



**Bill McEwan**  
President and C.E.O.,  
Sobeys Inc.



## Food Retailing

### Strategic Focus

At Sobeys, our focus is clear and steadfast – we are focused on food, driven by our fresh expertise, supported by superior customer service – in the right-sized, right format stores for each individual market we serve. Our passion for food sets us apart in a highly competitive marketplace. Our customers see and feel the difference, and their growing patronage is driving our sales and earnings growth.

### Progress in 2005

In fiscal 2005 we continued to invest in our food-focused strategy and we delivered encouraging growth in revenues, same-store-sales and market share.

We enhanced our store network further as we opened, replaced, expanded, acquired or converted close to 100 stores across the country. As well, we continued to develop unique formats for different markets.

We also introduced our new private label brand – Compliments – in every banner across the country. This product line is unique in Canadian retailing, with three tiers of products under the one brand. We will have launched approximately 3,000 products by October, 2005.

On the productivity side, we invested in our SMART Retailing initiative – a store based

continuous improvement program designed to reduce shrink and waste, effect savings and engage employees to operate our stores more efficiently. We continued the roll-out of our common point of sale system, which is providing us with better customer information while enabling improved service at the check-out, with increased efficiency.

Our bottom line progress reflects the net impact of improved merchandising, pricing and productivity improvements throughout the year – achieved while we continue to make significant investments in our retail network and infrastructure for the long term.

**Bill McEwan**  
President and C.E.O., Sobeys Inc.

**Peter C. Godsoe**  
Chairman, Sobeys Inc.



**J. Stuart Blair**  
President and C.E.O.,  
Crombie Properties Limited

## Real Estate

### Strategic Focus

The foundation of our real estate business is our commercial property portfolio in Atlantic Canada, where Crombie and its affiliates are the clear market leaders, with 77 properties, and 12.9 million square feet of gross leaseable area. In recent years, while continuing our leadership in this core market, we have also been pursuing a diversification strategy: we have targeted geographic expansion of our commercial real estate in central Canada, often in conjunction with Sobeys. To date, we have 12 properties and 1.1 million square feet of leasable space in Central Canada. Meanwhile, we have complemented our commercial holdings with a stake in residential development, through our investment in Genstar.

### Progress in 2005

Genstar exceeded expectations once again in 2005, with an outstanding sales and earnings performance. Our commercial retail business also continued to deliver steady results, posting record levels for rental income and earnings. Occupancy rate remained healthy at 93.5%.

While we remain committed to geographic expansion, we made no major acquisitions in Central Canada during the year, although we did launch a major new retail development on a significant property we own in Montreal,

Quebec. As noted last year, our targeted markets in Ontario seem fully valued at present – and we have no intention of overspending. We are constantly reviewing and monitoring opportunities and have been developing a joint capability with Sobeys in Ontario as we continue to see long term opportunities in Canada's largest markets.

While expansion in other markets has slowed for the short term, we continued to strengthen our leadership in core Atlantic markets. For example, we replaced Wal-Mart with Sears, added Winners and redeveloped the food court and exterior at Avalon Mall – the largest mall in Newfoundland. We still have plenty of scope for further development in Atlantic Canada, and look forward to further growth in Central Canada in 2006.

**J. Stuart Blair**  
President and C.E.O.,  
Crombie Properties Limited

**Frank C. Sobey**  
Chairman,  
Crombie Properties Limited



**Stuart G. Fraser**  
President and C.E.O.,  
Empire Theatres Limited



## Other Operations

### Strategic Focus

Empire Theatres has performed well over the years by focusing on being the entertainment focal point in the markets it serves. This strategy has proven effective and has resulted in steady growth in an industry which faces increasing competition from home entertainment. We are committed to providing a terrific cinema experience to our customers, with modern complexes featuring stadium seating, self-serve electronic ticketing, large curved screens and digital sound, modern arcade amenities, and branded food choices.

### Progress in 2005

A relative lack of blockbuster movies led to a flat year for the cinema industry – particularly in the second half of our fiscal year. We are pleased that Empire Theatres outpaced the industry, posting revenue growth of 13.6% over the prior year.

While the industry box office was somewhat lackluster, we made great progress with our program of controlled theatre expansion, as we moved on attractive opportunities that arose in markets we know and like. During the year, we grew from 22 locations with 149 screens to 27 locations with 176 screens. We acquired four locations with 23 screens from Viacom Canada in Nova Scotia and New Brunswick, purchased

an independent theatre in Rothesay, New Brunswick and constructed a new theatre centre in Bridgewater, Nova Scotia. We also completed major renovations of venues in Halifax and Moncton. With our joint venture in Western Canada, we added one location and grew by nine screens, for a total of four locations and 24 screens.

Looking forward, we expect a better year in 2006. Major new movies such as the new installments of “Star Wars” and “Harry Potter”, along with “Madagascar” and “War of the Worlds” are expected to generate excitement – and box office improvement. We will remain focused on improving operational efficiency and maximizing same theatre revenue while pursuing controlled theatre expansion in markets which make economic sense.

**Stuart G. Fraser**  
President and C.E.O.,  
Empire Theatres Limited



**Stuart G. Fraser**  
President and  
Chief Executive Officer,  
Empire Theatres Limited

**Paul V. Beesley**  
Senior Vice-President,  
Chief Financial Officer  
and Secretary  
Empire Company Limited

**Frank C. Sobey**  
Chairman,  
Crombie Properties Limited

**Stewart H. Mahoney**  
Vice-President,  
Treasury and Investor  
Relations  
Empire Company Limited

## Investments

### Strategic Focus

Our long term perspective and focus on good management and strong fundamental analysis shapes our approach to investing. We invest in a relatively small number of high quality, large cap stocks – just 12 stocks on average over the past four years – and we tend to hold them for the long term. In fact, some of them have never left the portfolio.

We avoid “hot stocks” and focus on undervalued businesses that have outstanding fundamentals and growth prospects. We maintain a highly disciplined stock-picking approach and actively monitor our holdings to advance returns. This approach has resulted in superior performance over time, greatly exceeding that which could be expected from a more passive index-based strategy or from a money-market strategy.

### Progress in 2005

In fiscal 2005, investment income equalled \$21.0 million, realized capital gains amounted to \$4.4 million and the unrealized capital gain position grew by \$73.4 million. Total portfolio market value climbed from \$391 million at the start of the fiscal year to \$465 million at fiscal year end – largely as a result of share price appreciation from Wajax as well as from financial services and energy related stocks.

Empire’s investments continued to generate returns well in excess of market benchmarks. Total investment return for the twelve months ended March 31, 2005 equalled 26.9%, compared to 13.9% for the S&P/TSX Index and a negative 1.5% for the S&P 500 Index in Canadian dollars.

This contributes to a continuum of good performance and long term value creation. Over the past four years – a period of more difficult equity markets – we have done quite well, with an annual compound rate of return exceeding 16%. That is more than double the S&P/TSX Index for the same period and more than triple the S&P 500 Index in Canadian dollars.

A strong investment performance provides Empire with considerable flexibility and financial resources to support and build our core businesses to create further value. During fiscal 2005, we allocated \$70 million in investment capital to purchase 1.86 million additional common shares of Sobey’s – increasing our ownership interest from 65.0% to 68.4%.

**Stewart H. Mahoney**

Vice-President,  
Treasury and Investor Relations