Chairman's and President's Report

The financial year 1998-1999, under review, presented major challenges and financial setbacks to our company. It was a year in which we continued our mandate to become internationally competitive by improving our internal efficiencies in the production and marketing of high quality products at competitive prices.

It was a year in which our company had to make major and far-reaching decisions. In addition we continued to contend with the difficult business environment, which existed in our local operation and in two of our overseas investments.

The most far-reaching decision taken by the Board of Directors during the year was to restructure the operations at our Chicken Processing Plant. This was implemented at a cost of over $200 million in reorganization and redundancy payments.

The decision to restructure was critical to the future success of the Group because significant investments had been made in the Plant over the last few years in order to utilize the latest technology and expand the production of processed products. The re-organization cost is the single largest and far-reaching investment the company has ever made in the history of our operations and we are happy to report that the basic objectives of increasing efficiency and productivity with a major reduction in costs are being achieved.

Two of our overseas investments also came under pressure during the year.

Pershore Poultry in the U.K. had to be placed in receivership as the company could no longer operate under the fierce attack that was launched on the agricultural sector in general from other countries within and outside of the European Union.

In 1994, in conjunction with the Board's objective of diversifying the Groups' economic base, we entered into a partnership with a British company to purchase a small poultry-processing operation, Pershore Poultry. At that time, following the BSE crisis in beef in England, the poultry industry was highly profitable. We recognized that our future lay in competing for a larger percentage of the retail business in supermarket chains with higher and more stable prices instead of the wholesale market on which the operation had relied in the past. We agreed to expand and modernize the plant to meet all the requirements of quality, packaging and service coupled with experienced management. On this basis, we had great confidence that our objectives would have been achieved.

With a very strong pound, however, which encouraged imports from Europe and low priced breast meat from Thailand and Brazil, as well as continued expansion of the European broiler industry, the UK market continued to maintain the lowest prices experienced by the poultry industry in the last thirty years. With the situation deteriorating further, and with several poultry companies closing, it was with great reluctance and disappointment that the joint venture partners decided to close Pershore Poultry, after an accumulation of losses.

Our interest in Christchurch Insurance Brokers Limited in the U.K. also had to be written off as the company was placed in Receivership in June 1998 after failing to raise the capital needed to continue operations and to expand.

Another challenge that we faced during the year was the importation of leg quarters. These flooded the local market at extremely low prices forcing a reduction in sales and a huge build up of inventory which peaked at 4.2 million lbs of processed chicken in April.

Since 1992, the United States broiler industry has continued to expand to meet the demand for breast meat. Concurrently, US broiler meat producers have failed to develop a domestic market for the leg quarters and have relied on exporting large quantities of these to Russia and other Eastern European countries, as well as markets in Asia.

Disruptions in these markets have resulted in leg quarters being sold to Jamaica and other Caribbean and Central America countries at prices well below their real cost. This has therefore threatened all the regional markets including ours.

This major challenge to local production continued throughout the year, causing disruption to our operations, which rely on a minimum 10-week production planning cycle to meet the projected requirements of the market.

All of the above has resulted in a year of substantial losses of $232.4M which include the full write off of the restructuring at the Processing Plant. Our sales decreased by 2.6% over the previous year and our short term debt rose by $317m.

HIGHLIGHTS OF OPERATIONS
ANNUAL REPORT 1998/1999

MASTER BLEND FEEDS

In this operating year, Master Blend Feeds continued to perform well and achieved several noteworthy milestones. Feed sales to the outside market increased by over 7% in excess of budget, while overall feed sales increased by 4%, exceeding budget. Tonnes per man-hour, fuel usage per tonne and manufacturing cost per tonne all improved beyond the budgeted targets by 27%, 19%, and 25% respectively.

Ingredient prices continued to be competitive allowing Master Blend Feeds to maintain stable feed prices and expanding their market.

BEST DRESSED CHICKEN

The plant restructuring exercise and the downturn in the market towards the end of the financial year resulted in production being lower than budgeted. This was disappointing given that we had just finished expanding our hatchery by 36%, allowing us to place 500,000 chicks per week.

There were positive developments, however, as our contract farmers commissioned into service several tunnel-ventilated chicken houses. The upgrading of our contracted broiler houses is now a central focus for the Company and is proceeding according to plan.

JAMAICA POULTRY BREEDERS

Egg production performance at JPB was disappointing. Changes have since been made in the management of the subsidiary and in the breeds of bird used, as part of a plan to turn the operation around. Loss-making operations at JPB, such as the dasheen project and the nursery are being closed. The cattle operation has been allowed to continue expansion based on its reasonable performance.

BEST DRESSED CHICKEN PROCESSING PLANT

At the beginning of the second quarter of the year, the implementation of a program to restructure the methods of staffing and operating systems at the chicken Processing Plant commenced. As projected, there was reduced production during the very first phase of implementation; however, performance and productivity gains were soon realized by the third quarter of the year, thus enabling the Plant to show a return to profitability.

By the end of the year, significant improvement was evident in the operation of the Processing Plant. The number of employees was reduced by one third from the previous year while volumes had increased year over year.

Substantial savings were gained by the suspension of the hourly-paid system and replacement with a "per-bird" system, with corresponding gains due to the new contracted workforce. Tremendous improvements were also made in the "birds per man-hour efficiencies and in the U.S. poultry industry's Agri-stats report, in which we participate, our First Processing Department appeared in the top ten performers in the first half of 1999.

CONTENT AGRICULTURAL PRODUCTS

Following the re-organization in 1998, the past financial year saw our beef operation returning to a modest level of profitability. Many of the decisions and changes in management practices implemented during 1998/99 are expected to continue to improve our financial performance in the coming years; the most notable being the implementation of a Stocker Program for heifers at the Murphy Hill property operated by Jamaica Poultry Breeders.

Aquaculture Jamaica Limited

The year 1998/99 was a challenging year, which saw an overall reduction in sales by 5.7%. The fallout occurred mainly in export sales, which declined by 27% when compared with the previous year. This was as a result of fundamental shifts in airline routing to Europe, which interrupted our direct service into the Continent for over six months. In addition, a major US customer went out of business. Subsequently, both situations have been corrected and future growth is forecasted.

The local market grew by 17.5% fueled largely by new products including the 'Reggae Jammin' line of seasoned products. This performance helped to offset the negative impact of the reduction in export sales. Overall costs for the farm were within budget for the year and cost reduction and quality improvement will continue to be our major focus for this year.

BEST DRESSED FOODS

The Financial year 1998 - 1999 was a challenging one for Best Dressed Foods. The restructuring exercise that took place at the Best Dressed Chicken Processing Plant had a major impact on our ability to supply our customers. The impact of an excessive amount of imported leg quarters on the local market, below market price, drove prices down and caused a massive build up in inventories which necessitated cut-backs in production.

The 'Reggae Jammin' line of pre-seasoned products was officially launched and sales have grown steadily. To maximize revenue, BDF focused on product diversification. Several new products were launched including a fresh line of chicken parts and a whole fresh tray pack bird. We expect continued growth in this market segment.

The commitment of the staff at BDF will guide us through the developments in the future.

HIPRO FARM SUPPLIES

This division has shown a 20% growth in sales over the last financial year. This was achieved through improved customer service, aggressive advertising and a competitive pricing policy, which has resulted in a high level of customer satisfaction. The categories that contributed significantly to this increase are animal health products, equipment and day-old chicks.

JAMAICA EGG SERVICES

Jamaica Egg Services remains the largest producer of ready-to-lay pullets servicing the Jamaican egg producer.

As the year under review progressed, new challenges developed as we felt the effect of a contracting national economy and competition from a major pullet producer. This resulted in an over~expansion in the size of the national layer flock, in an environment of declining demand for eggs. Supply increased while prices plummeted leading to a near collapse of the egg industry.

This negatively impacted our pullet sales, forcing us to reduce production by 3%, discount pullet prices and donate pullets free of cost to charitable institutions. We however, ended the year with a small profit.

Our focus for 1999/2000 will be to work with our customers to rebuild the egg industry, realign production with demand and restructure our division to be innovative in reducing cost, improving efficiencies, satisfying our customers and increasing profits.

LEVY INDUSTRIES INFORMATION SYSTEMS

The major project for 1998/99 was to get the Jamaica Broilers Group of Companies year 2000 compliant. The majority of the work involved converting all our Dataflex programmes, which encompassed all Accounting and Management Information Systems. In addition, all other non-Dataflex computer systems, Operating systems and Applications software had to be checked and converted where necessary. The expected date of completion of the Y2K projects is October 31, 1999.

As a result of the Y2K project, all software development was placed on hold; however, there were increased revenues from training and the sale of Gateway computers.

INTERNATIONAL OPERATIONS AND BANKING

WEST INDIES NUTRITIONAL CORPORATION LIMITED - FREEZONE;
WINCORP INTERNATIONAL INC. - FLORIDA, USA

Despite the various challenges in the market, the sales performance of both companies exceeded last year's by 11.79% with a pre-tax profit surpassing the US$1m mark for the first time. A major contributor to this was increased sales of fertile eggs.

The external market grew through new opportunities in Guyana, increased sales in Barbados and Trinidad & Tobago, despite the competitive nature of those markets, as well as the development and marketing of our animal health line.

In the coming year, we expect to see the continuation of mergers and more strategic alliances being formed, creating larger entities. Our focus, however, will be in the development of new products and the widening of our supplier base to improve our competitiveness. The additional warehousing space at our Miami location is part of a strategy to enter the freight and forwarding business through the establishment of a wholly-owned subsidiary; Consolidated Freight and Shipping Inc. In addition, we will become more marketing oriented by focussing on the marketing of consumer products in the Caribbean and Latin America.

INTERNATIONAL POULTRY BREEDERS

The year 1998/99 has been one of mixed fortunes. After the recovery from the disease problems through the purchasing of 'clean flocks', we were confronted with other challenges including the departure of key personnel from our shipping and breeder management areas. As a result of this loss in breeder management, production and hatchability suffered. In addition, we experienced the wrath of a tornado on September 29, 1998, which destroyed 2 lay flocks and houses and critically affected 2 others. This severely affected our budget, both operationally and financially.

Despite the challenges, plans for expansion were implemented starting in July 1998. With the sale of 2 lay farms with 25 acres, conversion of 4 lay houses on the IPB compound to pullet houses, the building of 2 additional contract pullet houses and 4 lay contract houses, the stage is now set to double the size of our operations.

JABEXCO LTD - EXPORTS

Tilapia sales to the US market declined because of an over production by competitors in Central America. This resulted in a suppression of Fillet prices in the market. Faced with unacceptable margins, a decision was taken to increase prices to our largest distributor, which severely impacted on their ability to compete. This, combined with a shift by major retailers to buying directly from producers, resulted in us losing significant market share.

We subsequently intensified our focus on the emerging European market. However, many EU member states were unfamiliar with this fish species and a significant advertising and marketing programme was therefore initiated to develop product awareness and acceptance. This is a long-term project, which will continue into the fiscal year 1999/2000. Our competition in Europe is from Zimbabwe and Costa Rica, with supplies out~sourced from Ecuador. This, however, is controlled by a single UK-based holding company.

During the year under review, we commenced a marketing assessment of the Caricom Region which will be developed in our 1999/2000 planning. Plans include expansion of Tilapia markets, and introduction of beef, chicken and animal feeds.

CAPITAL & CREDIT MERCHANT BANK

For the fifth consecutive year, our associated company, Capital and Credit Merchant Bank Ltd. performed well; recording Net Profit After Tax of $109.6 million. This, however, was below the previous year's result of $121 million.

On the Balance Sheet, assets under this Company's management grew from $3.498 billion to $4.571 billion, an increase of 30.6%.

The decline in net income was as a result of reduced level of Government Securities trading during the earlier half of the year, as it sought to stabilize its funding costs during the period of uncertainty following the failure of a number of local financial institutions.

EAL/ERI CO-GENERATION

The Co-generation Plant, the energy centre for the Processing Plant was officially commissioned on September 23, 1998. Now, almost one year in operation, the plant has performed as designed.

Though extensive warranty-related work was done on the equipment, the plant has enjoyed an average electrical availability to the Jamaica Public Service Company (JPSCo) Limited of 91.5%, which is 1.5% above the target of 90% per our contractual obligation. The electrical and thermal availability to the Jamaica Broilers Processing Plant averaged 99.8%. This less than ideal availability stemmed from the "teething pains" the plant experienced after commissioning.

The stated electrical and thermal availability that the Jamaica Broilers Processing Plant realized, far surpassed that which they typically had while on the JPSCo electrical and their own thermal systems. This translated into improved productivity, less product loss and a more predictable operation. The guaranteed 25% reduction in energy costs has also been realized.

For the 1999/2000 operating year the co-generation plant management has established an operational plan with clear operational and efficiency objectives with the intention of optimizing the plant's operation. We expect this effort to yield a 30 % increase in net income (above budget), 100% energy availability to the Processing Plant and 96% availability to JPSCo.

THE WAY FORWARD

The year closed with the following matters on the agenda.

- The Industrial Disputes Tribunal still hearing the case on the restructuring exercise.

- The implementation of the Custom Duties (Dumping and Subsidies) Act, 1999, which brings into effect the correct reference pricing and inspection procedures, and will assist in defending efficient local producers from unfair competition.

- Inventories on the decline.

- Our operations in beef, fish, feed, feed ingredients, wholesale and retail farm equipment all continue to show positive development and growth.

Even though the results of the year are disappointing for our shareholders, all of us at Jamaican Broilers Group Limited have continued to work assiduously to develop our operations, efficiencies and markets, and to adapt to the rapidly changing circumstances in which we must compete.

Everyone, from the Jamaican community, our international visitors, our major suppliers and creditors, our technical advisors and consultants and members of the diplomatic corps who have visited our operations, have commended our operations. Not only are they impressed with our facilities and technology, but without exception, they also comment favourably on the quality, dedication and obvious ability of our staff, from the executive and management team to our employees. These assets give us tremendous confidence in the future of our Group.

The biggest motivation at this time, for both of us who have been with the organization since its inception, is the support and commitment of our Board of Directors, along with the leadership team of men and women, many in their thirties, who desire a long and successful future with Jamaica Broilers.

These dedicated persons along with their staff, coupled with the solid foundation that has been laid, has held our Group of Companies together in the face of challenges, which have caused other companies to collapse.

We feel privileged to be leaders in an industry that is of vital importance to the growth and development of the Jamaican economy and the quality of life of our people. We commit ourselves, our expertise and resources to the wellbeing of our shareholders, customers and the community at large.

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

Robert E Levy
President and Joint Chief Executive Officer