CMP INDUSTRIES

TO OUR STOCKHOLDERS

The past year has been a most difficult one for business in general and manufacturing in particular. The "free-for-all" of deregulation and entry in the so called "global" economy as the solution to our many problems, has not brought the prosperity and rewards that so many expected. To the contrary,what is happening is driving many in the productive sector to the wall, with competition from all quarters, far eastern and metropolitan country suppliers being in the forefront, viewing the Caribbean Common Market a fair prize well worth winning.

It may not have been so bad had the "playing field" been made more level prior to Jamaica entering the fray. But this has unfortunately not been the case.

A case in point is our utilities, communications, light and power, fuel, water and transport are providing the least dependable service at the highest cost compared to any of our trading partners.

The process of moving goods from the docks to our plants and then to our customers, domestic or overseas, is hampered by high penal charges, bureaucratic delays, excessive government taxes, stripping charges and a myriad of other problems, which are serious deterrents to the successful operation of any enterprise.

The monitoring of standards of most imports into our market are for the most part non-existent. As a result, the customer and the domestic manufacturer are penalized as both bear the burden of the hidden cost of low quality and improper service which results.

Merchandise, both new and used now flood our market, catering mainly to consumers who may, in many cases buy on price instead of quality and after service, products which often cannot even be serviced.

Inflation for the year of close on 30 percent along with high bank interest rates which move up and down at levels 3 to 4 times higher than those borne by our overseas competitors coupled with devaluation of our currency all add up to putting the manufacturing sector, which is depended on to provide growth and jobs, under the severest of pressures.

This is not to say that the productive sector does not need to look at its own shortcomings. The sector is experiencing low production, insufficient employee training, lack of capital investment in "state of the art" equipment, research and development to innovate new and better products.

But one can ask which comes first, the chicken or the egg. The one will not happen unless conditions are in place to provide a stable currency, lower interest rates, a dependable transportation service, personal security and an environment of stability similar to that enjoyed by our counterparts in other countries.

The time is now for the Government and the productive sector to sit down together to urgently address the problems of the economy so that sustainable growth and job creation can take place. If not, our economic crisis will continue and worsen to a point when the most serious social eruption could confront us.

FINANCIAL PERFORMANCE

The Group recorded sales of $375,637,000, pre-tax profit of $30,232,000, 17% and 31% respectively, ahead of previous year. Profits attributable to stockholders improved by 35% and fully diluted earnings also recorded a 35% increase, 26 cents up on the previous year.

FINANCIAL POSITION

The Group's balance sheet remains strong. Stockholders' funds increased by $29,083,000 to end the year at $107,415,000. The Group's significant holdings in commercial and industrial real estate are still conservatively stated in the financial statements. Real Estate was last revalued in the books of the Group in 1982, while plant and equipment remain at depreciated cost.

The Statement of Cash Flows on page number 8 indicates positive cash flow from operations, which along with proceeds from sales of under-utilized assets, after providing for increased working capital requirements, additions to fixed assets, government taxes, and dividend payments amounted to some $15,339,000. Net short term borrowing decreased by $18,699,000 to $29,527,000 at year end.

DIVIDENDS

The Directors are recommending a final dividend of five cents per stock unit, to be paid on December 15, 1995, which along with the interim dividend of 3.75 cents brings total dividend for the year to 8.75 cents or a total of $1,747,000. Both the interim and proposed final dividend are capital distributions payable out of realised capital gains and are subject only to withholding tax at 7 1/2 per cent.

VALUE ADDED

Value added from operations increased by 36% to $116.47 million in the financial year while distribution to employees increased by 50% to $71.87 million. The value added per employee increased by 52% to $358,456 based on year end manning levels.

EXPORTS

Group exports for the year increased by an appreciable 187% over the previous year, with sales to CARICOM up by 115%. I am also pleased to report that a large order of windows was shipped to Bangladesh during the year which contributed to the improved export performance. The Group is committed to developing export markets outside CARICOM.

PROPERTY RENTAL

Rental income of our warehouse properties at our Marcus Garvey Drive and Bell Road complexes to prime tenants have increased considerably over the years and is a meaningful contributor to Group earnings and cash flow.

TRADING PERFORMANCE

CMP Electric Limited
After six consecutive years of growth the Company's sales for the year was flat. However, consequent on strict financial and working capital management, pre-tax profit recorded an 83% points increase over the previous year.

Competition for the available business remains extremely intense not only from the traditional distributors but from informal traders as well. The Company's position as the leader in providing quality products and services to distributors, electrical contractors, residential and commercial customers remains strong. Management continues its strategy of adding new product lines to better service its network of distributors and electrical contractors throughout the island.

A major upgrading programme to our showroom, offices and warehouse facilities is now complete and will ensure better service and a more comfortable environment for our customers. Concurrently, major refurbishing of the warehouse and factory is nearing completion and will allow for increased productivity and improved inventory control and security.

During the year, the Company added sales personnel to better service customers. General Manager - Walter deSouza, Sales & Marketing Manager - Jennifer Mendes and their team are committed to increasing sales and profit in the ensuing year.

CMP Consumer Products Limited

The Company enjoyed its fourth consecutive year of growth in the face of increasing competition from United States and CARICOM imports, the former enjoying reduced duties commencing the beginning of the calendar year by virtue of the Common External Tariff Regime. Another negative factor experienced was the massive increase of some sixty percent in world paper and pulp prices during the year.

In such a competitive environment it was not surprising that margins were squeezed with the consequent effect on profit. These adverse factors coupled with an increasing number of large internationally advertised brand names striving for market share, impacted negatively on both domestic and export sales. The management team under General Manager Mark Callender has developed short and long term strategies to counter the effects of the current economic events. A programme is now in place which should ensure growth of market share by our several brands of sanitary napkins while our envelope division continues to dominate the market in the face of competition from mainly domestic sources.

CMP Sales Ltd.

In light of the continuing high level of inflation and its adverse effect on consumer spending, sales growth and profitability have come under severe pressure. Management has introduced programmes to increase market share including, widening the range of products offered to customers, increasing volume by more aggressive selling and opening a new location.

Competition from imports by informal traders who are the beneficiary of Government concessions relating to customs duty and General Consumption Tax regime, continues to erode sales. Mention must be made of the escalating cost of all utilities through the year as well as high interest charges which also squeezed margins.

During the year, the Company appointed Mrs. Pauline Malek, an experienced retailer, as Operations Manager with special responsibility for expanding product range, improving customer service, refurbishing shops and training shop staff.

In keeping with our strategy of locating stores in key towns across the island, a new shop will be opening in Mandeville in time for the Christmas season.

Managing Director George Khouri and his team have performed well under difficult circumstances and are looking confidently at improving performance in the new year.

CMP Metal Products Limited

Of all our subsidiaries, this one has been most affected by deregulation and globalization. Imported goods, mainly from the Far East and the U.S. flood our market. There are virtually no standards to be met and in most cases the products carry no warranty. It is therefore, not difficult to understand why importers can compete with locally manufactured products. Nevertheless we have retained leadership of the office furniture market by selling quality products at competitive prices and providing good service to our customers.

The Company recently introduced a new range of screen based systems furniture, and lateral filing cabinets which, along with a wide range of seating and other storage products have met with much success. For the records, we have recently supplied and installed our largest single order of furniture to the Bank of Jamaica for their new Commercial Bank Monitoring Division. Our exports of office furniture to the Caribbean Common Market (CARICOM) continue to grow and should accelerate with the introduction of our new product range.

Mirror sales have been severely affected by massive increases in glass prices from the United States and European sources. During the year, shipments of glass from our regular supplier were curtailed because supply could not meet domestic demand. Fortunately, this position has now eased and although normalcy has not fully returned, flat glass is available though at substantially higher prices than a year ago.

During the latter part of the year, Paul Barber was appointed as Operations Manager to head the Building Products Division which had been experiencing problems. Mr. Barber introduced a number of changes which has resulted in considerable improvement in productivity, customer satisfaction and a shortened order turnaround time. The sales force is being reorganized and by personal involvement with customers sales have increased well ahead of expectations. These changes have already had positive results.

The glass shortage had a negative effect on our Building Products Division which is one of the largest users of flat glass in Jamaica.

New "state of the art" equipment will shortly be commissioned which will substantially increase productivity and versatility of our uPVC window and door manufacturing operations. This, along with the other improvements referred to, will no doubt generate increased sales and profit for the Division in the year ahead.

Appliances continue to experience stronger competition from a growing number of importers competing for the limited available business, thereby squeezing profits even further. Much thought is being given to the viability of this activity in the light of market conditions and its potential for sustained growth.

The computerization programme which commenced some two years ago is now virtually complete and all aspects of the company's business are now on line. Mrs. Johns-Gayle who heads our Group Management Information Services and her team deserve credit for organizing, training staff and implementing the programme.

The Company is currently examining its options and is developing a strategic plan which will take it into the twenty-first century and beyond.

Credit must be given to Simon Roberts, the General Manager, who along with his team have faced formidable challenges throughout the year. Although the financial results were disappointing, we look forward to an improved performance in the year ahead.

FUTURE PROSPECTS & APPRECIATION

The Future

Results for the first quarter, already published, show pre-tax profits and sales ahead of the previous year by 38% and 13% respectively.

However, greatly increased competition, the continued stagnation of the economy, coupled with high interest rates and a depreciating currency all serve warning that the year ahead will require greater commitment and effort to maintain and improve our position as a leader in the industry.

Every effort is being made to increase internal efficiencies and aggressive policies have been introduced aimed at strategically positioning our Group to deal with global competition and new market conditions. We will also continue to examine and pursue all avenues to ensure that our customers are better served and shareholders' value is maximized. Despite all adversities, we go forward with a positive outlook to meet the challenges of the year ahead.

Appreciation

At the end of August this year Mr. Garfield St. P. Holmes, our Group Finance Director, left to take up a Sloan Fellowship at the London Business School. We wish to thank him for his contribution to the growth and development of the Group over the past six years and extend to him our congratulations and best wishes for the future. We also take this opportunity to welcome Mr. Neville Scott who took up the post of Group Financial Controller and Company Secretary in July 1995.

Finally, I take the opportunity of thanking our hard working Directors for their counsel and support throughout a most difficult year, our loyal and dedicated employees for their effort, and our customers, suppliers, bankers, auditors and others who contributed to the year's performance.

WINSTON MAHFOOD
SEPTEMBER 22, 1995