

Jamaica Producers Group LIMITED 1998

Chairman's Report

This has been a very difficult year for your Group. It comes just when we are about to celebrate 70 years in the banana business. We have faced difficult years in the past and have come through them with strong leadership and a will to succeed. We have faced up to our difficulties, made our plans, and expect the Group's performance to improve substantially in 1999.

In 1998 the performance of your Group was below expectation due to:

High growing costs and the extraordinary expenses arising from the reorganization of the farms to solve this problem.

The decisions forced on the European Union (EU) by the deliberations of the World Trade Organisation (WTO) leading to reduced banana prices in the EU.

In 1998, the Group recorded a small profit of \$12.727 million. It should be stressed that this result is after taking account of extraordinary expenses of \$94.657 million for redundancy payments on the farms and \$12.635 million to settle an Industrial Disputes Tribunal award against Eastern Banana Estates.

The fourth quarter performance was also below expectation as the workforce turnout on the farms was low for several weeks following the redundancies. The low worker turnout led to a significant drop in export production on the farms. The low volume of bananas shipped in these weeks also had adverse effects for the shipping line and ripe banana sales at our UK subsidiary, JP Fruit Distributors.

GROWING COSTS

To meet the challenges of reduced prices arising from changes in the EU preference regime, the Group has embarked on a major reorganisation of the banana farms to improve the yield per acre and productivity per worker, and to achieve a reduction in the cost per tonne exported. Most of the measures designed to achieve these goals have been implemented. In 1998, we held extensive discussions with the Bustamante Industrial Trade Union, the National Workers Union, the University and Allied Workers Union and the Union of Clerical, Administrative and Supervisory Employees. In November, we reached an understanding about measures designed to increase productivity and reduce task wage rates. The understanding between the unions, workers and management was further strengthened by a recognition that co-operation was necessary to create a viable future for the banana industry and indeed, all Jamaica. Approximately 2,700 workers were made redundant and 2,000 jobs were created at new wage rates and on new terms and conditions in a new company - Agri Services Ltd. This new company is contracted by the farms to provide them with their entire workforce. Agri Services allows us to reduce administrative costs and rationalize wage rates among the different farms.

THE FUTURE OF THE PREFERENCE REGIME

The Disputes Settlement Body of the WTO ruled in April 1999 that the banana import regime introduced by the EU on January 1, 1999 was still not WTO compatible. This new regime was the response of the EU to the successful complaint brought before the WTO by the USA and four Latin American countries.

It is difficult to forecast the nature and character of the changes that the EU will implement to meet the strictures of the WTO. We do know, however, that it will mean significantly reduced preferences and consequently lower prices for banana exports.

Operational Review

ORGANISATION - We normally describe the company's activities in the following divisions: Bananas, General Produce, Agro-Processing and Trading. It is instructive to note, however, that these divisions encompass different companies or parts of companies, some local and some overseas.

Opposite is a chart identifying the companies and countries in which each division operates.

| BANANAS | | GENERAL PRODUCE | | AGRI-PROCESSING | | TRADING | |
|---------------------------------|-----------------------|---------------------------------|----------------|-----------------|----------------------|------------|---------------|
| | Location | | Location | | Location | | Location |
| Eastern Banana Estates | St. Thomas | Agualta Vale | St. Mary | JP Foods | Kingston, Ja. | JP Trading | Kingston, Ja. |
| St. Mary Banana Estates | St. Mary | Belvedere Ltd. | St. Thomas | Sunjuice | Glamorgan, Wales, UK | | |
| Victoria Banana Co. Springfield | Clarendon St. Thomas | SOURCING DISTRIBUTION MARKETING | | Sunjuice | Slough, London, UK | | |
| RIPENING DEPOTS | | | | | | | |
| JPFDD* Dartford | Kent, UK | | | | | | |
| JPFDD Bridgewater | Somerset, UK | JPFDD Gillingham | Kent, UK | Sunburst | Marden, UK | | |
| JPFDD Bolton | Lancashire, UK | | | | | | |
| JPFDD Southampton | Hampshire, UK | JPFDD Island Exotics | Birmingham, UK | | | | |
| JP Ripening | Kingston, Ja. | | | | | | |
| SHIPPING | | | | | | | |
| Jamaica Terminal | Newport, Wales, UK | JPFDD Sun Exotics | London, UK | | | | |
| Freight Forwarding | Stratford, London, UK | JPFDD W.R. Betts | London, UK | | | | |
| Jamaica Producers Shipping | Kingston, Ja. | Export Division | Kingston, Ja. | | | | |
| Cia Bananera Del Tropico, S.A. | San Jose, Costa Rica | | | | | | |
| *JP Fruit Distributors | | | | | | | |

Divisional Review

BANANAS - The Banana Division remains the core of our Group. It is fully integrated involving growing, shipping, importing and ripening. Each section however, comprises one or more companies and each is an independent profit centre. The growing and shipping sections were significant loss makers in 1998 while importing and ripening continued to generate substantial profits, as they have for many years.

Importing and ripening, other than the small ripening operation in Jamaica, are UK activities. What is perhaps not fully appreciated is that Jamaican bananas account for only 40% of the bananas ripened by JP Fruit Distributors in the UK. The non-Jamaican bananas are primarily sourced from Costa Rica on contract under our own label or through our joint venture partner, Dole. Our UK banana imports and ripe banana sales have shown consistent growth over the last several years and we expect that this block of business will remain financially viable regardless of how the WTO decision impacts on banana growing in Jamaica. In order to secure this market we are considering increasing the supply of bananas from our Costa Rican sources.

Shipping is directly affected by changes in the banana tonnage exported from Jamaica. The downturn in banana exports over the last two years has been a major reason for losses in this business.

GENERAL PRODUCE - This division has undergone significant reorganization in 1998. Many of the costs of this reorganization were incurred in 1998 and the benefits will be realised in 1999. The reorganization got underway in 1997 with the closure of our New York operation. In 1998, the focus was on the UK where major changes to improve efficiency were introduced at our warehouse complex in Gillingham. The UK General Produce Division ended the year with a loss. However we expect it will generate significant profit in 1999. It should be noted that we anticipate increased sales in this division from supplies generated by our joint venture partner, Dole.

We are pleased to note that our Ethnic Food Division in Jamaica returned to profit in 1998 although the impact of the drought in 1997 was felt for at least the first half of 1998.

AGRO-PROCESSING - Sunjuice, our UK agro-processing subsidiary, continued to maintain its profit performance. 1998 saw us celebrating the 10th Anniversary of Sunjuice and we are indeed proud of its continuous growth from the first sale of £12 to the position it now holds as the world's largest producer of freshly squeezed orange juice. Sunjuice is the leading supplier of freshly squeezed orange juice to the major UK supermarkets. In 1998 we opened our London distribution depot to supply the vast market in London's sandwich bars, coffee shops and health food outlets. Early indications confirm that our products are liked and suggest that the depot will be a success. Every bottle sold will be our own brand, Sunjuice, and will help us diversify our customer base.

In the 1997 report, we mentioned the acquisition of an adjacent warehouse to allow us to expand and upgrade our juice operations. The new facilities will allow us to concentrate the storage and squeezing of citrus on a separate site and thereby upgrade the environment for our blending, bottling and pasteurizing operations. The completed project will involve a degree of automation, increased productivity and the extension of the shelf life of many of our products. These new facilities will be operational in 1999. We expect this block of business to maintain a strong profitability in 1999.

JP Foods in Jamaica continued to show significant growth but did not break into profit in 1998. The strong performance in the Stamina plus, ketchup and the banana chips lines at the end of the year, however, suggest that 1999 should see this department generating a profit. 1999 should also see the launch of our newest product - banana fries.

We remain committed to the development of user friendly foods based on crops grown in Jamaica.

JP TRADING - This division sells ceramic and porcelain tiles and other building materials. We are pleased that it generated a modest profit despite the problems of the Jamaican economy and the building industry in particular. We remain focused on providing consistently high quality products and the very best customer service.

All indications are that 1999 should see this business growing and remaining profitable.

INVESTMENTS - Income from our diversified portfolio of equities and interest bearing securities continues to add to the overall profitability of our Group. We regard the holding of these investments as an important hedge against the problems that might be experienced in the Group's core business. Our largest equity investment is in Grace, Kennedy & Company Limited. At the end of 1998, we owned just under 10% of that company's issued share capital, however we increased our holdings to 12.82% in April 1999.

Year 2000

The Year 2000 issue arises because many computerized systems used two digits rather than four to identify a year. Date sensitive systems may recognise the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. The Group is pursuing compliance measures but cannot guarantee that all aspects of the year 2000 issue that affect us, and in particular those related to the efforts of customers, or other third parties, will be fully resolved before the start of the year.

Corporate Citizenship

As concern for the protection of the environment grows, Jamaica Producers Group collected and shipped two 40-foot containers of compressed plastic sleeves and ties to Costa Rica for recycling. The plastic material will be used to manufacture corner boards and hoses.

Donations to our traditional recipients continue. The harsh economic climate in Jamaica has placed many needy organizations under severe pressure and we are pleased to be able to continue supporting projects in the Education, Agriculture and Health sectors.

Directors

In 1998 we welcomed Professor Alvin Wint to the Board. He brings to us his expertise in the field of international investment policy and international competition which will be invaluable to JP as the Group rises to the challenges posed by the new international trade regime. In January 1999, we were pleased to have Mrs. Kathleen Moss and Mr. Peter Morris join our Board. Mrs. Moss has extensive experience in management consulting and financial services, and brings to Jamaica Producers a broad range of advisory and technical skills. Mr. Morris has been our Group Treasurer for ten years, responsible for the Group's investment portfolio.

Acknowledgements

I must thank my fellow directors for their continued dedication to your Company. 1998 saw the need for some difficult and hard decisions and their advice and support was invaluable.

Consequent on these decisions, the task of implementation fell to our management and staff who gave their full support. The Board and I wish to thank our entire staff for their commitment to the Group and their hard work.

C.H. Johnston
Chairman
April 27, 1999
