

Jamaica Producers Group Limited 1996

CHAIRMAN'S REPORT

1996 was a difficult year for your Group with profit before taxes of \$297 million as compared with \$533 million in 1995. The fourth quarter of 1996 was particularly difficult and the Group as a whole lost approximately \$150 million in that quarter.

Much of this loss was due to circumstances beyond our control - namely, very low banana prices in the United Kingdom; significant reduction in banana tonnage and quality due to the Marco flooding and the appreciation of the Jamaican dollar. All of these factors were concentrated in the last quarter, hence the losses in this quarter.

The impact of all these factors highlight the needs for cost reduction in the banana industry and a sustainable diversification programme. Your Group is continuing to give priority to both of these requirements.

DIVISIONAL PERFORMANCE

Bananas

The Banana Division is the flagship division of your Group and we continue to be fully integrated in this area with substantial operations in growing, shipping and ripening bananas. Performance in the various banana sub-divisions was mixed.

The three farms did not perform to expectation in both sales and profit. Eastern Banana Estates Ltd. [EBEL], in particular, suffered from low tonnage, and a quality outturn that, although acceptable, was below the targeted level.

These two factors, combined with appreciation of the Jamaican dollar and increases in wage rates which were above both the level of inflation and gains in productivity, caused the farms to record their first loss in four years. EBEL's performance was further hampered by massive flooding in November, the impact of which will carry over into the first half of 1997. EBEL and Victoria Banana Company are currently upgrading the existing levees and drains to minimize and ultimately prevent further flooding of the farms when there are the inevitable heavy rains.

As anticipated, our substantial investment in the ripening plant in the United Kingdom allowed us to perform well in the key areas of quality, service and cost reductions. The net effect was that, despite a difficult price picture, this section recorded a very good year.

This good performance was reduced somewhat by a loss in shipping revenues due in large part to the lower than targeted volume of banana exports from Jamaica - 89,700 tonnes as contrasted with the targeted 95,000 tonnes. It should, however, be noted that the 1996 tonnage was some 3.5% higher than the tonnage in 1995.

The United States of America, supported by four Central American countries, lodged a complaint before the World Trade Organization [WTO] designed to overturn the preferential arrangements for African, Caribbean & Pacific (ACP) bananas entering any country in the European Union [EU].

The preliminary ruling of the WTO panel was announced in March, 1997. The panel left intact the right of the EU under the LOME Agreement to provide tariff-based preferences to traditional ACP banana exporting countries, but it ruled against the specifics of the existing regime.

It is still too early to evaluate the full significance of the ruling as the report has not been circulated to the ACP countries. It does appear, however, that the existing preference regime will be modified with the likely outcome being a lessening of the preferential benefits we now enjoy. The net effect will be a further reduction in the returns to Caribbean banana growers.

The above suggests that whatever the final decision of the WTO, a viable future for the banana industry in Jamaica requires cost reduction. This means that with the Jamaican Government determined to prevent further devaluation and falling prices in the United Kingdom, we must increase our productivity and lower our costs per acre to guarantee the survival of the industry.

Your Group, with productivity per acre significantly greater than the average for the rest of the Jamaican industry, must still improve as we are still behind our counterparts in Central America. We have to continue the fight for the maintenance of the preferential regime while continuing to invest and reorganize to obtain the needed productivity growth.

General Produce

Sales of the General Produce Division increased in 1996 compared with the previous year. On the profit side, however, the performance was disappointing. The ethnic produce sub-section recorded losses for the first time in many years in both sourcing in Jamaica and sales through our Sunburst outlets in the United Kingdom and JPM [USA] in New York. We have, therefore, undertaken a substantial reorganization.

In the U.S.A., by mid 1997, we will have closed our marketing outlet and reverted to selling both our fresh and processed items through distributors. We do not intend, however, to leave the North American arena and will concentrate on building sales and profitability through improved quality and cost reductions in Jamaica and the judicious use of distributors on a national level in the U.S.A.

In the United Kingdom, we are requiring the leadership of Sunburst to focus on general produce and expect this section of the produce division to return to its normal profitability in 1997.

The traditional General Produce Division has, as expected, grown significantly in 1996 over 1995. The 57,000 sq. ft. packing house at Gillingham is now better utilized by increased throughput of product supplied by Dole and the growing volume of papayas and mangoes from Belvedere. The packing house has still to perform to its potential, however, and general produce suffered from flat prices in 1996. Profits in this section were positive, but below expectation and we expect to see growth in both sales and profits in 1997.

Agro-processing

Agro-processing is the major diversification thrust of your Group and currently consists of the Sunjuice line of fresh fruit juices and drinks produced in Wales, and the Jamaica Best line of seasonings, sauces, syrups, ketchup, snacks, canned goods and semi-prepared foods prepared in Jamaica.

The state-of-the-art juicing and packing facility at Sunjuice now supplies in excess of a third of the United Kingdom's requirements of freshly squeezed orange juice and supplies customers in continental Europe several times weekly. 1996 was a good year for both sales and profits at Sunjuice and fully justified our decision to close the loss-making Simply Citrus and Sunsations.

In early 1997, we became the sole owner of Sunjuice. Additional investments are planned for this factory after which sales and profits are expected to continue to increase.

1996 was a major development year for JP Foods located at the Bell Road complex in Jamaica. The chips and peeled green plant was installed and the plant refurbished. The snack foods produced are banana chips and plantain chips, both well received on introduction to the market. We expect to add a variety of chips in 1997 using our state-of-the-art continuous chip fryer. Our canned ackees and callaloo continue to be popular locally and overseas.

The introduction of our peeled green bananas has been exciting and its positive reception in the market place bodes well for our plans to introduce more "user-friendly" Jamaican products.

JP Foods did not, as anticipated, make a profit as we wrote off significant start-up costs and struggled with the expected teething pains. We anticipate growth in sales in 1997 and a much improved profit picture.

Imports

The Import division concentrated on its core business of imported tiles and ended the year with a modest profit. Current plans are to remain focussed on tiles and to only add products that we are confident will generate profits.

Investment

Interest income on our holdings of government securities and bank deposits made a significant contribution to trading profit. During the year, we acquired a block of Grace, Kennedy shares at an attractive price, increasing our ownership of that company to 8%. Due to the depressed state of the stock market, we also decided to write down our equity portfolio to market value at year-end.

ESOP

1996 saw the introduction of an ESOP (Employee Share Ownership Plan) for all Jamaican employees of JP Group. Shareholders will remember that a resolution to permit the formation of an ESOP was approved at the 1993 Annual General Meeting.

The programme was officially launched by the Prime Minister Hon. P.J. Patterson when he visited St. Mary Banana Estates on the occasion of their 100th Anniversary in October. To encourage participation, the Company offered an interest-free loan to staff, repayable over two years. The Company provided loans up to 5% of the individual's previous years earnings and no employee was allowed to purchase more than 2,000 shares. The offer has been successful with approximately 40% of our eligible employees applying for shares. We will continue to encourage employees to participate at the next offering.

CORPORATE CITIZENSHIP

Environmental management, particularly the proper use and disposal of pesticides and plastics, continues to be of great concern to your Group and we are always exploring ways to make improvements in this area.

We plan to implement new Environmental Management Systems (EMS) which will incorporate solutions to improve the environmental performance of the farms and the factory at Bell Road. Our aim is to become ISO-certified to conform to international standards.

1996 saw the introduction of the Chairman's Trophy to be awarded to the JPG property for the best Property Enhancement Project. This competition was inspired by the beautiful hedges that adorn the out-skirts of SMBE giving a great deal of pleasure to passers-by. The idea was the brainchild of their Quality Control Department, and has received overwhelming support from the entire SMBE family with planting and tending taking place on days when there is no harvesting on the estate. The project emphasises the importance of the relationship between people and their environment and the well-cared surroundings can only impact positively on the attitude of the community.

Your Group maintained its interest in education through grants to the University of the West Indies and scholarships tenable at that institution, our programme with the College of Agriculture, our special programmes with the schools farm programmes in St. Mary and our support of the varied charities.

In the health sector, we continued our support for hospitals and pledged long-term support for the Sickle Cell Unit at the University Hospital of the West Indies.

ACKNOWLEDGEMENTS

1996 was indeed a difficult year and 1997 will perhaps be equally so, bearing in mind the local and global economic climate. However, your Group has weathered difficult periods before and I am confident that we will continue to do so.

I would like to thank my fellow directors for their support and commitment throughout the year. Together with our staff we continue to work toward maintaining our competitiveness both locally and internationally. On behalf of the Board of Directors, I would like to congratulate management and staff for their efforts in 1996.

C.H. Johnston
Chairman

April 3, 1997
