Lascelles de Mercado & Co. Ltd. 1998

Chairman's Statement

GENERAL INTRODUCTION

In my last three statements to you, I expressed your Group's concern with the Government's high interest rate policy and its almost single-minded fear of its inability to generate the confidence necessary to maintain a reasonable exchange rate of the Jamaican dollar. Sadly, for a fourth year, I am unable to report any beneficial change. While the Government can properly claim to have contained inflation, as well as stabilized the exchange rate, this has been achieved at the expense of a continued, inevitable and predictable contraction of the economy, causing Jamaica to take a place among the world's worst performing countries.

Furthermore, my fear expressed last year, that the productive base itself of our economy was going to be threatened, is now becoming a sad and frightening reality. In the light of the continued absence of growth in our economic environment, and in contrast to many of the other significant players in our economy, your Group performed most creditably by virtue of adhering to its tested policies and concentrating on the essentials of its various businesses. This concentration is best evidenced by the reduction of our interest in West Indies Glass (W.I.G.) as a result of Ansa McAL Limited of Trinidad's acquisition of 60% of that company and in our relinquishing our shareholding in the Sugar Company of Jamaica Ltd. at a significant loss. The full write-off of this loss, to be seen in the financial results as an extraordinary item, is the sole reason for the Group's modest operating profit being converted into an overall loss for the year under review.

Apart from this extraordinary item, the small operating profit is an average of a number of creditably good results and a single, notably bad one, as I explain more fully below. Despite this, the working capital and debt to equity ratios of Lascelles, de Mercado remain very strong. We are more than ever committed to the pursuance of hard currency earnings from the development of our export markets, to the development of our Brands' equity locally and internationally, to the development of our human resources, to the continuous reengineering of all our business processes to improve efficiency and effectiveness and to the containment of the overall level of indebtedness of the Group - in short, to the improvement of the quality of our earnings.

CONSOLIDATED PROFIT & LOSS ACCOUNT AND BALANCE SHEETS

The Company's Balance Sheet and the Group's Consolidated Balance Sheet as at 30th September, 1998 are submitted as well as the Consolidated Profit & Loss Account for the year ended on that date, and the notes to those financial statements and the Report of the Auditors. Turnover for the year reflects a small decline compared to the previous year, primarily due to the reduction of revenue from sugar manufacture. Also compared to last year, the Group recorded a smaller profit attributable to the Members due primarily to the effects of the problems of the sugar industry on the Agro-Industrial (AGRI) Division. Profit after taxation but before extraordinary item also decreased when compared to that of the previous year. The extraordinary item relates to the loss of $85.9 million arising from the disposal to the Government of Jamaica, of the Group's 17% interest in the Sugar Company of Jamaica Limited towards the end of the financial year under review.

SUBSIDIARIES' PERFORMANCE

Under the prevailing economic circumstances, it affords me great pleasure to report that all the business Divisions of your Group improved on their profit results of the prior year, with one sugar-related, major exception.

Wines and Spirits Division

The Wines and Spirits Division continued to operate as the main financial backbone of your Group, increasing its profitability over last year. In the local market that has experienced several years of decline, the Division's achievement in increasing sales in both cases and dollars is pleasing. Overseas, Coruba Jamaica Rum has, for many years, been the leading rum and, indeed, spirit in the New Zealand market, and I am delighted to report that Appleton Jamaica Rum is now the leading brand of imported rum in both the Mexican and Canadian markets. These results are in no way windfalls; they represent the result of steady growth over the years and the fruition of very substantial investments of time, effort and money.

In recognition of the primacy of earnings quality, this Division's results have to some extent been moderated by the Board's decision to withdraw from the commodity bulk rum market in Germany and also to continue to hold prices in both the local and export markets to enhance our competitive position. The results have also been affected by the decision of some of our overseas distributors to reduce stock levels in their markets and our determination to increase our stock of rum being held for aging to meet the anticipated increase in projected export sales. Our development plans for the U.S. market have understandably been affected by the merger between our distributor International Distillers and Vintners and their parent company, Grand Metropolitan PLC, with Guinness PLC to form Diageo PLC. Despite this hesitation in our progress, the sales of our products continue to grow at an impressive rate in this market.

AGRI Division

1998 was another challenging year for the AGRI Division, a year which saw this division undertake the complete rebuilding of the mills at Appleton Estate to expand substantially its grinding capacity. This project took much longer than anticipated and delayed the start of the 1998 crop resulting in a radically shortened harvesting period. Therefore much less sugar was produced than was originally planned giving rise to a consequent reduction in revenue; to compound this, there was a further decrease in the export sugar price to J$ 16,700 per ton.

The management of the AGRI Division is now determined in 1999 to bring the sugar crop at Appleton Estate back in cycle; this saw the early start of crop in December coupled with plans for completion before the end of June 1999. Projections indicate that results will show some significant turnaround for the 1999 crop, but the full rewards from the mill rebuild will not be realized until after the start of the new millenium.

Insurance Division

While competitive activity in the insurance industry forced an unprecedented reduction in rates, the Insurance Division attempted to maintain its rates at existing, profitable levels. This strategy resulted in reduced premium income, although the Insurance Division had a credible performance increasing its profits over that of the previous year. Profits from investment activities were greatly assisted by the high interest rate regime, one of the very few areas where this regime operates to our benefit. The management of the Division has embarked upon a comprehensive review of their information systems to realize a new level of efficiency in their underwriting activities.

Food and Drug Division

The Food and Drug Division experienced modest growth in its sales volumes over the previous year. This Division has started slowly to benefit from the reorganization of management, and the reengineering of the business. However the full benefit of the changes effected during this year, will only be realized in subsequent years.

Automotive Division

The Automotive Division added significantly to its small profit in 1997. Marques such as the BMW 3 series and Ford F150 have been particularly good sellers for this Division, while Japanese marques have enjoyed very competitive pricing as a result of the weak Yen. As a matter of fundamental business strategy, this Division has redirected its focus to the provision of world class after-sales service. Plans are in place for the managerial and organizational changes that will be required to ensure that the excellence of the marques that we have the privilege to represent, is matched by the excellence of the service we can deliver their owners and our customers.

Other Subsidiaries

Ajas Limited, your Group's aircraft handling subsidiary, continues to operate effectively at both Jamaica's international airports. Despite an improvement in turnover for the current year, the forecast is that flight volumes will be flat, while cargo volumes will continue to decline; the company will therefore have to either seek new opportunities to increase revenue or rein in its expenses. To this end, it has already made a provision for anticipated redundancy charges.

Investments

The consolidated book value of the Investment Portfolio increased from $594,443,000 at 30th September 1997 to $648,315,000 at 30th September 1998. The excess of market value over cost of the Group's Quoted Investments increased from some $ 1,305 million to some $ 1,363 million at 30th September 1997 and 1998 respectively.

THE BOARD OF DIRECTORS

It is with deep regret that I record the passing of Mr. James Lindsay C.B.E. who served as a Director of your Company since October 1977 until his death in March 1999. Mr. Lindsay's good counsel and help on matters affecting the welfare of your Company were always forthcoming and he will be greatly missed during deliberations of your Board.

CASH DISTRIBUTION

Dividends on the 6% Cumulative Preference Stock and on the 15% Cumulative Preference Stock have been paid. Interim Dividends and Distributions were declared and paid to the Holders of Ordinary Stock in March and September 1998.

LASCELLES, deMERCADO COMMUNITY FUND

The Community Fund continued to contribute to deserving causes in many areas during the year under review, on behalf of Lascelles, de Mercado.

STAFF AND FACILITIES

The Lascelles, Henriques et al Superannuation Fund continued to operate successfully under the guidance of its Trustees and Secretary. The extensive benefits which it affords to members of staff in the fields of Pension and Disability and Life Insurance cover are a source of great satisfaction to your Directors.

The Lascelles Employees' Co-operative Credit Union continued to function well during the year under review. Your Directors are happy with the continued interest shown by the Board of the Credit Union and its Secretary as well as its Members, in all the affairs of the Credit Union. Its facilities are proving to be of great benefit to its Members. Your Directors are happy to record their recognition of and appreciation for the loyalty and keen interest shown by the Management and Staff of all Companies in the Group during the year under review.

GEORGE N. ASHENHEIM
Chairman