per share  
(*\$ per share*)



**Net Asset Value Per Share** Net asset value per share of \$32.92 has grown 87 percent during the past four years.

### TABLE OF CONTENTS

Overview of the Business	24
Consolidated Operating Results	26
Operating Performance & Outlook by Segment	29
Fourth Quarter Results	34
Consolidated Financial Position	36

Capital Resources & Liquidity	38
Risk and Risk Management	40
Accounting Policy Changes	41
Outlook	41

## Management's Discussion & Analysis

### OVERVIEW OF THE BUSINESS

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food distribution, real estate, investments and other operations. With assets in excess of \$4.5 billion, Empire employs more than 35,000 people directly and through its subsidiaries.

**Food Distribution** Empire's food distribution operations are carried on through its 62 percent ownership in Sobeys Inc. ("Sobeys"). Subsequent to year-end, in July 2003 Empire increased its ownership of Sobeys to approximately 64.5 percent. Sobeys is one of two national retail grocery and food distributors. With sales of \$10.4 billion, Sobeys owns or franchises more than 1,300 stores and operates in all 10 provinces under retail banners that include Sobeys, Garden Market IGA, IGA extra, IGA, and Price Chopper.

At year-end, Sobeys operated 413 corporate stores and 913 franchised stores. Of the corporate stores, 120 operate under the Sobeys banner and 71 stores operate under the IGA banner, including IGA Garden Market and IGA extra banners. The largest franchised banner is IGA, with 471 franchised stores. The proportion of total retail store square footage by region across Canada is as follows: 18 percent in Western Canada, 32 percent in Ontario, 28 percent in Quebec, and 22 percent in Atlantic Canada.

**Real Estate** Empire's real estate operations are focussed on the acquisition, development, and management of a portfolio of properties primarily located in Atlantic Canada. At the end of fiscal 2003, real estate operations had 12.2 million square feet under ownership. Commercial real estate operations are conducted through two wholly-owned companies, Crombie Properties Limited ("Crombie") and Sobey Leased Properties Limited ("SLP"), while residential land development is primarily conducted through the Company's 35 percent ownership position in Genstar Development Partnership ("Genstar"). Genstar is a residential land development company operating primarily in high growth communities in Ontario and Western Canada.

Today, 87 percent of the gross leasable area in our real estate portfolio is retail space, of which 40 percent is leased to Empire-affiliated companies. The retail segment includes 32 shopping centres. Our real estate portfolio also includes nine office properties, representing 14 percent of gross leaseable area.

**Investments & Other Operations** The third component of Empire's business is its investments and other operations. Empire's investments consist of a portfolio of short and long-term equity investments. At fiscal year-end, Empire's investments carried a market value of \$318.7 million, consisting of common equities valued at \$289.0 million, preferred shares valued at \$27.3 million, and other investments at \$2.4 million. All of Empire's investments are listed on a recognized public stock exchange.

Other operations primarily consist of wholly-owned Empire Theatres Limited ("Empire Theatres"), the leading movie exhibitor in Atlantic Canada with 141 screens in 22 locations.

### A FOCUS ON GROWING LONG-TERM SUSTAINABLE VALUE

Management's primary objective is to maximize the long-term sustainable value of Empire for its shareholders. We are committed to enhancing the worth of the Company's net assets, and in turn, having that value reflected in Empire's share price.

Empire's management intends to continue to direct its energy and capital towards growing the long-term sustainable value of each of its core operating businesses – food distribution and real estate. While these are excellent businesses in their own right, the diversification they offer Empire by both business line and by market area is an additional source of strength. Together, these core businesses reduce risk and volatility, thereby contributing to consistency in overall earnings growth. Going forward, we will continue to direct our resources towards the most promising opportunities within these businesses, in order to maximize our potential.

## Management's Discussion & Analysis

At the same time, our investment portfolio gives us the opportunity to augment earnings while we are waiting to make further investment in our core operations. Historically we have been successful in generating investment returns in excess of the Company's cost of capital and well in excess of returns that would otherwise have been generated by investing in money market investments.

### SCOPE OF ANALYSIS

The following is a discussion and analysis of the consolidated financial position and results of operations of Empire for the fiscal year ended April 30, 2003. This discussion may contain forward-looking statements about the future performance of the Company. These statements are based on management's assumptions and beliefs in light of the information herein. These forward-looking statements are subject to uncertainties and risks including but not limited to general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; and the availability and terms of finance. Consequently, actual results may vary significantly from those included in or implied by forward-looking statements.

Additional financial information has been filed electronically with the various securities commissions in Canada through SEDAR.

The following four measures included in this Management's Discussion & Analysis do not have a standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP") and therefore, should not be compared to similarly titled measures presented by other publicly traded companies: earnings before interest, taxes, depreciation and amortization ("EBITDA"); operating earnings; funds from operations; and net asset value. The Company includes EBITDA and funds from operations because it believes certain investors use these measures as a means of measuring financial performance. EBITDA is calculated as operating income plus depreciation, while funds from operations is calculated as net earnings, before net capital gain (loss) and other items plus depreciation. Operating earnings used in this report is net earnings before net capital gain (loss) and other items and before gain on sale of discontinued operations. The Company believes that excluding non-operating gains and losses from its earnings, provides a clearer depiction of the Company's year-over-year operational performance. Net asset value is calculated as management's estimate of the market value of its assets less debt, thereby serving as an estimate for the intrinsic value of the Company's shareholders equity.

This document should be reviewed in conjunction with the Audited Consolidated Financial Statements and notes that relate to them for the twelve-month period ended April 30, 2003.

## Management's Discussion &amp; Analysis

## CONSOLIDATED OPERATING RESULTS

## Consolidated Financial Results Summary

<i>Years Ended April 30th (\$ in millions, except per share data)</i>	<b>2003</b>	2002	Percent Change
Revenue			
Food distribution	<b>\$ 10,414.5</b>	\$ 9,732.5	7.0%
Real estate, net of inter-segment	<b>149.2</b>	137.8	8.3%
Other operations	<b>60.5</b>	56.2	7.7%
	<b>10,624.2</b>	9,926.5	7.0%
Operating income			
Food distribution	<b>324.7</b>	295.4	9.9%
Real estate	<b>103.8</b>	100.6	3.2%
Investments and other operations	<b>16.4</b>	20.2	(18.8)%
	<b>444.9</b>	416.2	6.9%
Interest expense	<b>92.9</b>	111.6	(16.8)%
Income taxes <sup>1</sup>	<b>124.3</b>	117.1	6.1%
Minority interest <sup>2</sup>	<b>67.8</b>	54.5	24.4%
Earnings from continuing operations before net capital gain (loss), other items and goodwill amortization	<b>159.9</b>	133.0	20.2%
Earnings from discontinued operations before goodwill amortization	-	10.9	
Earnings before net capital gain (loss), other items and goodwill amortization	<b>159.9</b>	143.9	11.1%
Less goodwill amortization	-	11.7	
Earnings before net capital gain (loss) and other items	<b>159.9</b>	132.2	21.0%
Net capital gain (loss) and other items	<b>(6.0)</b>	13.7	(143.8)%
Gain on the sale of discontinued operations	-	50.0	
Net earnings	<b>\$ 153.9</b>	\$ 195.9	(21.4)%

<sup>1</sup> Includes \$120.4 (2002 \$104.8) income tax expense from income statement plus \$3.9 (2002 \$12.3) income tax recovery from capital loss and other items.

<sup>2</sup> 2002, includes minority interest of \$50.0 from income statement plus \$4.5 from capital gain and other items.

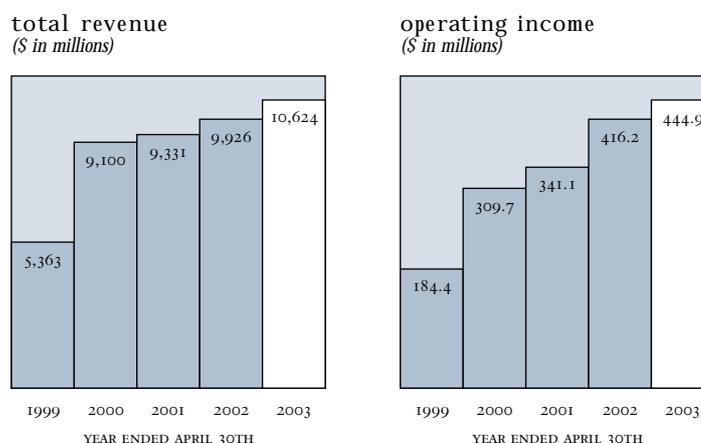
## Per Share, basic and diluted

Earnings before net capital gain (loss), other items and goodwill amortization	<b>\$ 2.43</b>	\$ 2.18	11.5%
Earnings before net capital gain (loss) and other items	<b>2.43</b>	2.00	21.5%
Net capital gain (loss) and other items	<b>(0.09)</b>	0.21	(142.9)%
Gain on sale of discontinued operations	-	0.76	
Net earnings	<b>\$ 2.34</b>	\$ 2.97	(21.2)%

**Revenue** Revenue increased 7.0 percent in fiscal 2003 to \$10.62 billion, an increase of \$698 million over fiscal 2002 as a result of growth in each of our operating companies: food distribution, real estate, and other operations. Food distribution revenues increased \$682 million or 7.0 percent, with same-store sales for all food distribution banners (including expanded stores) growing by 3.2 percent in fiscal 2003. Growth in real estate revenues totalled \$11.4 million or 8.3 percent, while other operations recorded revenue growth of 7.7 percent, primarily as a result of strong revenue growth at Empire Theatres.

## Management's Discussion &amp; Analysis

**Operating Income** In fiscal 2003, operating income reached \$444.9 million compared to \$416.2 million in the prior year. The increase was primarily attributable to growth in operating income in the food distribution and real estate businesses. With respect to investments, net of corporate expense and other operations, Empire recorded a decrease in operating income of \$3.8 million from the prior year. This was largely the result of a \$2.4 million reduction in equity earnings contribution from Wajax Limited ("Wajax").



**Interest Expense** For the year ended April 30, 2003, interest expense amounted to \$92.9 million, a 16.8 percent reduction from the \$111.6 million expensed in fiscal 2002. Interest on long-term debt declined \$14.1 million, or 13.6 percent, while interest expense on short-term debt declined \$4.6 million or 60.5 percent. The decrease was due to a combination of lower borrowing levels and lower borrowing rates. The majority of the Company's debt is at fixed rates and therefore there is little exposure to interest rate risk from fluctuating short-term interest rates.

**Income Taxes** The fiscal 2003 effective tax rate was 35.3 percent, compared to 38.4 percent for fiscal 2002. The year-over-year change is primarily a result of reduced statutory tax rates. Total income tax expense for fiscal 2003 increased to \$120.4 million versus \$104.8 million recorded last year, as higher taxable earnings in fiscal 2003 more than offset the effect of the lower effective tax rate.

**Minority Interest** For the year ended April 30, 2003, minority interest was \$67.8 million, an increase of \$13.3 million or 24.4 percent when including minority interest from capital gain and other items last year. The increase over last year is attributed to the growth in Sobeys earnings. Subsequent to year-end, in July 2003 Empire purchased an additional 2.5 percent interest in Sobeys, resulting in an ownership level of approximately 64.5 percent. As a result, the minority interest percentage will be reduced from approximately 38 percent to 35.5 percent in fiscal 2004. Management is confident that the increased participation in Sobeys earnings in fiscal 2004 will more than offset the funding cost associated with the increase in the Sobeys ownership position.

**Goodwill Charges** Consistent with the new accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA") on goodwill and other intangible assets, effective May 1, 2002, Empire discontinued goodwill amortization.

Goodwill charges for fiscal 2002 were \$11.7 million, which included \$2.2 million from discontinued operations.

**Discontinued Operations** On March 30, 2002, Sobeys completed the sale of substantially all of the assets of its SERCA Foodservice ("SERCA") business to SYSCO Corp. As a result, the fiscal 2002 results from operations of SERCA have been accounted for as a discontinued operation.

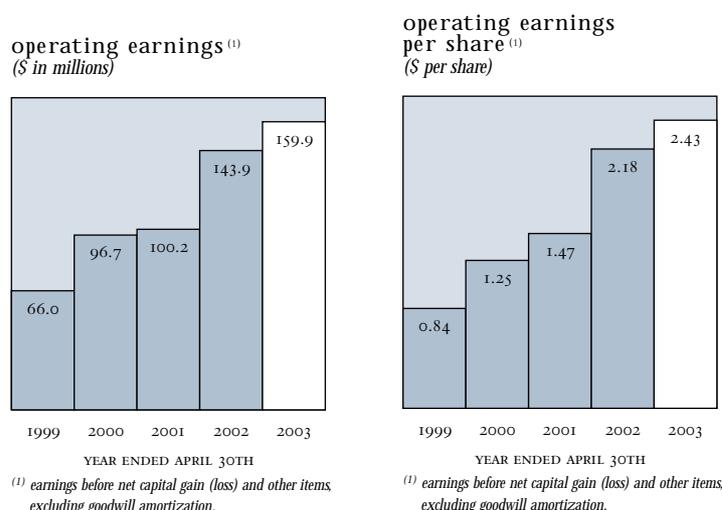
**Operating Earnings** For the fiscal year ended April 30, 2003, Empire recorded operating earnings (earnings before net capital gain (loss) and other items) of \$159.9 million (\$2.43 per share) versus operating earnings last year of \$143.9 million (\$2.18 per share) after adjusting for the change in the accounting treatment of goodwill, an 11.1 percent increase. This improvement was driven by sales growth, improved operating income performance, and reduced interest expense partially offset by higher income taxes and minority interest.

## Management's Discussion &amp; Analysis

**Gain on Sale of Discontinued Operations** The gain on sale of discontinued operations (after-tax) of \$50.0 million or \$0.76 per share recorded in fiscal 2002 represents Empire's share of the gain on the sale of SERCA.

**Net Capital Gain (Loss) and Other Items** Net capital loss and other items totaled \$6.0 million in fiscal 2003, as compared to a \$13.7 million net capital gain and other items recorded in fiscal 2002. During fiscal 2003, the Company realized a net capital loss from the sale of investments, partially offset by a net capital gain recorded by the real estate division on disposal of properties.

**Net Earnings** Net earnings were \$153.9 million in fiscal 2003, as compared to \$195.9 million in fiscal 2002. Adjusting for the net impact of goodwill amortization in fiscal 2002 of \$11.7 million, a year-over-year change in net capital gain (loss) and other items of \$19.7 million, and the gain on the sale of discontinued operations last year of \$50.0 million, results in a year-over-year increase in earnings of \$16.0 million or 11.6 percent.



**Financial Information by Quarter** The following table summarizes key operating results by quarter for the last eight quarters:

	April 2003	Jan. 2003	Oct. 2002	July 2002	April 2002	Jan. 2002	Oct. 2001	July 2001
<i>(in millions, except per share information)</i>								
Revenue	\$ 2,624.7	\$ 2,643.6	\$ 2,664.9	\$ 2,687.3	\$ 2,478.8	\$ 2,484.0	\$ 2,474.4	\$ 2,489.3
Operating income	110.4	107.6	111.7	115.2	108.3	108.5	101.8	97.6
Operating earnings <sup>(1)</sup>	41.8	39.3	39.0	39.8	35.2	35.3	31.4	30.3
Net capital gain (loss) and other items	(5.8)	-	(0.2)	-	(16.3)	0.8	10.9	18.3
Gain on sale of discontinued operations	-	-	-	-	50.0	-	-	-
Net earnings	\$ 36.0	\$ 39.3	\$ 38.8	\$ 39.8	\$ 68.9	\$ 36.1	\$ 42.3	\$ 48.6
<b>Per Share Information, basic and diluted</b>								
Operating earnings <sup>(1)</sup>	0.64	0.60	0.59	0.60	0.53	0.53	0.48	0.46
Net capital gain (loss) and other items	(0.09)	-	-	-	(0.25)	0.02	0.16	0.28
Gain on sale of discontinued operations	-	-	-	-	0.76	-	-	-
Net earnings	\$ 0.55	\$ 0.60	\$ 0.59	\$ 0.60	\$ 1.04	\$ 0.55	\$ 0.64	\$ 0.74
Weighted average number of shares outstanding	65.8	65.8	65.8	65.8	65.7	65.7	65.7	65.7

<sup>(1)</sup> earnings before net capital gain (loss) and other items.

## OPERATING PERFORMANCE & OUTLOOK BY SEGMENT

### FOOD DISTRIBUTION

#### Key Highlights

- Sobeys achieved top line sales growth of 7.0 percent and same-store sales growth of 3.2 percent (including expanded stores).
- EBITDA as a percentage of sales improved to 4.32 percent or 23 basis points from the previous fiscal year.
- Total capital expenditures of \$411 million (including franchisee and third party spending, total capital-wide expenditures of \$546 million).
- Launched Ready to serve™ in the Ontario and Atlantic Canada Sobeys banner stores, an integrated end-to-end product and service marketing initiative.
- Introduced its new “prototype” Sobeys store in Ontario and Atlantic Canada designed to accent the overall Ready to serve™ initiative, while also reducing construction cost.
- Sobeys continued its focus on streamlining the number of retail banners in key markets by converting 17 Garden Market IGAs to the Sobeys banner in Ontario and by launching the Price Chopper banner in Atlantic Canada through the conversion of Lofood stores and a number of Foodland stores.

**Revenue** In fiscal 2003, Sobeys achieved sales of \$10.4 billion, an increase of \$682 million or 7.0 percent over fiscal 2002. Sobeys recorded increased sales in all operating regions, despite the effects of increased competitive activity and a five-week labour disruption at its Whitby, Ontario distribution centre, which ended in early fiscal 2004.

Sobeys' same-store sales increased 3.2 percent (2.1 percent excluding expanded stores) compared to 4.9 percent (3.5 percent excluding expanded stores) in fiscal 2002. Sobeys continues to focus on the significant opportunity to increase sales per square foot across its 22.6 million square foot retail network. Increased merchandising activity, improved marketing, and enhanced in-store promotional programs have targeted a larger share of current customers' requirements, by continuing to increase transaction size with its existing customer base.

Sobeys' also increased sales by expanding store square footage by 4.0 percent. In conjunction with the addition of new retail square footage, Sobeys continues to attract new customers and sales with right-sized stores, a focus on food, driven by fresh, and a well-communicated, well-executed total product and service offering.

Food inflation levels remained low during fiscal 2003 and have declined in comparison with last year. Some grocery-based commodity pricing increases were primarily offset with some fresh produce cost deflation.

The company expects continued sales growth in fiscal 2004.

**Operating Income** Earnings before interest and taxes (“operating income” or “EBIT”) contribution by the food division amounted to \$324.7 million in fiscal 2003, a 9.9 percent increase over last year. Excluding the impact of the Whitby labour disruption, operating income contribution would have been \$336.0 million in fiscal 2003, a 13.7 percent increase over last year.

Fiscal 2003 EBITDA contribution to Empire totalled \$448.7 million, an increase of \$52.3 million or 13.2 percent over the \$396.4 million recorded last year.

The labour disruption at the Whitby distribution centre in the fourth quarter of fiscal 2003 had an \$11.3 million negative impact on fiscal 2003 EBITDA and pre-tax earnings. This resulted from costs to implement a distribution contingency plan, including higher distribution and logistics costs to service stores through alternate facilities and direct to store deliveries, lost sales to franchise stores, and changes in sales and promotional mix.

As a percentage of sales, Sobeys reported EBITDA margin improved to 4.32 percent (4.43 percent excluding the Whitby labour disruption) from 4.09 percent last year, an increase of 23 basis points.

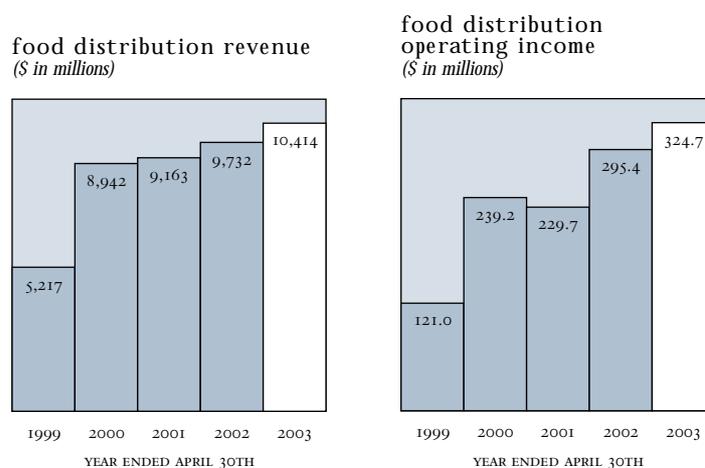
## Management's Discussion & Analysis

The improvement in margin percentage was primarily due to the execution of a series of efficiency initiatives to reduce waste and improve processes in all areas of the business, with the objective of securing sustained cost savings. Continuous improvement in marketing and merchandising programs also contributed to the higher margins.

The cost per case shipped continued to decline throughout fiscal 2003, as distribution and logistics initiatives improved productivity and service levels. The implementation of a common distribution centre replenishment system was adopted from the Western region's "best practice". Beyond the improved service levels and purchase price optimization that this system provides Sobey's, significant annualized managed working capital improvements were secured as a result of the implementation of these new replenishment processes and tools. Sobey's also began implementation of voice pick technology in its distribution centres to improve selection accuracy and productivity. The technology enhances the order selection process, substantially reducing the frequency of selection errors. This technology enables improved retail store in-stock positions and therefore customer satisfaction.

Other improvements were realized through initiatives that included, but were not limited to, optimization of the employee payroll processing system, system-wide energy efficiency and procurement initiatives, realignment of telecommunications contracts, streamlining of advertising flyer production, and reduction of selling and administrative expenses.

The continuous focus on disciplined cost management and reduction, distribution efficiencies, migration of best practices across Sobey's four regions, banner rationalization, and the optimization of Sobey's merchandising program are expected to further improve operating margin in fiscal 2004.



**Operating Earnings** In fiscal 2003, Sobey's contribution to Empire's operating earnings reached \$110.4 million compared to \$98.5 million (excluding goodwill amortization) last year, a 12.1 percent increase.

Sobey's reported operating earnings per share of \$2.72 for fiscal 2003. At the end of fiscal 2002, Sobey's set an operating earnings target of between \$2.74 and \$2.84 per share. This reflected 12 to 16 percent growth on an operating earnings base, excluding goodwill amortization, of \$2.45 per share in fiscal 2002. This target was not met as a result of the Whitby labour disruption in the fourth quarter of fiscal 2003.

Operating earnings are expected to grow between 12 and 16 percent in fiscal 2004 as a result of continuing progress on the various initiatives discussed above.

**Gain on the Sale of Discontinued Operations** During the fourth quarter of fiscal 2002, Sobey's reported a pre-tax gain of \$120.2 million from the sale of substantially all the assets of SERCA (see note 2 to the consolidated financial statements). The after-tax gain from this sale equaled \$80.7 million. Empire's share of this transaction amounted to \$50.0 million after-tax and minority interest, which was recorded in the fourth quarter of fiscal 2002.

**Net Capital Loss and Other Items** In fiscal 2002, a review of certain redundant real estate assets by Sobey's determined that a write-down in book value was necessary to reflect these assets at their approximate liquidation value; accordingly, a \$9.9 million reduction in the carrying value of these assets was recorded.

## Management's Discussion &amp; Analysis

During the fourth quarter of fiscal 2002, Sobeys requested an updated third party evaluation of its Employee Future Benefit Obligation. This evaluation, using current information, identified a necessary \$9.5 million adjustment to the initial 2000 estimate relating to the future provision of employee benefits to former Oshawa Group Limited employees.

These two items resulted in a net capital loss to Empire of \$7.3 million.

**Net Earnings** Sobeys net earnings were \$179.0 million in fiscal 2003, as compared to \$210.6 million in fiscal 2002. Removing the net impact of the gain on sale of discontinued operations and capital loss and other items, and excluding goodwill amortization from fiscal 2002 results, earnings increased 10.8 percent in fiscal 2003.

The food division's contribution to Empire's consolidated net earnings amounted to \$110.4 million versus \$129.5 million last year, a decrease of 14.7 percent. Adjusting for goodwill amortization, and capital gain and other items, the food division contributed \$110.4 million in earnings versus \$98.5 million last year, a 12.1 percent increase.

**Outlook** Sobeys' management believes the company is well-positioned for growth throughout fiscal 2004, with improved marketing and merchandizing programs, and the continuous focus on disciplined cost management to fuel sales and earnings momentum.

## REAL ESTATE

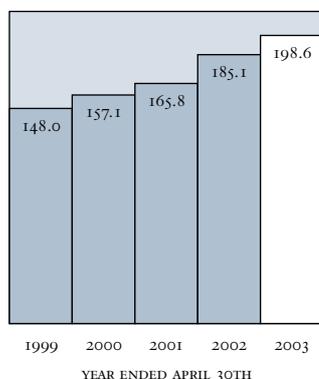
### Key Highlights

- Continued strong occupancy rate of 92.7 percent, relatively unchanged from last year.
- Funds from operations increased 11.4 percent to \$53.7 million.
- The real estate portfolio was strengthened and diversified through the redevelopment of existing properties, expansion of residential development through Genstar, the new Martello condominium project, and targeted anchor development.
- Today, 87 percent of the 12.2 million square feet in our real estate portfolio is retail space, of which 40 percent is leased to Empire-affiliated companies.

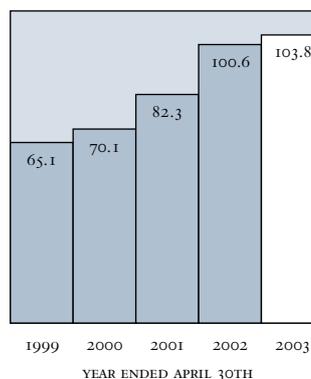
**Revenue** Fiscal 2003 revenue from real estate operations increased 7.3 percent to \$198.6 million from \$185.1 million last year. The growth in real estate revenue is attributed to revenue growth at Genstar and Crombie. Revenue growth achieved by Crombie was the result of strong lease renewal activity and the benefits of the re-development activities. Genstar's revenue growth was driven by strong lot sales in Western Canada. While we expect continued growth in Genstar's key markets, we do not expect lot sales to continue at the same pace over the next year.

**Operating Income** The real estate division recorded operating income of \$103.8 million in fiscal 2003, an increase of \$3.2 million over fiscal 2002. This performance is the result of a strong contribution from Genstar, successful re-development activities, and higher net effective rental rates and lower costs (as reflected by a 183 basis point reduction in the operating cost to revenue ratio from the prior year). The real estate operation contributed 23.3 percent of Empire's total operating income in fiscal 2003.

real estate revenue <sup>(1)</sup>  
(\$ in millions)



real estate operating income  
(\$ in millions)



<sup>(1)</sup> Revenue is before inter-segment elimination.

## Management's Discussion & Analysis

**Net Capital Gain and Other Items** In fiscal 2003, a net capital gain of \$0.4 million was realized by the real estate division versus net capital gain and other items of \$6.3 million in the previous fiscal year. The year-over-year change is primarily a result of a \$0.4 million gain in fiscal 2003 generated from the disposal of properties, a net capital gain associated with Genstar's bulk land sales in the fourth quarter of fiscal 2002, and a net capital loss of \$3.9 million associated with the write-down of certain properties in fiscal 2002.

**Net Earnings** Real estate's contribution to Empire's fiscal 2003 net earnings was \$38.9 million, a decrease of \$1.9 million from the \$40.8 million recorded in fiscal 2002. The decline is principally the result of the aforementioned capital gains recorded in fiscal 2002, partially offset by improved operating income earned in fiscal 2003.

Funds from operations (net income plus depreciation) increased 11.4 percent to \$53.7 million from \$48.2 million last year, as a result of improved operating earnings performance.

**Outlook** We are currently experiencing softness in our retail leasing activity, however renewals have been strong. Empire's real estate management group expects overall retail occupancy levels to improve during fiscal 2004 as a result of the diligence of our leasing team and improving economic conditions in Atlantic Canada.

While pleased with the performance of Genstar to date, we do not expect that the level of residential activity will continue at the same pace through fiscal 2004.

During fiscal 2004, Empire's real estate management group will continue its policy of maximizing and prudently reinvesting cash flow to further strengthen and diversify its portfolio of residential and commercial properties.

## INVESTMENTS AND OTHER OPERATIONS

### Key Highlights

- Empire's common equity investments generated a negative 27.8 percent return in fiscal 2003 as a result of market volatility and the under-performance of the Company's investment in Delhaize common shares. Three-year return performance of negative 0.8 percent compares favourably with negative 11.1 percent for the TSX Composite index and negative 15.7 percent for the S&P 500 index.
- Net capital losses of \$6.4 million were realized in fiscal 2003 as a result of the sale of common equity investments in the fourth quarter.
- Empire Theatres has started to diversify its operations outside of Atlantic Canada through a joint-venture arrangement with Landmark Cinemas of Canada Limited, which has resulted in four locations to date.
- During fiscal 2003, Empire Theatres opened one new theatre complex in Atlantic Canada and completed renovations or expansions in three other locations.

**Portfolio Value at April 30, 2003** Empire's investment portfolio carried a market value of \$318.7 million at April 30, 2003, on a cost base of \$387.4 million, resulting in an unrealized loss of \$68.7 million. At year-end, the investment portfolio consisted of:

### Investment Portfolio

<i>(\$ in millions Canadian)</i>	Market Value	Cost	Percent of Portfolio (based on market)
Non-equity accounted investments			
Canadian Common Equities	\$ 150.1	\$ 144.5	47.1%
U.S. Common Equities	57.4	68.8	18.0%
Delhaize Le Lion	51.7	102.6	16.2%
Preferred Shares & Other	29.7	30.4	9.3%
Equity accounted investments			
Wajax Limited	29.8	41.1	9.4%
<b>Total Investments</b>	<b>\$ 318.7</b>	<b>\$ 387.4</b>	<b>100.0%</b>

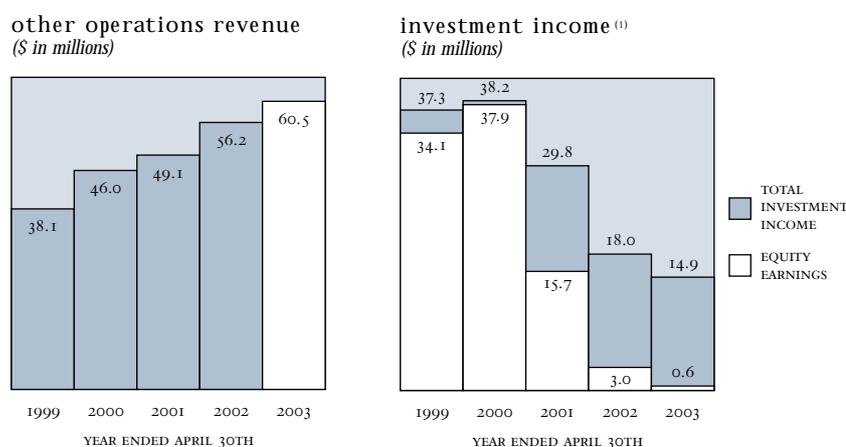
## Management's Discussion &amp; Analysis

Empire's direct debt matched to these investments equaled \$61 million at year-end, equivalent to 19 percent of total investment market value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

**Revenue** Investments and other operations' revenue, primarily generated by Empire Theatres, reached \$60.5 million versus \$56.2 million last year. Revenue growth at Empire Theatres is primarily attributable to the on-going modernization of existing locations and an increase in the number of screens in operation. At April 30, 2003, Empire Theatres had 141 screens in operation versus 135 at April 30, 2002.

**Operating Earnings** Investment income declined by \$3.1 million to \$14.9 million in fiscal 2003. The decrease is a result of a \$2.4 million reduction in equity accounted earnings from Wajax and a decrease in dividend income of \$0.7 million from non-equity accounted investments.

Other operations' contribution to Empire's operating earnings increased by \$0.5 million or 10.2 percent from the prior year. This increase is primarily the result of revenue growth of 7.7 percent and effective expense control at Empire Theatres.



<sup>(1)</sup> The decline in equity earnings is related to the sale of Empire's investment in Hannaford Bros. Co. on July 28, 2000.

**Net Capital Gains (Losses) Realized from Investment Sales** In fiscal 2003, net capital losses of \$6.4 million were generated from the sale of investments, as compared to net capital gains of \$32.9 million realized in the previous fiscal year. Investment sales in both years consist primarily of the sale of various common equity investments.

**Net Earnings** Investments and other operations' (net of corporate expenses) contributed \$11.0 million to Empire's consolidated operating earnings, relatively unchanged from last year's \$10.9 million contribution. The decline in investment income from last year was offset by a reduction in corporate income tax expense and increased contribution from Empire Theatres operations.

**Outlook** Investment income is expected to be relatively unchanged in fiscal 2004 as a result of improved performance at Wajax offset by a reduction in dividend income from investments. Dividend income is expected to decline largely as a result of reduced portfolio size (investments were sold in the fourth quarter to reduce bank loans), as well as a lower average dividend yield on portfolio investments.

We do not manage our portfolio with a focus on realizing capital gains or losses. Instead, our objective is to generate a total investment return in excess of the appropriate investment benchmark return.

Growth in unrealized capital gains will primarily depend on the performance of equity markets, which we believe will continue to remain volatile. In light of the portfolio's combination of yield and attractive growth characteristics we are confident that the investment portfolio is well positioned to outperform over the longer-term returns that could be generated from fixed income or money market investments.

## Management's Discussion &amp; Analysis

With respect to Empire Theatres' outlook, we recognize that future growth is highly dependent on a steady supply of quality product. Based on the quality of film releases expected in fiscal 2004, an experienced management team, and planned screen development, we look forward to continued growth in this business.

**FOURTH QUARTER RESULTS**

The following tables provides a summary of Empire's fourth quarter results:

<i>Years Ended April 30 (\$ in millions, except per share data)</i>	<b>2003</b>	2002	Percent Change
Revenue			
Food distribution	\$ 2,568.5	\$ 2,424.3	5.9%
Real estate, net of inter-segment	43.6	40.6	7.4%
Other operations	12.6	13.9	(9.4)%
	<b>2,624.7</b>	2,478.8	5.9%
Operating income			
Food distribution	75.1	74.7	0.5%
Real estate	32.8	31.3	4.8%
Investments and other operations	2.5	2.3	8.7%
	<b>110.4</b>	108.3	1.9%
Interest expense	23.6	25.9	(8.9)%
Income taxes <sup>1</sup>	29.6	32.4	(8.6)%
Minority interest <sup>2</sup>	15.4	14.3	7.7%
Earnings from continuing operations before net capital gain (loss), other items and goodwill amortization	41.8	35.7	17.1%
Earnings from discontinued operations before goodwill amortization	-	2.3	-
Earnings before net capital gain (loss), other items and goodwill amortization	41.8	38.0	10.0%
Less goodwill amortization	-	2.8	-
Earnings before net capital gain (loss) and other items	41.8	35.2	18.8%
Net capital loss and other items	(5.8)	(16.3)	64.4%
Gain on the sale of discontinued operations	-	50.0	-
Net earnings	\$ 36.0	\$ 68.9	(47.8)%

<sup>1</sup> Includes \$26.4 (2002 \$20.7) income tax expense from income statement plus \$3.2 (2002 \$11.7) income tax recovery from capital loss and other items.

<sup>2</sup> 2002, includes minority interest of \$9.8 from income statement plus \$4.5 from capital gain and other items.

**Per Share, basic and diluted**

Earnings before net capital gain (loss), other items and goodwill amortization	\$ 0.64	\$ 0.58	10.3%
Earnings before net capital gain (loss) and other items	0.64	0.53	20.8%
Net capital loss and other items	(0.09)	(0.25)	(64.0)%
Gain on sale of discontinued operations	-	0.76	-
Net earnings	\$ 0.55	\$ 1.04	(47.1)%

**Consolidated Financial Results** Fourth quarter revenue of \$2.62 billion versus \$2.48 billion last year represented a \$146 million or 5.9 percent increase. Food distribution operations reported revenue of \$2.57 billion, an increase of 5.9 percent over the fourth quarter last year. Real estate reported revenue growth of 7.4 percent, while other operations reported a decline in revenue in the fourth quarter of \$1.3 million from the fourth quarter of fiscal 2002.

## Management's Discussion &amp; Analysis

Operating income totalled \$110.4 million, an increase of \$2.1 million or 1.9 percent compared to the fourth quarter of the previous fiscal year. Growth in operating income generated by the food division, investments, and real estate was partially offset by lower contribution from other operations versus the fourth quarter last year.

Net earnings, including net capital gain (loss) and other items, amounted to \$36.0 million or \$0.55 per share versus \$68.9 million or \$1.04 per share in the fourth quarter last year. The \$32.9 million decrease in net earnings is attributable to a gain on sale of discontinued operations recorded in the fourth quarter last year; partially offset by stronger operating earnings in the fourth quarter of fiscal 2003.

**Food Distribution** Fourth quarter sales reached \$2.57 billion, versus \$2.42 billion in the fourth quarter of fiscal 2002. Despite low food price inflation, sales increased 5.9 percent primarily the result of 1.7 percent growth in same-store sales (1.2 percent excluding expanded stores), continued development of marketing and merchandising programs, a 214,874 net increase in square footage with the opening of 14 new or replacement stores, the expansion of five stores, and the closure of 14 stores.

Company-wide investment by Sobeys in the fourth quarter totalled \$132 million, of which \$107 million was on-balance sheet, resulting in 427,467 additional square feet (214,874 net of store closures), with the average new Sobeys, IGA extra, and Garden Market IGA store size of 44,634 square feet.

Operating income contribution to Empire in the fourth quarter of fiscal 2003 amounted to \$75.1 million, compared with fourth quarter fiscal 2002 contribution of \$74.7 million. Excluding the impact of the Whitby labour disruption, operating income or EBIT contribution in the fourth quarter would have been \$86.4 million, approximately 13.8 percent higher than fiscal 2002.

Fourth quarter EBITDA totalled \$107.8 million, an increase of \$4.0 million or 3.9 percent over the fourth quarter 2002. As a percentage of sales, EBITDA equaled 4.20 percent, a decrease of eight basis points over the 4.28 percent recorded in the fourth quarter last year. Adjusting for the impact of the Whitby distribution centre labour disruption, EBITDA totalled \$119.1 million, representing growth of 14.7 percent, and 4.64 percent of sales.

Operating earnings for the fourth quarter equaled \$40.7 million or 62 cents per share, a decrease of \$1.2 million or 2.9 percent over the fourth quarter last year. After adjusting for the Whitby labour disruption, earnings totalled \$47.9 million or 73 cents per share, an increase of 15.9 percent. The increase in adjusted earnings was the result of the sales and margin growth, along with lower interest expense and lower marginal income tax rates over the prior year.

**Real Estate** Revenue in the fourth quarter of fiscal 2003 increased 7.4 percent to reach \$43.6 million. Operating income in the fourth quarter increased to \$32.8 million or 4.8 percent over the same quarter last year. Real estate contributed 29.7 percent of Empire's total consolidated operating income in the fourth quarter.

Real estate net capital loss in the fourth quarter was \$0.3 million, primarily generated from a loss on the disposal of properties. Net earnings for the quarter amounted to \$14.5 million and represented 40.3 percent of Empire's consolidated fourth quarter net earnings.

Consistent with the twelve month period ended April 30, 2003, real estate revenue and earnings improvements were primarily the result of improved financial contribution from Crombie and Genstar.

**Investments and Other Operations** Investment income for the quarter reached \$2.9 million compared to \$2.0 million in fiscal 2002 as a result of a \$1.0 million increase in earnings contribution from Wajax offset by a \$0.1 million reduction in dividend income from investments.

## Management's Discussion &amp; Analysis

Other operations' contribution to Empire's operating income decreased by \$1.0 million from the fourth quarter last year. This decrease is largely the result of a \$1.3 million reduction in other operations revenue while operating costs declined by only \$0.3 million.

The investment division generated a net capital loss and other items of \$5.5 million in the fourth quarter of fiscal 2003 compared to a net capital loss and other items of \$14.1 million in the fourth quarter last year. The fourth quarter net capital loss last year was primarily the result of the write-down of Empire's Wajax investment, resulting in a \$18.2 million charge, partially offset by net capital gains of \$4.1 million generated from the sale of investments.

## CONSOLIDATED FINANCIAL POSITION

## Capital Structure and Key Financial Condition Measures

April 30 <sup>th</sup> (\$ in millions, except ratio calculations)	2003	2002
Shareholders' Equity	1,427	1,290
Short-Term Debt	288	293
Long-Term Debt	923	975
Debt to Total Capital	45.9%	49.6%
Net Debt to Total Capital	28.3%	23.3%
Interest Coverage	4.79x	3.73x

**Assets & Net Asset Values** Total assets at year-end of \$4,516.1 million represent a \$198.1 million increase over fiscal 2002. Identifiable assets in food distribution increased from \$2,844.8 million at April 30, 2002, to \$3,172.7 million at April 30, 2003. Identifiable assets in the real estate division increased \$30.2 million or 3.5 percent, from \$871.8 million at April 30, 2002, to \$902.0 million at April 30, 2003.

At April 30, 2003, management calculates Empire's consolidated net asset value at \$2,166 million (\$32.92 per Empire common share), a decrease of \$351 million or 13.9 percent from a calculated consolidated net asset value at April 30, 2002, of \$2,517 million (\$38.31 per share). The table below presents the composition of value by division.

(\$ in millions)	April 30, 2003		April 30, 2002	
	Net Asset Value	Percent of Total	Net Asset Value	Percent of Total
Food distribution <sup>(1)</sup>	\$ 1,515	68%	\$ 1,730	65%
Real estate <sup>(2)</sup>	349	15%	299	11%
Investments and other <sup>(3)</sup>	374	17%	653	24%
	\$ 2,238	100%	\$ 2,682	100%
Less: corporate debt	(72)		(165)	
Net asset value	\$ 2,166		\$ 2,517	
Per share	\$ 32.92		\$ 38.31	

<sup>(1)</sup> Food distribution net asset value equals the 40.84 million common shares of Sobeys owned at fiscal year-end times the market price of a Sobeys common share at fiscal year-end.

<sup>(2)</sup> Real estate net asset value is calculated at 6.5 times trailing funds from operations of \$53.7 million. Fiscal 2002 net asset value used 6.2 times trailing funds from operations of \$48.2 million.

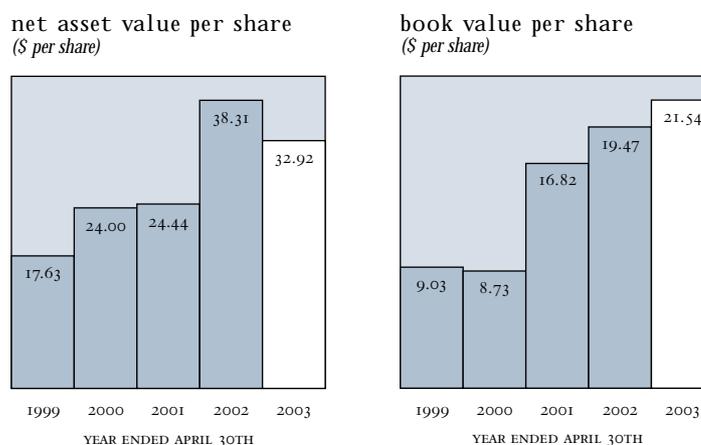
<sup>(3)</sup> Investments net asset value is derived from stated public market values of securities held in the portfolio.

## Management's Discussion &amp; Analysis

At April 30, 2003, approximately 80 percent of Empire's net asset value was derived from assets that are valued by market prices and trade on recognized public stock exchanges. This includes Sobeys common shares, Delhaize common shares, Wajax common shares, and the balance of Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by \$0.62 per share.

**Shareholders' Equity** At April 30, 2003, shareholders' equity totalled \$1,427.1 million versus \$1,290.6 million last year. The \$136.5 million or 10.6 percent increase is attributable to higher retained earnings driven largely by the \$153.9 million in net earnings recorded in fiscal 2003.

Total common shares outstanding at April 30, 2003, were 65.8 million, relatively unchanged from April 30, 2002, after adjusting for the two-for-one common share stock split effective October 7, 2002. Total dividends paid to common shareholders amounted to \$21.7 million or \$0.33 per share, an increase of 54 percent over the previous fiscal year. Book value per common share was \$21.54 at April 30, 2003, compared to \$19.47 last year.



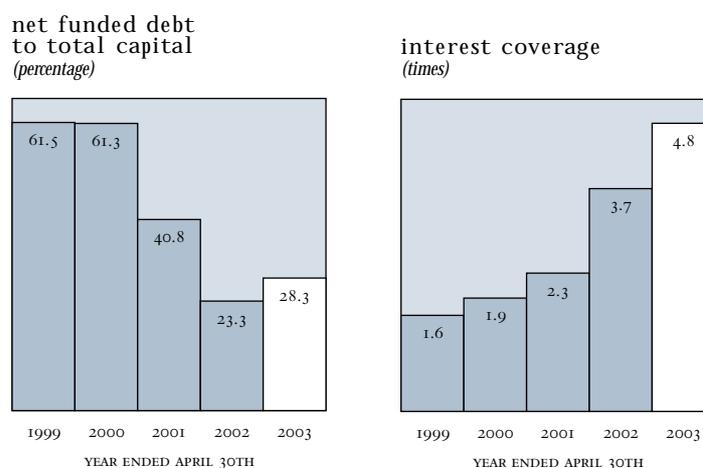
**Liabilities** Empire finances a significant portion of its assets through the use of debt, the majority of which is fixed-rate and long-term in nature. Total fixed-rate, long-term debt at year-end of \$1,028.1 million (which includes the current portion of long-term debt) represents 85 percent of Empire's total funded debt of \$1,211.3 million. Of the fixed-rate, long-term debt, 52.5 percent was directly related to the food distribution segment, 47.0 percent was directly related to the real estate segment, and 0.5 percent was related to other operations. The investment segment carries no long-term debt. Given that the underlying investments are highly liquid in nature, financing matched to the investment segment is short-term. Empire finances its long-term assets with fixed-rate debt, thereby reducing both interest rate and refinancing risk.

Operating income increased 6.9 percent in fiscal 2003, while interest expense decreased by 16.8 percent due primarily to reduced average net short-term debt balances throughout the year. The net effect of these factors was an increase in Empire's overall interest coverage to 4.79 times from 3.73 times in fiscal 2002. All of Empire's businesses reported improved interest coverage in fiscal 2003.

Funded debt (less the estimated realizable value (after-tax) of the Company's investments) to total capital increased by five percentage points to 28.3 percent from 23.3 percent last year. Total funded debt, net of cash and estimated after-tax proceeds on sale of investments, equaled \$562 million at April 30, 2003, an increase of \$185 million from \$377 million last year.

## Management's Discussion &amp; Analysis

Empire has a corporate unsecured debt rating of BBB- (stable) from Standard & Poor's and a debt rating of BBB (stable) from Dominion Bond Rating Service.

**CAPITAL RESOURCES & LIQUIDITY**

Short-term liquidity remains strong as a result of internally generated cash flow, net cash on hand, unutilized bank credit facilities, and liquid short-term investments. On a non-consolidated basis, Empire maintains authorized bank lines for operating, general, and corporate purposes of \$325 million, of which 19 percent was utilized at year-end. Financial instruments are used from time to time to manage short-term interest rate fluctuations on underlying short-term lines of credit.

**Operating Activities** For the year ended April 30, 2003, Empire recorded cash flows from operations of \$355.8 million, a decrease of \$265.3 million from the \$621.1 million posted in the previous year. The decrease is primarily the result of a \$245.6 million change in the net balance of non-cash working capital from a year earlier, coupled with a decline of \$36.5 million in items not affecting cash compared to the previous year.

The net change in non-cash working capital was negative \$65.3 million at the end of the year, compared to \$180.3 million at the end of fiscal 2002. The change in the previous year related to significant progress made to improve inventory management, reduce receivables, and to better manage accounts payable. The level of contribution to cash flow from net change in non-cash working capital was not sustained in fiscal 2003 as a result of a \$52.5 million increase in inventory levels over the prior year as a result of new store openings, along with the opening and expansion of new distribution centres during the year, and the effect of the labour disruption at the Whitby distribution centre. Empire expects to continue to run a negative (favourable) managed working capital balance (receivables plus inventory less accounts payable) in fiscal 2004. Any temporary short falls will be financed through short-term debt facilities currently in place.

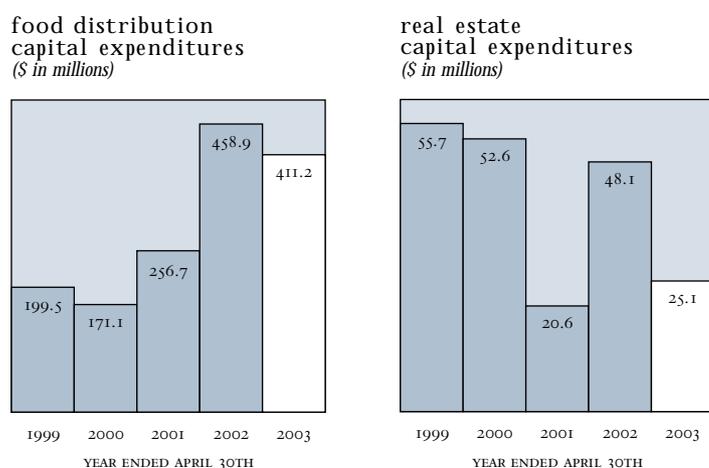
**Investing Activities** Total cash flows used in investing activities amounted to \$276.3 million in fiscal 2003 versus \$499.0 million the prior year. Purchases of property, equipment and other assets totalled \$442.0 million compared to \$519.5 million last year. Cash flows used to purchase these fixed assets in fiscal 2003 was supplied largely from operating activities.

## Management's Discussion &amp; Analysis

The table below presents balance sheet capital expenditures over the last two years by business segment.

<i>Years ended April 30<sup>th</sup> (\$ in millions)</i>	<b>2003</b>	2002
Food distribution	<b>\$ 411.2</b>	\$ 458.9
Real estate	<b>25.1</b>	48.1
Investments & other	<b>5.7</b>	12.5
<b>Total capital expenditures</b>	<b>\$ 442.0</b>	\$ 519.5

During fiscal 2003, food division company-wide capital spending totalled \$546 million for the food distribution segment. This capital spending, which includes expenditures by Sobeys, franchisees, and third parties, represents a decrease of \$133 million or 19.6 percent from the \$679 million in total spending for fiscal 2002.



**Financing Activities** Cash flows used for financing activities totalled \$69.2 million in fiscal 2003, versus \$322.4 million last year. Long-term debt of \$82.2 million was repaid during the year along with \$107.9 million of bank loans. Total proceeds on the issue of long-term debt amounted to \$131.5 million largely as a result of a \$100 million Medium Term Note ("MTN") issuance by Sobeys on February 26, 2003. Common dividends of \$21.7 million were paid in the year versus \$14.1 million last year.

Empire's total debt at April 30, 2003, amounted to \$1,211.3 million, a decrease of \$56.5 million or 4.5 percent from the \$1,267.8 million reported at April 30, 2002.

Empire maintains direct access to capital markets for longer-term capital resources. The real estate operation generally structures its long-term obligations with fixed rates and fully amortized debt to reduce interest rate and refinancing risk. The long-term financial flexibility of the Company is enhanced through access to capital markets.

On December 20, 2002, Sobeys filed a short form shelf prospectus providing for the issuance of up to \$500 million in unsecured MTNs over the next two years. On February 26, 2003, the Company issued a Series C \$100 million MTN with a maturity date of February 26, 2018 (15 years), and a coupon rate of 7.16 percent. The issuance of this \$100 million Series C MTN was to refinance its Series B MTN due October 3, 2003, prior to maturity, to capitalize on the favorable interest rates and term available in February 2003.

At year-end, on a consolidated basis, the Company's authorized bank credit facilities exceeded borrowings by \$679.7 million. The Company, at its option, can convert \$250 million of its authorized revolving-term credits into non-revolving fixed-rate financing for a term up to 30 months.

## Management's Discussion &amp; Analysis

**RISK AND RISK MANAGEMENT**

Through its operating companies and investment portfolio, Empire is exposed to a number of risks in the normal course of business that have the potential to affect its operating performance. These risks include competitive risk, environmental risk, financial risk, operational risk, and equity price risk.

**Competitive Risk** Empire's food distribution business, through Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies along with non-traditional competitors, such as mass merchandisers and warehouse clubs, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys actively monitors and responds to competitive and economic conditions in each of its markets to protect and grow market share. The company is positioned to minimize competitive risk through diversification (Sobeys operates in over 900 communities across Canada), its focus on serving the customer with excellent service and products, and an ongoing commitment to cost effective operations.

Empire's real estate operations compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers, and owners could affect our real estate group's ability to lease space in its properties and on rents charged or concessions granted. This could adversely affect revenues and cash flow.

Continued growth of rental income is dependent on renewing expiring leases and finding new tenants to fill vacancies at prevailing rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 2003, our real estate operations encountered relatively positive economic conditions in our key markets and a relative lack of new rental space resulted in relatively stable rental rates.

**Environmental Risk** The Company has an effective environmental program in place including policies targeted at ensuring compliance with all applicable environmental legislative requirements. Each operating business conducts an ongoing, comprehensive environmental monitoring process and the Company is unaware of any material environmental liabilities in any of its operating companies. The Board of Directors receives quarterly reports that review any outstanding issues including plans to resolve them.

**Financial Risk** At the consolidated level, the Board of Directors has approved a formal debt management policy, which details certain directives to ensure that prudent financial management is adhered to. In the ordinary course of managing its debt, Empire and its operating companies have entered into various financial instruments, which are not reflected on the balance sheet, to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes.

The food division had in place an interest hedge of \$45.1 million on its funded debt at a fixed rate of 6.35 percent, to maturing in 2005. Crombie had an interest rate hedge for \$18 million, maturing in 2004 at a fixed rate of 4.015 percent.

The majority of Empire's and its subsidiaries' debt is at fixed rates and accordingly there is limited exposure to interest rate risk.

Included in investments at cost is \$102.6 Canadian that is denominated in Euros and \$68.9 Canadian that is denominated in US funds.

**Operational Risk** Empire and its subsidiaries are self-insured in respect of certain operational risks. In addition comprehensive loss prevention programs are maintained to mitigate the financial impact to the Company or its affiliates.

Sobeys, as part of its quality control program, recognizes food safety, particularly in perishable products, is of utmost importance. The company maintains strict policies in its facilities to ensure food quality and safety are not compromised.

## Management's Discussion &amp; Analysis

Sobeys' operational risks also include the risk of labour disruption. Subsequent to fiscal 2003 year-end, on May 5, 2003, employees at the Whitby, Ontario distribution centre (CAW, local 1090) ratified a new three-year contract. The company is committed to providing fair, equitable, and competitive compensation to its employees. Labour disruptions pose a moderate operational risk, as the company has good relations with its employees and unions, and does not anticipate any material labour disruptions in fiscal 2004.

**Equity Price Risk** The carrying values of the investments in Empire's investment portfolio are based on cost; however, their realizable value is based on market prices and therefore is subject to market price fluctuations. Empire has a disciplined, long-term approach to select quality investments and we have been successful in generating above market returns. While we may not expect our portfolio returns to match those of the prior year, we will continue to manage it prudently to ensure appropriate diversification and liquidity.

#### ACCOUNTING POLICY CHANGES

Effective May 1, 2002, the Company implemented the CICA accounting standard pertaining to goodwill and other intangible assets. Under this standard, goodwill and intangible assets with indefinite useful lives are no longer amortized, but will be subject to impairment tests on at least an annual basis. Empire and its operating companies have completed their review and have determined that the book value of existing goodwill is not impaired.

Also effective May 1, 2002, the Company adopted CICA accounting standard, Section 3870, "Stock-based Compensation and Other Stock-based Payments". While the Company's long-term incentive plan for executives provides for the issuance of stock options, the Company ceased issuing options in 1996, and as of April 30, 2003, had 67,074 options outstanding. Adopting this standard did not have an effect on Empire's financial statements.

#### OUTLOOK

Management has projected stronger financial performance in fiscal 2004 as a result of continued growth in contribution from each operating company. We have assumed the continuation of intense competition in our projections and have factored in conservative cost of capital assumptions. We remain committed to executing operational and capital allocation decisions that will grow the cash flow and net asset value in each of our businesses over the long-term.