

Carreras Group Ltd. 1999

Chairman's Statement

Group Results

Continued downsizing and restructuring of the domestic financial sector has brought even more changes to the general commercial and manufacturing sectors of the national economy. Again, the Group has managed to perform very well in this adverse environment and achieved a profit before tax of J\$3.373 billion or an increase of 27% (\$727 million) over the previous year.

Exchange rate variation between the Jamaican and U.S. dollar resulted in a gain of \$68.6 million versus \$48.2 last year. Investment income before income tax was J\$1.564 billion compared to J\$1.132 billion last year.

Profit attributable to stockholders amounted to J\$2.418 billion or 996.3 cents per stock unit, compared to J\$1.804 billion or 743.5 cents per stock unit last year or an increase of 34% (\$614 million) over the previous year.

Manufacturing

CIGARETTE COMPANY OF JAMAICA

As I had indicated in previous reports to you, reduced consumer disposable income, societal pressures and health concerns have continued to impact on cigarette sales. A volume decline of 5% this past year follows a 3% and 2% decline for the two previous years. This year's decline also follows a price increase in mid-April 1998 occasioned by an increase in the Special Consumption Tax on cigarettes.

Export sales to the Trinidad market were very successful at launch, but have now settled to a slow increase as the Trinidad domestic producer has reacted to our competition by pricing and marketing strategies.

The direct sales and distribution system in effect over this past year on the domestic market has resulted in margins, inventory and product control improvements. More importantly, the sales force now has direct contact with the retail trade and the opportunity to react more readily to consumer requirements and trends.

JAMAICA BISCUIT COMPANY LTD.

The acquisition of a local competitor, Butterkist, by the large multi-national player Nabisco, served to heighten the competitive pressures in the domestic market.

Total sales in dollars and kilos, and gross margin, showed an increase over last year. Trading profits, however, suffered a decline due to local inflationary pressures on overheads. Market competition domestically did not allow pricing to increase to offset the local costs. Export sales volumes increased significantly with export hard currency pricing remaining firm.

Product quality and packaging improvements continued throughout the year. Productivity improvements contributed to the gross margin increase reported above.

PRINT DIVISION

Improved operational cost control measures resulted in an almost three-fold improvement to profit after tax for the division.

Competition remains very strong and the continued pricing pressures indicate that while the unit has performed well following rationalization over the past few years, much effort is still required to remain profitable.

AGRICULTURAL PRODUCTS OF JAMAICA

The tobacco-growing approach through contract farmers continues to produce good quality product at competitive world market prices.

Tourism

GRAND LIDO SANS SOUCI HOTEL

Following completion of the additional 36 beach-front suites in early 1998, the hotel was poised to increase occupancy and room rates. The continued fall-out of tourism from the Japanese market following the economic problems in the Asian markets suppressed both occupancy and rates during summer 1998. Responding to some target marketing, Japanese arrivals began to rebound in late 1998, and we again anticipated a rate recovery during the winter season.

The unfortunate announcement by the Government that troops were to be placed in the tourist areas, however well meant, resulted in loss of both occupancy and rates for the remainder of the fiscal year.

Our hotel Managers, SuperClubs, participated in a marketing blitz to refocus interest in Jamaica. Bookings for the second quarter 1999 are beginning to look favourable, however, rates are still low and it may take some time for the market to accept a return to past levels.

Dividends

The Directors have declared and paid interim dividends totalling \$0.85 per stock unit.

The Directors now recommend, subject to confirmation by stockholders at the Annual General Meeting, that a one (1) for one (1) stock bonus be issued out of the current year's profits of the company by way of a capitalization amounting to \$60.68 million. In order to accommodate this increase in the issued stock, it is proposed that the authorized share capital of the company be increased by \$60,680,000 to \$121,360,000 by the creation of an additional 242,720,000 ordinary shares of a par value of 25 cents each.

The Directors also recommend that the stockholders declare a final dividend of \$1.00 per stock unit (less income tax) on the issued stock as increased by the bonus issue.

Total dividends for this year will cost \$691.75 million.

Future Prospects

While the Group remains well positioned to confront the challenges in the manufacturing, tourism and service sectors of the economy, the high levels of unemployment, continual restructuring of the financial sector and

financial restraints in general will require continued, diligent attention of the management and directors to protect and enhance our shareholders investment.

Management & Staff

I announced at the 1998 Annual General Meeting, the retirement from the Board of Mr. David Lord. I record once again our thanks to him for his years of contribution in many capacities to your company's development and success.

On behalf of the Board of Directors, I welcome Mr. John Ruland who started in the position of Chief Executive Officer in July last year and was appointed to the Board in October.

My thanks continue to go out to my colleagues on the Board and to the Management and Staff at all levels for their dedication and efforts on behalf of the Group.

Subsequent Events

JAMAICA BISCUIT COMPANY LTD.

On May 11, 1999, the previously announced reorganisation of Jamaica Biscuit Company Ltd. was completed. The shares held by Carreras Group Limited in that company were exchanged for a debenture issued to Carreras Group Limited by Caribbean Brands Limited. The effect of this transaction is disclosed as a subsequent event note in the Financial statements.

ROTHMANS INTERNATIONAL/BRITISH AMERICAN TOBACCO

Rothmans International (R. I.) has been a joint venture partner since the formation of Carreras in Jamaica nearly 40 years ago. Rothmans International and British American Tobacco Company (BAT) announced on January 11, 1999 plans to seek to link the two corporations. A merger was indeed consummated on June 7, 1999 and the enlarged BAT group now holds 50.4% of the stock units of Carreras Group Limited. BAT has indicated its interest and enthusiasm to work with and to support Carreras in its future developments.

Since the close of the financial year under review, Messrs. Joseph Heffernan, Dennis Robertson and John Barnett

(who served as a Director of the company for a short time) resigned from the Board due to changing responsibilities with Rothmans International. We thank them for their service unstintingly given to our affairs.

Messrs. Andrew Cripps and Christopher Burton were appointed Directors and recommendations for their confirmation will be laid before shareholders at the forthcoming Annual General Meeting.
