

# Jamaica Broilers Group Limited 1997

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## CHAIRMAN'S AND PRESIDENT'S REVIEW

The 1996-97 financial year under review presented many challenges and opportunities for the Group. Although turnover and net profit attributable to shareholders were up this year, the decline in Profit before Tax and Extraordinary Items indicates the pressure that we are under to become internationally competitive.

International prices for corn during the past year have declined from a landed cost of \$9,100 Jamaican a tonne at the beginning of the year to \$6,000 a tonne at the end of April 1997, and is expected to remain at around that level. Smaller reductions in the prices of imported Soya Bean Meal and Wheat Middlings have also helped to reduce the cost of our animal feed and finished protein products.

During the year, the rate of inflation in the Jamaican economy was controlled to just under 10% and, with declining interest rates on local short term funds have been a welcome change from the high inflation, high interest rate economy, under which we have operated during the last few years.

### **Financial Results**

The financial year 1996/97 consists of 53 weeks - the additional week is to compensate for the one day short fall (2 days in a leap year) in our standard

financial year of thirteen four-week accounting periods.

### **Turnover**

Turnover for the year under review was \$4,826.8 million, a 13.4% improvement over 1995/6.

### **Group Profit Before Taxation & Exceptional Items**

Group Profit before Taxation and Exceptional Items however fell from \$267 million in the previous year to \$243.8 million, equivalent to a reduction in profit margin from 6.27% to 5.05% for the year.

### **Exceptional Items**

During the year, it was decided to write off bad debts of \$18.9 million. The impact of this was however substantially offset by a realized foreign exchange gain of \$15.2 million, as the exchange rate strengthened from \$39.41 Jamaican per 1 US dollar at the beginning of the year, to a rate of \$35.24 per 1 US dollar at the end of the year.

The revaluation of the Jamaican dollar and the relative stability of the currency was a welcome change from the previous year when the company incurred a foreign exchange loss of \$51 million.

### **Loan & Bank Interest**

Loan and Bank Interest of \$185.9 million was almost double the previous year's \$95.7 million.

### **Share of Profits in Associated Companies**

Our share of profits in associated companies increased from \$15.0 million in the previous year to \$37.7 million, reflecting the positive impact of our strategy of investing in overseas operations and in merchant banking.

### **Taxation**

The Group Tax charge reflects the benefits we derived from our tax exempt status for our fertile egg and crop productions operation at Jamaica Poultry Breeders Limited, our production operation of fresh water fish at Aquaculture Jamaica Limited and our proposed 2 for 5 bonus issue of shares, which is subject to shareholder approval at the next Annual General Meeting.

#### **Net Profit Attributable to Stockholders**

The Net Profit attributable to Stockholders of the holding company for the year of \$214.0 million, was \$28.1 million above that for the previous year. equivalent to earnings per stock unit of 53.29 cents, compared to 46.28 cents for last year.

#### **Dividends and Bonus Issue**

As promised at our last Annual General Meeting, your Directors have again carefully reviewed our dividend policy. We continue to feel that it is wise and prudent to maintain our present policy of paying cash dividends of approximately twenty per cent of our annual after-tax profits.

During the year, the Directors declared two interim dividends totalling J\$42.162 million, representing 10.5 cents per stock unit on 401.544 million units (prior year J\$37.0666 million representing 9.2 cents per stock unit on 401.544 million units).

The directors have recommended a bonus issue of 2 stock units for each 5 units held, to be paid out of retained earnings. This requires the approval of our stockholders at the Annual General Meeting.

#### **Master Blend Feeds**

During the first half of the year, the quality of corn available to us was poor because world stocks of corn reached critically low levels. When the new corn crop became available to us in September 1996, the quality was much improved and this resulted in our being able to produce better quality feed and therefore, achieve greater efficiencies in our grow-out operation.

We completed the electrical and computer upgrading at the Feedmill, improving production efficiencies. With four feedmills now competing for market share of a static or reducing market, we have moved a greater part of our sales directly to farmers and feed stores, with a decline in the tonnage sold through the traditional distributor system, again improving efficiencies for our end users. Our challenge in 1997/98 will be to protect and expand our share of the market.

Master Blend feed mill staff have also worked rigorously to reduce the cost of ocean freight for the imported ingredients, and have achieved a reduction of almost US\$5 per tonne, during the year.

### **Best Dressed Chicken**

During the year, production of broiler meat was increased by just over 1 million kilograms (3.4%) (from 32.4m to 33.5M). With the reduction in the cost of raw materials for feed and the improvement in corn quality mentioned previously, feed cost per kilogram on broiler meat was reduced by 10%. In December 1996, the Processing Plant started to operate on two shifts, which removed one of the constraints to increasing production volumes. The lease of additional hatchery capacity has also relieved the constraint of available chicks.

### **Jamaica Poultry Breeders**

This year saw the first pullet grown house upgraded to an environmentally controlled "Black-out" operation which has already shown beneficial results. The poor quality of grain during the early part of the year had a negative effect on breeder flocks, but this has been overcome with the present improved quality of our feeds.

### **Content Agricultural Products**

This year Burger King announced that we were approved as a world supplier of meat products to their franchises. This has opened up potential markets in the Caribbean and possibly some South American markets. As volumes of value-added products expand, the investments made in Content should show significantly increasing returns

### **Aquaculture**

Production at Aquaculture increased by a significant 60% this year. More efficient use

of the water resource and mechanical aeration systems contributed to the increase. Our exports of fish continue to find good markets in the United States, Canada and the United Kingdom.

#### **Hi Pro Farm & Garden Store**

Investments were made during the year in the Farm Store operations in order to enable us to improve the service to the farming community. A new pharmacy has been built which will soon be in full operation, along with a new laboratory facility which will be one of the most advanced in the Caribbean. The laboratory facility will deal with animal health diagnostics and will soon be available to serve external customers.

#### **Jamaica Eggs Services**

Jamaica Eggs continues to be the only supplier to Jamaican egg producers with ready-to-lay pullets. This year 290 thousand pullets were sold to our valued customers, an increase of 4% over last year.

#### **Information Systems Division (ISD)**

Approval has been given for our ISD division to implement a new Windows-based accounting software program for the Group on a phased basis. This will overcome the problems in the information systems industry with the arrival of the year 2000.

Implementation will commence with a pilot project, during which time a feasibility study will be completed on the development of a more centralized accounting operation for the Group. This new program will also improve management's access to timely and relevant information data.

Last year, we announced the centralization of our marketing, sales and distribution of our protein products (chicken, beef and fish) under a new division called "Best Dressed Foods".

Significant investments have been made in upgrading and expanding our refrigerated trucking fleet. This is the first step in our aim to be the best supplier to the retail and food service industries in Jamaica and to strengthen our position in the market place against competition.

A new team of telereps has been put in place and training and development of our front-line staff has been part of the programme. This team has direct computer access to inventories, and as sales are made inventory records and receivables are updated.

Our first on-line customer service has also been implemented, whereby order supervisors in our customers' stores can access our inventory records and place an order which is printed in our office.

These and other steps have been taken towards improving customer satisfaction.

#### **INTERNATIONAL OPERATIONS AND BANKING**

West Indies Nutritional Corporation  
Kingston Freezone

And WINCORP International Inc.  
Miami, Florida, U.S.A.

Our strategic advantage in being able to ship in and out of the freezone, along with purchasing relationship skills developed by the Wincorp team, has kept our Company growing in the premix business against competition from the biggest multinationals in the grain and feed business.

As a result of the agricultural seminar Wincorp International Inc. hosted last year, Surinam, Guyana and other areas have emerged as real prospects for new and expanding business.

The team's performance at Wincorp International Inc. was outstanding, as sales grew by 27%. Now over 50% of our sales are made to customers outside of the Group. This is one of the objectives that justified the investment of setting up a purchasing arm outside of Jamaica.

As we grow in the service of meeting the needs of other poultry producers in the Caribbean and Central America, other benefits will flow through sharing of technology, the selling of feed ingredients, and the synergy of supplying fertile hatching eggs.

#### **International Poultry Breeders LLC**

**Norman Park, Georgia, U.S.A.**

As it became more evident that the operations required further expansion to support the management and facilities that have been put in place to guarantee high quality production, Avian Farms Inc., our joint venture producers, felt that Jamaica Broilers Group had much more to gain than they did. Consequently, there has been a further change in the ownership structure of this operation. Our Group now owns 90% and Avian Farms Inc., 10%.

Further, the supply of fertile hatching eggs to our hatchery is, to us, one of the life lines of our operation and the supply of hatching eggs to broiler operations in the Caribbean and Central America through Wincorp International Inc. provides strategic synergies for the growth of our feed ingredient operations carried out by West Indies Nutritional Corporation in the freezone.

These important reasons have led to our increasing our investment in International Poultry Breeders with the consequential reduction in Avian's investment. We have nevertheless retained a good working relationship with Avian Farms Inc., which may in the future provide an additional opportunity for the expansion of other international operations.

**Pershore Poultry Ltd., Pershore,  
Worcestershire, U.K.**

The major expansion of the processing facilities at Pershore Poultry in the U.K., at an estimated cost of 1.5 million pounds, will be completed in October, 1997. On completion, the production capacity will be increased from 4,000 to 6,000 birds per hour, and will allow us to increase our customer base. More importantly, we will have a production facility at an approved standard for supplying the major retail chains and secondary supermarket chains in the U.K., which is strategically important in order to achieve higher and more stable prices for our products and to ensure the future success of this operation.

Pershore still has a minor percentage of the total U.K. market, which offers us the opportunity for growth. We have developed a "Whole Grain" chicken product to better access the top tier supermarket chains.

There is excellent quality management in place at Pershore Poultry, and our Jamaican

operations can benefit from the transfer of technology and management skills. We continue to enjoy excellent relationships with our joint venture partners, SJD Humphrey Holdings Ltd., and we remain confident of our continued growth and success in this venture.

#### **JABEXCO Ltd. - Exports**

Jabexco this year, has been negatively affected by the revaluation of the Jamaican dollar. Volumes of exports increased but dollar sales were flat and margins reduced significantly. However, fish sales increased significantly in volume and our export operations continue to be a valuable earner of foreign exchange. This year, for the second time, Jabexco won the Governor General's award for Exports.

#### **Capital & Credit Merchant Bank Ltd.**

This associated company, of which Jamaica Broilers Group owns approximately 20%, continues to do well, providing services to other financial institutions, the corporate community and the general investing public.

Last year we were able to report that in the 3 years since its inception, Capital & Credit Merchant Bank had grown from being the smallest Merchant Bank in Jamaica to the position of fourth largest and among the top five in profitability.

This year we are able to report on its continued growth and success. It now has assets under management of over J\$7 billion and was, in its last financial year which ended on December 31, 1996, the second largest Merchant Bank and the most profitable.

#### **LOOKING FORWARD**

For the past three years, our focus has been on international competitiveness, customer satisfaction, the motivation and productivity of our staff and the development of new products. Again this year, as we have considered the Jamaican economy, the environment in which we live and the changing nature of global trade, our focus remains the same; hence our 1997/98 number one objective is:

"to secure our future, we must achieve customer satisfaction through a motivated and productive workforce committed to international competitiveness and the development



of new products.

Achieving customer satisfaction will come through our investment in Best Dressed Foods, which is geared to providing better service to our customers. It will also come through the development of new products which is underway. These products may start out as a small percentage of our total volumes, but they will grow to represent a major share of our sales to the supermarket, hospitality and fast food industries.

We continue to improve existing benefits to our staff and contract operators, and to embrace the challenge of ensuring a motivated and productive work force.

We have also committed ourselves to international competitiveness and the development of new products, and we believe that these initiatives will keep our Group of Companies vibrant and successful.

It is no small thing for a Company like ours to be involved in global trade and to be developing new products that can have a positive impact on our poultry, beef and fish production operations with opportunities for development in the U.S.A., Canada, U.K. and elsewhere.

We remain committed to using our energy and abilities for the well-being of our shareholders, customers, employees, contractors and the community at large.

Dr. David M. Wildish  
M.B., B.S. (Lond.), C.D., Chairman

Robert E. Levy  
President & CEO

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