

# CARRERAS GROUP LIMITED 1998

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## Chairman's Statement

Despite the recession which continued throughout the year under review, our Group was successful in achieving an increase in profit before taxation of 21% over the previous year (J\$2.646 billion compared to J\$2.183 billion). Exceptional items of J\$75.25 million include the cost of further restructuring of the agricultural operations and overseas market development costs.

Variation in the rate of exchange between the Jamaican and U.S. dollar resulted in a gain of \$48.2 million (1997 - loss of \$144 million).

Despite reduced interest rates, interest and investment income of \$1.133 billion slightly exceeded the previous year - \$1.132 billion.

Profit attributable to stockholders amounted to \$1.804 billion (1997 - \$1.543 billion) and earnings per stock unit of 743.5 cents (1997 - 635.7 cents).

### **MANUFACTURING**

Cigarette Co. of Ja. Limited

I am pleased to report that in spite of the many difficulties intrinsic to the overall state of the economy and, in particular, its effect on sales volumes, our core business was successful in achieving an increase in its profits over the previous year. These results speak for themselves of the successful efforts at cost controls and efficiencies which are absolutely essential to sustain any business enterprise exposed to constant inflation, depreciation in real money value and the increasing threat of external competition.

This will continue to underlie our Group's policies and strategies as we strive to maintain and improve the value of our shareholders' investment in Carreras.

Following upon the decline reported for the year 1996/97, cigarette sales suffered a further volume decline of some 3% during the year under report consequent upon the price increase effected in mid-March 1997 and the continuing pressures on consumer disposable income. Although this had been predicted in my report to you last year the figure is modest compared to that suffered by so many others in many manufacturing industries throughout the country, and any reduction in the consumption of our products is obviously a cause for concern and a signal for energetic pursuit of new strategies and efforts.

In this regard plans were concluded for a new and improved sales and distribution system to ensure optimum service to our domestic customers; and a programme involving a major financial commitment, was initiated to launch and establish our brands in Trinidad and elsewhere in the Eastern Caribbean.

I am pleased to say that our earliest reports, within weeks of the formal launch, are that our brands are already achieving a significant presence in the Trinidad market.

You may be assured that these and other such efforts to stem decline, optimise sales and control costs, will continue to be vigorously pursued. Ultimately, however, the level of success in our future trading will be largely determined by the future course of the Jamaican economy and international competitive pressures which will come to bear.

#### **Jamaica Biscuit Co. Limited**

Overall, our biscuit business performed creditably during the past, difficult year during which the pressures of competition from imported products increased significantly even in the face of ongoing decline in the domestic economy.

Sales - both domestic and export - increased modestly in terms of volume and of value over the prior year, as did the company's contribution to Group pre-tax profit. These results are partly attributable to plans and programmes to which I made reference in my report to shareholders last year, as well as others developed and in the course of further development since that time. Our reciprocal manufacturing arrangement with a prominent Caricom producer has worked smoothly to our mutual benefit; there has been noticeable improvement in product and packaging quality; new plans for domestic distribution and merchandising are already being implemented; additional export sales/marketing initiatives are beginning to show results, particularly in the North American ethnic Jamaican population centres.

Though these comments accurately reflect your Board's captious optimism at what has been achieved during the year under review, it is still my duty to remind us all that, as in the case with our cigarette business, the present and future continues to be fraught with national and international economic difficulties of great magnitude which we must continue to face with determination to succeed, regardless of the inevitable set-backs and disappointments which may be encountered.

#### **Print Division**

This smallest unit of our Group has again succeeded in achieving a modest level of profit in a sector which has particularly suffered the effects of both overseas competition and the closures of smaller local enterprises among its historic clientele.

#### **Agricultural Products of Jamaica**

The revised approach to tobacco growing, through collaboration with independent contract farmers to which reference was made in my 96/97 Annual Report has proved to be as successful as we were at that time anticipating. A year-end technical review of the crop in the ground due to mature in 1998 evaluated the likely yield in terms of both volume per acre and quality as among the best previously seen in Jamaica, while costs are being contained and farmers' potential returns improved.

Subject, always, to the vagaries of nature to which all agricultural undertakings are exposed, we are confident that we are on the right track now and for the foreseeable future.

#### **TOURISM**

Sans Souci Hotel

Regrettably, I must report that the results for the financial year under report fall far short of our expectations.

The unexpectedly poor results are attributable to a combination of factors. The level of exchange rate between the Jamaican and United States dollar has continued to set the country at a price disadvantage against many international competitors. The collapse of many Asian bloc economies caused a massive erosion in our historically buoyant Japanese market. Increased competition within the Caribbean region, lowered the occupancy levels which ultimately govern profitability in this industry. The simple knowledge that there would be construction taking place on the property - regardless of the minimal

inconveniences it actually created - was sufficient to discourage business that would otherwise have gravitated to Sans Souci. Finally, the strategy of major price cutting adopted by some of our competitors had the effect of reducing occupancy at our hotel and further eroding the already narrow margins.

The hotel construction project which has added 36 suites to the previous total of 110 suites together with a number of new amenities, has been successfully completed and further enhances the qualification of Sans Souci for international rating among the best resort properties worldwide. The Japanese market collapse has led to new successful strategies for attracting North American based clientele at levels never achieved before; occupancy forecast based on forward bookings for the current year appear more favourable than last year; and our company has taken steps to participate and monitor more actively the policies and plans for Sans Souci as they are developed and implemented by the organization with whom we are contracted for the management of the business.

We have good reason to expect the hotel to produce, in the forthcoming year, a more favourable return on the capital we have invested in it.

#### **DIVIDENDS**

The Directors have declared and paid interim dividends totalling \$0.85 per stock unit and will recommend for approval at the Annual General Meeting a final dividend of \$0.65 per stock unit (less income tax). Total dividends for this financial year will cost \$364.080 million.

#### **FUTURE PROSPECTS**

There is little I can add by way of commentary on the future prospects of the Group to what has been already said in respect of our various operations and the results achieved during the past financial year.

We anticipate a further year of tough economic circumstances and difficult new challenges as our country seeks to identify and implement national policies which will enable Jamaica to survive and prosper in a new and rapidly changing world. The degree of success achieved at that level will ultimately determine the scope of opportunity available to each business and each individual within our society.

The year ahead is going to require a combination of imaginative planning, financial resources, sound business judgements, rapid adjustments to change as it occurs and the will and determination to apply them all.

Your Group is as well positioned as any in the country to meet the many challenges we foresee and commits itself to continue safeguarding and enhancing the investment which our stockholders have made in Carreras as it has successfully done throughout its history.

#### **Management & Staff**

No Company can achieve results beyond the level of performance of those who comprise its management and staff In expressing our appreciation to all those who worked in our Group during this past difficult but successful year, I must certainly include the late Mr. John D. Hall - our Group Chief Executive Officer - who sadly passed on in early February of this year.

I wish to pay particular tribute to our management and staff who took this traumatic event in stride and who ensured the smooth on-going operations of the Group from the date of his unforeseen illness in August of last year - often at great personal sacrifice and effort far further and beyond the normal calls of duty.

#### **Customers**

Most of all, I wish, on behalf of the Board of Directors, management and staff to express our appreciation to our many customers for their loyalty and support to our brands and services.

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