

CARIBBEAN METAL PRODUCTS 1997

Stockholders Report

INTRODUCTION

CMP Group performance for the year under review was disappointing, as is clearly shown in the financial results. This performance was against a background of business in general and particularly with manufacturing having to battle with an economy that is in a state of flux, showing no signs of real dynamic growth.

The Government's macro-economic policies of reducing money supply, stabilizing exchange rates and lowering inflation has led to economic contraction, forcing many businesses to right-size with the inevitable consequences of redundancies and some closures. Of particular note is the fall-out in the Financial sector and their need for significant financial support in order to survive.

The country recorded a massive US\$764m trade deficit for the first six months of this year compared with the same period last year. This comes against the background of increasing imports and declining exports, particularly in manufacturing, agriculture and in the garment sectors. Even tourism is coming under increased pressure. The country can no longer continue to rely on tourism receipts, remittance and capital flows to maintain exchange rate stability. What is needed is a comprehensive strategy to restore the productive and export sectors to health while seeking to increase the flows from other sources.

Our Group recognises the severe challenges ahead in this depressed economic environment and the need to do things differently if we are to grow and increase value to stockholders.

FINANCIAL PERFORMANCE

The Group recorded sales of \$402,886,000, 9% down on the previous year. Pretax profit of \$10,477,000 was markedly down on the \$25,384,000 recorded in the previous year. As a consequence, profit attributable to stockholders decreased by \$14,907,000 to \$4,353,000 and fully diluted earnings per share declined by 55 cents.

FINANCIAL POSITION

Stockholders' funds increased by \$7,710,000 to end the year at \$131,109,000. 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.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended April, 1997.

VALUE ADDED

Value added from operations increased by 3% to \$141,880,000 in the financial year, while distribution to employees increased by 21% to \$110,502,000. The value added per employee increased by 9% to \$413,578 based on year-end manning levels.

EXPORTS

Group exports declined by \$15,208,144 to \$9,271,414. It is expected that this negative trend will be reversed in the current financial year as already firm export contracts are in place for shipments in excess of the figures for year ended April 1997.

CMP ELECTRIC LIMITED

The Company recorded sales of 8% ahead of the previous year, with profit before tax up by 6%. Management continues to pursue its strategy of expanding the variety and range of products offered with a view to providing better services to all customers. However, competition remains extremely intense.

We have embarked upon a strategy of expanding the business by opening retail stores at strategic locations throughout the island. The first store, "Illuminations" which opened in November 1996, operates out of Courts Jamaica Limited, Heritage House location on Constant Spring Road in Kingston. The second store which we opened in September 1997 is located at Church Street in Montego Bay. A third store is in the planning stage and is expected to open in November 1997 at the Challenge Centre and Market Place, Kingston.

These new stores present a tremendous opportunity for expanding the scope and range of the business. It is expected that sales growth and profitability of the Company will improve significantly.

CMP METAL PRODUCTS LIMITED

This subsidiary recorded a very disappointing year in which gross income declined by 24% and a significant loss was recorded.

The Engineering, Appliance and Mirror Division suffered from low levels of activity in the face of stiff competition from imports. This has had the effect of squeezing margins and threatening the viability of some product lines. In order to broaden the base of operations, the Company has embarked upon trading in products that complement its existing range. Such products included aluminium ladders, steel doors, gas stoves, steel shelving, hurricane shutters, acrylic blocks and sheet glass.

Our Building Products Division, although faced with a downturn in the building industry, has weathered the economic depression much better and has registered increased sales over the previous year. An encouraging note for the future is the Company's investment in machinery and raw materials for a new range of uPVC windows and sliding doors. The expectations are that this product will do extremely well on the local market and also has significant export potential.

The management of the Company is fully cognisant of the difficulties ahead and the urgent need to turn around the Company. As part of this process, there is an on-going exercise to examine overheads, reduce costs, utilise inventories more effectively, change product mix and to improve quality and efficiency. This has been backed by a strengthening of the marketing department and a re-directing of the image and visual recall of the Company and its products with the launch of a new marketing campaign.

Other steps taken to improve sales and the exposure of the Company's products was the opening in September, 1997 of a shared retail outlet and showroom with CMP Electric at Church Street in Montego Bay. A second shared outlet is in the planning stage and is expected to open in November, 1997 at the Challenge Centre and Market Place on Constant Spring Road.

The task of turning around the Company will not be easy, but the Management team and Directors are committed to seeing it through to its conclusion.

CMP CONSUMER PRODUCTS LIMITED

The Company ended the year with a profit, although marginally down on the previous year.

Performance was moving at a rate far in excess of that of the previous year until operations came to an abrupt halt on 16th October, 1996 when a fire of unknown origin totally destroyed the finished goods warehouse and a significant part of the raw materials inventory. The building and contents were covered by insurance and the total claim including consequential loss has been fully accepted by the insurance companies. Sincere appreciation must be extended to the Management and Staff, the Fire Brigade and to Fire Consultants from Desnoes & Geddes Limited who worked tirelessly to contain the fire and prevented it from spreading to the plant and machinery and other areas of operation.

The challenge for the future is to regain the lost momentum and market share which fell away as a result of the fire. This process will be assisted by the recently introduced "state-of-the art" packaging equipment which will individually wrap sanitary napkins. Keen attention will also be focused on the export market which should become more accessible with products from the new machine.

CMP SALES LIMITED

The Company had a very difficult year which saw turn-over increasing by 9% but performance ending at near breakeven.

Competition from informal traders and importers remains intense. It is extremely challenging for a structured Company such as CMP sales to compete with the cost breaks these trader are able to offer as a result of the informal nature of their business. As a result, the Company is continuously looking to reduce overheads, streamline operations, increase inventory, turnover and to buy more keenly. Of disappointment was the closure of our Mandeville store in February 1997. Performance simply did not live up to expectations. However, the Company has remained undaunted with its expansion plans, hence new outlets have been opened in Montego Bay and St. Ann's Bay.

Another set-back was experienced in May of this year when the store in Savanna-la-mar was severely damaged and looted when rioting occurred. Refurbishing was quickly completed and the store is now back in operation.

The future of this Company remains an uphill struggle. Management recognises the need to be innovative and that every creative tool at its disposal must be applied in order to return the Company to an acceptable level of profitability.

FUTURE PROSPECTS

The disappointing performance of the Group continued into the first quarter of the new fiscal year with both sales and profits down. This situation will be further aggravated as there are signs of a slippage in the exchange rate and a noticeable increase in interest rates.

In my new position as Group Managing Director, I fully recognise that urgent and drastic action is needed to reverse this downward trend. The Group is in the process of preparing an indepth business plan which will speak to a short-term immediate action plan for turn-around and a longer term strategic plan which will chart the direction into the 21st century. I am determined that the Group reaches a new level of creativity, innovativeness and dynamism that will break us from the pull of the depressed economy. Only then will we see our way on the path to improved growth, profitability and increased value to stockholders.

CONDOLENCES

The late Mr. Winston Mahfood, Group Managing Director, passed away peacefully on July 7, 1997.

On behalf of the Board, Management and Staff, we recognise the sterling and unstinting service that he gave to the Group for over 25 years and offer our sincere condolences to his wife, Joy, and other family members.

APPRECIATION

I would like to take this opportunity of welcoming to the Board Mrs. Joy Mahfood and Mr. Neville Scott, who were both appointed at a meeting of the Board of Directors on July 17, 1997.

I would also like to express my sincere appreciation and gratitude to our hard working Directors for their counsel and support throughout a most difficult year, and to our loyal and dedicated employees. Finally, a big thank you is extended to our customers, suppliers, bankers, and auditors for their continued and valued support.

GEORGE KHOURI
September 29, 1997
