The Jamaica Livestock Association Limited 1997

Management Report

In many respects, the year under review was an eventful one for the Jamaican society, and industry and commerce in particular. The attention of the nation was to a large extent focused on electoral matters leading up to the general elections in December.

The country witnessed an inflation rate of 9.2%, which was the lowest since 1988. Interest rate on Government paper also fell to a low of 17% but climbed to 29% toward the end of the year, in an attempt to defend the local currency, which closed the year at a rate of some J$36.3 to US$1, as compared to a level of $35 at the beginning of the year. Importation of goods continued to rise at a level that was troubling, while exports declined, resulting in a wider trade gap.

The debate continued about the appropriateness and effectiveness of Government's monetary and fiscal policies and some amount of consensus appeared to be building with regards the necessity to adjust the interest rate policy. Notwithstanding, Government tightened monetary policy during the year. Several financial institutions suffered a huge build-up of non-performing loans and were forced into organisational and financial restructuring, in order to correct the effects of imbalances between long term assets and short-term liabilities.

In other areas of commerce and industry, high interest rates, recessive factors, reduced competitiveness, external forces and multilateral agreements continued to demand innovation and adjustment in our approaches to production and trade.

Our own industry has been suffering the effects of lowered tariff barriers and aggressive competition from imports of animal products - many of which were illegal.

Small countries such as ours will become increasingly at risk, as we try to adjust to new global or trade bloc patterns, unless we develop technological and other accommodation strategies to ensure survival.

Against this background, the business sector continues to suffer from the effects of high interest rates. More needs to be done by both Government and the Private Sector to ensure the viability of the commercial and business sector. In the medium-term, Government policy must be geared towards a sharp reduction in the cost of capital for business, which would encourage reduced operational costs and increased investments. At the same time, efforts have to be made to ensure that locally produced goods are not at a severe disadvantage to similar categories of imported items. In this regard, Government must ensure that it promptly reviews all the impediments to increased production.

COMMERCIAL OPERATIONS

Despite on-going problems in the economy, the Association had a profitable year. Sales for the Group were marginally higher at $518.7 Million, than the previous year's $503.4 Million, reflecting a 3% increase. Operational profit for the year before tax amounting to $4.6 Million, was down, compared with $13.7 Million generated during the 1996 financial year.

The company realised profits from sales of fixed assets and investments of $4.8M, which contributed to a profit after tax of $9.4M, for the year, in comparison to $15.2M in 1996.

Earnings per stock unit, adjusted for the rights issue of 40,000,000 stock units issued in January 1997, was 17.27 cents compared with 62.64 cents in the previous year. Proceeds from the rights issue in the first quarter of the year, as well as a reduction in interest rates during the year, resulted in lower financial charges, which helped to keep costs down by some $8.8M and generate a profit. Administrative expenses, including labour, rose above growth in sales, resulting in a reduced level of profit during the year.

The price of Soya meal, a major ingredient for feed production, rose significantly by mid year and remained high till year end and this resulted in higher costs of production of the product. Market conditions did not allow for recovery of this increased cost via selling price. In fact, some members of the competition were actually involved in strategic price cuts.

Examination of the consolidated balance sheet indicates a major turnaround in working capital for the group. This is due to the use of proceeds from the Rights Issue to reduce high cost short term bank loans and overdrafts. However the group increased amount in inventory from $76M to $93M. The improved working capital was achieved against the background of a reduction in long term liabilities from $72.69M to $65M and an increase in shareholders' equity from $169M to $229M at the end of the year.

In a market which is less than buoyant and has stiff competition, greater effort is being made to maintain public awareness and promote sales for all products.

COMPUTERISATION

Towards the end of 1997 the company embarked on a programme to upgrade its computing systems. Designed to give the Association a competitive edge, the improved automation will link all the branches in a comprehensive network, thereby affording better inventory control, on-line real-time information and better customer service. This, along with staff training, is expected to allow for better administration and management as well as prepare the company for the impending computerization transitions at the turn of the century.

ACKNOWLEDGEMENT

The Board of Directors would like to record our appreciation and thanks to our staff, Breed Societies and members of the Committees for their commitment and effort during the year, and to our customers and friends for their continued support and goodwill.

Dr. John Masterton
Chairman

Henry J. Rainford
Managing Director and
Chief Executive Officer