

BERGER PAINTS JAMAICA LIMITED 1998

Managing Director's Statement

Berger Paints Jamaica Limited posted its most profitable year of operation in 1998, meeting key performance targets, despite adverse market conditions.

The year under review, which was highlighted by continued high interest rates and further contraction in the economy, was especially challenging for the manufacturing sector, with most companies showing losses during this period.

Growing Profitability

At Berger Jamaica, a sluggish performance in the first nine months of the year, gave way to excellent fourth quarter results; and at year-end, a record J\$50.991 million in Profit After Tax, which was 15.75% higher than in 1997.

The Company also consolidated its leadership position in the shrinking paint market, which was adversely affected by a further slump in the construction industry. Net Sales of J\$627.4 million were a marginal 2.2% higher than the J\$614 million recorded in 1997.

The consistent increase in profitability at Berger Jamaica is the result of strategic planning, including tight controls of working capital, reduced inventory levels and more efficient use of the Company's resources. Enhanced and consistent product quality; a greater level of customer satisfaction, resulting from the improved supply of product to the market; aggressive marketing; improved collections and a continued good public image, boosted with the attainment of ISO certification last August, have paid off handsomely.

During 1998, expenses were reduced by 3.8%, compared with the budget; bad debt in days debtors improved, moving from 51 to 46 days; and interest charges were reduced by more than 50% from J\$9.1 million in 1997 to \$4.2 million. Raw materials and work-in-progress inventories were reduced from 114 days in the previous year to 103 days.

Shareholders of Berger Jamaica continue to get value for their investment, and returns have grown consistently over the years, moving from 24 cents per stock unit in 1994 to 31 cents in 1997. A high of 36 cents per stock unit of 50 cents was earned in 1998.

During the year under review, the Company's Authorised Capital was increased from J\$53.58 million to J\$71.44 million and a bonus issue of 35,720,400 shares was completed. Shareholders received 1 bonus share for every 3 shares held at December 18, 1998, enhancing their future earnings prospects. The Company also saved J\$4.47 million in corporate taxes through the Bonus Issue.

ISO Certification

Berger Jamaica attained yet another quality milestone on August 24, 1998, as the first and only paint manufacturer to attain ISO 9002 Certification. This places our Company among a group of select producers worldwide, which have earned the internationally recognized quality seal; and it positions us to perform more effectively in the competitive global economy.

I thank members of the ISO Steering Committee, Working Groups and all Berger employees for the high level of support and commitment which they demonstrated, as we pursue the enormous task of preparing for certification. This achievement vividly demonstrates the power of teamwork.

Maintaining Competitiveness

We at Berger Jamaica recognise that our continued survival in an aggressive marketplace demands a willingness to adapt to change and promote innovation. In this context, we have been enhancing our product line and upgrading our manufacturing processes and production capabilities to keep them in line with the latest industry trends.

Consistent with this strategy, a low odour formulation was introduced for the Company's flagship 303 brand during 1998; and we expect to make further strides in product research and development in 1999.

We also continued to develop our export markets and diversify our product offering through strategic alliances with internationally-known brands in the building, woodcare and automotive industries. The most recent of

these agreements was signed towards year-end, with L.G. Harris & Company Limited, a major British manufacturer of brushes and rollers, whose products are being marketed exclusively by Berger Jamaica.

Our state-of-the-art Berger Standox Training Centre in Kingston became fully operational early in the year; and its hands-on work with refinishers, body shop owners and counter clerks is already contributing to improved efficiency, productivity and service delivery in the industry.

The effective use of technology is equally critical in strengthening our competitive position in the present business environment. Already, the Company is benefitting from improved operational expenses, following the installation of a modern Basket Mill and a Solvent Recycling Unit during the year under review.

The modernization programme will be continued in the new year, with the introduction of a new colour matching system, as well as an on-line, fully integrated computer system.

Staying Ahead

The year ahead promises many challenges. It also holds exciting, new prospects for growth in the wake of the international endorsement of our Company's quality systems, represented by the recent ISO 9002 Certification. And, we intend to capitalise on this advantage.

Berger Jamaica recognises the integral role of highly trained and motivated employees in this challenging business context; and, in 1999, the Company will be intensifying its investment in training, as part of its corporate growth programme. Our ultimate objective is to further develop our team of professionals and their appreciation of the new dynamics of the market place; and to equip them with the relevant skills to take our Company into a new era of development in the next century.

We have established a solid framework for growth, and I am confident that, with our world class products, quality service and highly skilled employees we can ensure that the Berger brand maintains its winning edge in Jamaica and in our markets overseas.

Warren McDonald

Managing Director
