

CARIBBEAN METAL PRODUCTS

SHAREHOLDERS REPORT

To our Stockholders

INTRODUCTION

In my opening statement in last year's annual report, I drew attention to the many obstacles facing the productive sector. Unfortunately, during the year under review, nothing has been done by the relevant authorities to remove them. If anything, conditions have worsened during the intervening period with inflation hovering near 30%, bank interest rates well beyond 50%, an ailing banking system and a 20% devaluation of the Jamaican dollar all adding up to significantly increased cost of operations.

In this environment, management intensified its efforts to reduce costs across the board, by closely monitoring all inputs, discontinuing production of low margin products and tight financial management, the overriding objective being to increase stockholder value.

FINANCIAL PERFORMANCE

The Group recorded sales of \$445,577,000, 19% ahead of the previous year, but with pre-tax profit of \$25,384,000 down by 16%. Profits attributable to stockholders of \$15,771,000 and fully diluted earnings per stock unit were both down by 23%.

FINANCIAL POSITION

Stockholders' funds increased by \$15,984,000 to end the year at \$123,399,000. The Group's significant holdings in commercial and industrial real estate are still conservatively recorded in the financial statements. Real estate was last revalued in the books of the Group in 1982 while plant and machinery have remained at depreciated cost.

The statement of Cash Flows indicates a positive cash flow from operations of \$32,680,000. After providing for increased working capital requirements, additions to fixed assets net of proceeds of sales, Government taxes, dividends and long term loan repayments, there was a net increase in short term cash requirements of \$34,803,000 which was funded by increased short term borrowings.

EXPORTS

I am pleased to report that Group exports increased by 39%. For the second year in succession, a substantial order of windows was shipped to Bangladesh. This is a tribute to the quality and competitiveness of our products.

DIVIDENDS

In the light of current economic uncertainties and what is projected to be a very difficult year ahead, your Directors are not recommending a dividend at this time.

CMP ELECTRIC LIMITED

The Company recorded sales of 31% ahead of the previous year with profits up by 7%. Management's strategy of widening the variety and range of products offered to the trade continues. At the same time, emphasis continues to be placed on product quality and customer service.

During the year, the Company was appointed a distributor of Bradford White water heaters which includes the widest range of quality industrial and commercial heaters available in Jamaica.

The Company has recently concluded negotiations with Courts Jamaica Limited to operate lighting and electrical product outlets in their shops throughout Jamaica. The first will be located in Heritage House on Constant Spring Road in Kingston. These amongst other recent developments will augur well for the future.

General Manager Walter deSouza, and his capable team must be commended for a creditable performance.

CMP CONSUMER PRODUCTS LTD.

Sales for the year under review grew by 19% while profits remained flat.

This performance must be judged in the light of the economic malaise which existed throughout the year, the intense competition from the United States, CARICOM and other sources and escalating world paper and pulp prices which severely eroded margins. The introduction of a distribution division in February 1996 to market baby diapers and toilet tissue under our own brand names was instrumental in spreading some overheads and improving margins. Other complementary products are scheduled for introduction on a phased basis in the coming year.

In order to increase market share and competitiveness, the Company will be introducing "state-of-the art" packaging equipment in the latter part of 1996 which will individually package sanitary napkins to meet strong demand for these products in both domestic and export markets. The addition of this equipment along with our existing facilities will place the company in a strong position to meet imported competition in the foreseeable future.

Credit must be given to General Manager Mark Caldender and his team for the Company's performance throughout the year.

CMP SALES

The Company performed well under very difficult conditions for retailers of consumer goods with fierce competition for limited demand. Both sales and profits increased over the previous year by 23% and 28% respectively.

This performance was achieved by keen buying, innovative merchandizing, a broader product range, tight control of costs and improved customer service.

A new store was opened in Mandeville during October 1995 bringing the total under the Van Del name to nine. Management's strategy of opening new stores in other major populated areas continues.

I am pleased to report that earlier this year, informal traders were removed from along St. James Street to special markets provided by the authorities. As a result, sales in our Montego Bay store has seen a remarkable increase.

Management continues its programme of upgrading older stores in order to make them more customer friendly. At the same time, special emphasis is being placed on achieving increased sales per square foot of selling space in order to trim inventories and thereby reduce interest costs. Other initiatives are also being taken to maximize profits.

Managing Director George Khouri along with his entire team must be given credit for a good performance under adverse business conditions.

CMP METAL PRODUCTS LTD.

Sales were 15% ahead of the previous year. However, profits generated was just about wiped out by a restructuring charge, exchange losses and increased interest cost.

The company, which by the nature of its business carries high inventories of raw materials and intermediate goods was severely affected by the high cost of financing and a 20% devaluation of the Jamaican dollar during the year which reached in excess of forty dollars to one United States Dollar at its peak. In addition, the flood of imports at reduced rates of duty under the Common External Tariff regime made our gas stoves uncompetitive. As a result, the decision was taken to discontinue manufacturing the product. The write-off of obsolete stocks resulted in significant losses.

As part of a restructuring exercise undertaken in the second quarter of the fiscal year, a significant number of management, clerical and production workers were made redundant. An ongoing programme to reduce costs and trim overhead expenses continues which will place the Company in a better position to compete in the global marketplace. Contemporaneously, plant and equipment is being upgraded and retraining of certain categories of staff is underway.

The year under review, therefore, reflects the full cost of this restructuring exercise but the benefits will accrue in the future. Other initiatives to improve profitability including more emphasis on marketing and customer service, developing new products and markets and more cost effective ways of producing existing products are receiving top priority.

On a positive note, I am pleased to report that the reorganization of the Building Products Division early in the fiscal year, under the leadership of Operations Manager - Paul Barber, has resulted in considerable improvements in output, quality, turnaround time of orders and importantly, customer satisfaction.

Mr. Desmond Creary replaced Mr. Simon Roberts as General Manager of the Company in January 1996.

FUTURE PROSPECTS

Results for the first quarter, already published, show sales ahead of the previous year by 8% although short of budget by 7%.

The year ahead will undoubtedly continue to be difficult bearing in mind the uncertainties in the economy as well as the moribund state of business generally.

There are however, some encouraging developments which have taken place recently that could result in an easing of the pressure on margins. Firstly, an approximately 12% revaluation of the Jamaican Dollar should have a positive effect on domestic inflation and should serve to reduce import costs and increase consumer demand. Secondly, the recent reduction in the Government of Jamaica Treasury Bill rate to near 30% has resulted in a reduction in commercial paper interest rates to 36%. Significantly, commercial bank interest rates remain unchanged. On the other hand, the revaluation of the Jamaican dollar is proving a deterrent to export sales by virtue of domestic operating costs continuing to increase while export earnings in Jamaican dollars decrease.

A cause for some concern is the effect that the rapid reduction in interest rates may have on the value of the Jamaican dollar.

The challenges of the year ahead are formidable but I am satisfied that with everyone performing at their optimum, the Group will gain market share in all product areas in which it is involved.

APPRECIATION

I take this opportunity of thanking all our Directors for their valuable service and unstinting support throughout the year. I am particularly grateful to all employees throughout the Group for their loyalty, effort and contribution to the year's performance.

Finally, I extend our sincere thanks and appreciation to all our customers, suppliers, bankers, auditors and others who supported us throughout the year.

Winston Mahfood
September 24, 1996