Jamaica Broilers Group Limited 1998

Chairman's and President's Review

The financial year 1997-98 was one filled with many challenges even as we marked the end of an era in our operations. Dr. David Wildish retired in November of last year after a career with the company spanning twenty three years, first as Managing Director from 1974 to November 1989, and then as Executive Chairman and then Chairman to November 1997.

Under his guidance and leadership, the company's poultry operations grew and diversified into both local and overseas operations.

We thank and honour him for his distinguished service and leadership that resulted in the company growing from a turnover of $9.4m in 1974 to $5,261 billion in 1997/98, and pre-tax profits of $509,984 in 1974 to $240m in 1997.

OVERVIEW

The past year has been one of the most challenging and difficult in our recent history. Despite a decline in our profits, the company still invested
$121 million in fixed capital in our production operations.

This has been a year in which Jamaica has experienced some of the largest failures in the business sector. Many large and small companies have collapsed under the high interest rate regime. With continued high interest rates and pressure on the consumer's purchasing power, your company continued to pay the high price for funds with interest cost of $190 million. We also continued to be challenged by rising costs, sluggish demand and increasingly stiff competition from imports in our domestic market.

These, however, were not the only pressures faced by your Executives and Directors.

The summer of 1997 was the driest and hottest in twenty years. This had a tremendous impact on the nation's agricultural sector, including our livestock operations. Frequent industrial unrests at our poultry processing plant were also a major negative factor.

The cumulative effect of the above challenges is that production cost in all our sectors increased, resulting in disappointing results for our shareholders. Despite this, we remained guided by our organizational mandate to become internationally competitive and committed to improving our internal efficiencies in order to produce high quality products at competitive prices.

While we faced the challenges of the year under review, we were greatly encouraged that a multinational such as Citibank expressed such confidence in our company by purchasing a significant block of shares. The Board of Directors and the Management team recognize this and every effort will be made to reward this vote of confidence.

We strive to achieve success against the background of continued globalization, recognizing that only the production of goods and services and the jobs that they create can be of permanent value to our country. We also realize that we must defend our efficient producers from the attack of unfair trade while maintaining a critical level of food self sufficiency and encouraging the economic activity created in rural communities by farmers and agricultural-based businesses.

FINANCIAL RESULTS

Our budget for 1997/98 which was aimed at achieving 5.7% growth in turnover over 1996/97 and increased profit of 12.5%, was based on the continuing confidence in the level of business skills, technical, production and marketing, which exist throughout our group of companies, and which are the foundation of our future success.

Turnover

This year, there was a 4.7% growth over last year's sales of $4.8 billion, 1 percentage point below our budget.

Group Profit before

Taxation & Exceptional Items

Group pretax profits are $155 million, a reduction from the previous year. In addition to the pressure in our poultry operations, we have experienced a reduction in profits in our UK operations. With the very strong Pound, imports from France have flooded the UK market, depressing prices. At the time of writing, prices have recovered and the operations have returned to profitability.

Balance Sheet Items

There is significant improvement in our net current asset position, moving from $118.2 million to $320 million. This is due to moving some of our short-term borrowings into a 3-year term loan.

Loans

Total loans have increased to $576 million, an increase of $147 million over the prior year. These loans were used to finance working capital requirements and capital expenditure.

Taxation

The Group Tax charge reflects the benefits we derived from our tax exempt status for our fertile egg and crop production operations at Jamaica Poultry Breeders Limited, our production operations of fresh water fish at Aquaculture Jamaica Limited and our proposed 1 for 7 bonus issue of shares, which is subject to shareholder approval at the Annual General Meeting.

Dividends & Bonus Issue

During the year, the Directors declared one interim dividend of $22.486 million amounting to approximately 20% of the after tax profits in continuation of their policy. This represented 4.0 cents per stock unit on 562,161,600 units. (1997; 10.5 cents on 401,544,000 units).

The Directors have recommended an increase in the authorized share capital from

$285 million to $325 million by the creation of 80 million new ordinary shares.

The Directors have also recommended a bonus issue of 80,308,800, being 1 stock unit for each 7 units held to be paid out of retained earnings. This requires the approval of our stockholders at the Annual General Meeting.

Co-Generation

This was perhaps the largest private sector investment in Jamaica in 1997/98. The project is a joint venture with ERI Services, a subsidiary of Equitable Resources Inc. of Hartford, Connecticut. The plant was designed to produce 15 megawatts of power, of which 12.1 megawatts is contracted to Jamaica Public Service Co. The excess, in addition to the thermal energy which is also produced by the facility will be sold to our poultry processing plant.

In October 1997, ground was broken for this facility and at the time of writing, the plant has commenced full operation and power is now being supplied to us at a reduced cost of 25% in keeping with our contractual agreement.

HIGHLIGHTS OF OPERATIONS

Master Blend Feeds

Master Blend Feeds achieved an improvement in performance for the year 1997/98 in several areas. The sales of feed grew by 5% over the previous year. Due to a decrease in world market prices, the cost of our ingredients was reduced by 7% per tonne. Our manufacturing efficiencies improved giving the Production Department a 14% reduction in cost. This was due to an improved production rate resulting in lower unit cost.

Our primary goal for the year 1998/99 is to further improve our plant efficiencies and reduce ingredient cost, combined with a 6% improvement in sales.

Best Dressed Chicken

The negative impact of summer 1997 was exaggerated in Best Dressed Chicken as it occurred when the decision was taken to increase our stocking densities in order to achieve greater throughput.

Our company's production was also less than expected because of the negative impact of 'new corn', i.e. corn which has not been dried properly and which therefore retains high moisture levels. Once stored in less than ideal conditions, for example in ships, mould grows very easily.

In addition, our poultry processing plant was hit by no less than 4 work stoppages after a year of negotiations for our 96-98 contract with the National Workers Union. As a result, our workforce was unsettled, our management frustrated and our efficiencies were poor.

A significant investment was made in the plant during 1997-98, with the construction of a new cut-up room, which gives us the ability to produce a line of fresh parts for the retail trade. Additionally, our contract farmers commenced a major upgrade of their poultry houses with the installation of new ventilation systems which will drastically reduce the negative impact of extreme temperatures. Already the results of these new systems show a significant increase in efficiencies.

Jamaica Poultry Breeders Ltd.

During the past year, the company continued to improve the ventilation systems of its production farms to combat the increasing heat stress felt by our poultry during the long hot summer. Equipment in the existing tunnel ventilation houses was overhauled and additional fans installed in our forced-air ventilation houses.

These improvements resulted in an appreciable reduction in our heat-stress related mortality and a consequent increase in the production of hatching eggs. A disease which affected two of our laying flocks, however, adversely affected our total projection of hatching eggs. The flocks recovered satisfactorily however, through proper treatment. Since then, our vaccination programmes have been revised to prevent any similar occurrence in the future.

Content Agricultural Products

The past financial year saw a major reorganization of Content where downsizing and relocations took place. Many of the decisions and actions, which determine the future success of the business, became evident during the year. The management has accepted and begun to implement the required changes and looks forward to good performances in all areas of the business leading into the new millennium.

Aquaculture

The year 1997/98 proved a challenging year for Aquaculture as the protracted drought caused by the `El Nino' effect affected production significantly, resulting in increased unit costs. Despite this, production increased by 13% mainly through additional aeration equipment purchased. Export sales continued to grow, increasing by 15% with new markets opening in Germany during the last quarter. Sale of processed fish on the local market increased by 19% as the retail sector showed strong growth during the year. This year's focus continues to be cost reduction for increased profitability.

Best Dressed Foods

The year saw many changes both internally and externally. The result of our efforts to refocus internally on average price, product mix and a general thrust to improve customer service can be seen in positive performance figures and the customer surveys. We also expanded our trucking fleet and went on an aggressive retraining program for our drivers and their assistants.

Some of the external changes taking place during the year included a continued tightening of the economy which placed pressure on the product mix, and our receivables.

A new line of 'Reggae Jammin', ready-to-cook products of chicken, beef and fish have been test marketed and are ready for launch in 1998.

The upcoming financial year holds many positive opportunities for BDF, chief of which is the continued development and launching of new products.

Hi Pro Farm & Garden Centre

The division, at the end of the financial year realised a turnover of $217 million, which was 22% higher than the previous year's sales. The categories that contributed significantly to increased sales were day-old chick and equipment sales.

The overall performance of the division has shown positive signs of growth which was achieved through improved customer service, increased advertising and continued practice of a competitive pricing policy and satisfying our customers' needs.

Jamaica Eggs Services

Jamaica Eggs Services continues to be the largest supplier of ready-to-lay pullets to Jamaican egg producers, controlling approximately 90% of the market.
During the period under review, we faced management changes at the senior level and competition from a new producer.

We focused on, and achieved significant improvement in the quality of our pullets and the services we provide, with real improvement in customer satisfaction. This was to our advantage, as we sold over 267,000 pullets.

Our challenge for 1998/99 will be to work in conjunction with our customers, the producers of table eggs, to defend local production against unfair imports and to serve our customers in such a way as to improve their profitability.

Levy Industries Information Systems

The major focus for 1997/98 was the Year 2000 plan and the selection of the optimum accounting and management information system for the new millennium.

The decision was taken to implement new accounting software at Wincorp (Miami) as the first Beta Site; however, due to financial constraints, and the development of tools to change our present system, changes in the remaining companies were placed on hold.

The focus was changed to ensuring the existing systems throughout the Group were Y2K compatible. The programme to achieve this is well underway and is constantly being monitored by the Executives.

The year also saw LIIS marketing the Gateway Line of personal computers, increased revenues from the Training Department and improved turnaround time in software development.

International Operations & Banking

WEST INDIES NUTRITIONAL
CORPORATION LIMITED KINGSTON FREE-ZONE & 'WINCORP
INTERNATIONAL INC. MIAMI, FLORIDA, U.S.A.

The financial performance continued to be strong with sales increasing by 9.3% and net profit by an outstanding 20.1%. We maintained our market position as a leader in the English speaking Caribbean and are poised for further expansion within the region. Despite the challenges of direct competition from large multinationals, who have shown increasing interest in the region and have actively employed strategies of catch pricing and direct sales, WINCORP was able to add a major feed manufacturing operation to its active customer base.

This operation has potential for not just raw materials and additives from the Kingston Freezone but from WINCORP International, including but not limited to fertile hatching eggs, farm equipment and animal health products. In addition, the relationships we have formed with industry leaders in Central America over the years have started to bear fruit with increased sales of fertile eggs and other products to that region.

Our efforts to widen both our customer and product base showed positive results as we were able to break into the highly competitive bauxite and alumina industry with sales of products ranging from safety equipment to computers.

International Poultry Breeders LLC
NORMAN PARK, GEORGIA, USA

With our increased new ownership to 90% came a change in breeder management, accounting and financial and administrative control.

New systems had to be developed and existing ones simplified to find innovative ways to reduce costs.

New challenges developed as plans were put in place to increase the performance of the company both operationally and financially. However, as the year progressed, an industry-wide disease developed forfeiting any chance for gain. A major shift in strategy took place in purchasing of breeding stock to neutralize the problem and to positively affect cash flow.

We plan to expand the operation by 100%, because of the strong demand from our Wincorp Miami customers in the Caribbean and Central America. This will change the economics of the whole operation.

Pershore Poultry Ltd.
PERSHORE,
WORCESTERSHIRE, U.K.

One of the highlights of our operations at Pershore during the year under review, was the expansion and modernization of the Plant at a cost of £1.6 million. This served to bring the plant up to the standard required to be able to supply major retailers in the U.K. The plant has now received the required approvals and marketing efforts are being made to move more of our product into this higher priced market.

Another significant factor affecting Pershore during the year was the oversupply of product in the market, which depressed prices for almost the entire year. U.K. producers expanded production in the wake of the beef scare, and European producers, notably in Italy, France and Holland, also overexpanded and exported their surplus to the U.K., further depressing prices. Most producers were operating at a loss for the period, and it was only in August '98 that we began to see a cutback in production leading to profitable market prices.

Jabexco Ltd.
EXPORTS

Although Tilapia sales in kilos were strong during the year under review, our sales of fillet to the U.S. and Canadian markets were at cost. This was mainly due to the revaluation of the Jamaican dollar. As a result of stability in the US dollar vis-a-vis the British Pound, we refocused our attention on the EU markets where competition was limited due to the market inaccessibility from South American producers and where pricing and fish consumption levels are more favourable.

Capital & Credit Merchant Bank

For the fourth consecutive year, our associated company, Capital or Credit Merchant Bank Ltd. achieved an outstanding performance, recording Net Profit After Tax of $121 million, 40.7% better than the $85.86 million for the corresponding period in 1996.

Total assets under management, which includes On Balance Sheet Assets of $3.498b, grew by 21.27% from $5.846b in 1996, to $7.090b in 1997. The On Balance Sheet Assets, of which 76% comprises Government of Jamaica Securities and 10% cash and deposits, grew by 15.98%, while the Off Balance Sheets Assets which combine Money Market Investments of $122.5m and Government of Jamaica Securities of $3.47b, grew by 26.86% from $2.83b in 1996 to $3.59b.

LOOKING FORWARD

As we look forward after our years of history, we see an exciting future.

We are committed to continuing the process of development and growth in our Company even as we make difficult adjustments and changes. We have faced the reality of globalization and the need to become internationally competitive. We will lobby defensively against unfair competition and perhaps most importantly, we will direct our energies and products in the areas of greatest market advantages.

We are confident that in spite of the major challenges that face us, our Company will continue to grow and be profitable during the coming years.

We have a team of experienced, energetic and determined managers, a highly motivated workforce, contractors committed to change and progress and a loyal customer base.

We also have by far the best production facilities for poultry, beef and fish in our region. We are convinced that with these assets and a firm commitment to our mandate of becoming internationally competitive, we will create a lasting and rewarding future for all our stakeholders.

Andrew A. Wildish
N.D.A.
Chairman and Joint Chief Executive Officer

Robert E. Levy
President and Joint Chief Executive Officer