

Jamaica Producers Group Limited 2000

Chairman's Report

The European Union (EU), the United States of America and Ecuador reached an agreement in April 2001 that appears to bring to an end the eight-year-old banana dispute. During the last four years uncertainty and changes to the banana regime negatively affected your Group. Each change reduced the level of preference enjoyed by Jamaica and the other African, Caribbean and Pacific (ACP) banana-exporting countries. This settlement, while ensuring access to the EU market, will significantly reduce the price Jamaican bananas can command in the UK. The regime resulting from the settlement is an interim one that is scheduled to be changed again in 2006.

The problems of the last eight years are not unique to your Group as, worldwide, most companies that depend heavily on the growing or marketing of bananas have experienced difficulties. All the large multinationals with bananas as their core business have announced either reduced profits or outright losses in 2000. The new regime, largely brokered by the United States, will improve the competitiveness of some US companies at the expense of the ACP.

We have also been affected by the dominance of large supermarkets in the fresh produce retail sector in Europe, which has significantly reduced margins to all of the players in the fresh produce sector.

During the prolonged period of uncertainty, we have sought both to maintain our commitment to bananas and to make the Group less dependent on bananas and fresh produce in general. The benefits of diversification were demonstrated at Sunjuice, which had an outstanding year and we intend to continue to push the growth of this division. The Banana Division, JP Foods and our General Produce Division all recorded losses or significantly reduced profits. The overall performance of the Group was below expectation with profits attributable to the Group of \$80.1 million on revenues of \$11,091.5 million compared

with profits of \$155.8 million on revenues of \$11,177.8 million in 1999.

DIVISIONAL PERFORMANCE

Bananas

In the UK, banana revenues and profits declined due to higher ripening costs and lower prices from the supermarkets. UK supermarkets continued to demand improved and more varied packaging entirely at the expense of the ripener. Cost containment measures introduced in midyear, however, resulted in modest improvements in the last quarter. We expect these improvements to carry over into 2001.

In Jamaica, the productivity improvement and cost containment measures in banana growing were thwarted by high wind damage at the start of the year. The estates had three major claims for wind damage accepted by our insurers. Additionally, international competitiveness in growing is dependent on the export yield being at least 34 tonnes per hectare. The average of our three estates was 23.1 tonnes per hectare in 2000. This clearly makes us uncompetitive and programmes are in place on all three farms to improve the yield per hectare within the next year.

In 2000, Eastern Banana Estates Limited (EBEL) became the first banana estate in the Caribbean to obtain ISO 9002 certification. This is a significant achievement by the staff and an important step for the Company as the major UK supermarkets are increasingly requiring ISO certification of their suppliers. St. Mary Banana Estates (SMBE) and Victoria Banana Company (VBC) obtained ISO 9002 Certification in 2001.

The high cost of disease control in bananas has reduced the number of banana growers and, in particular, growers who focus exclusively on the local market. Export banana growers have therefore been able to sell an increasing share of their non-exportable bananas on the local market. Our estates have benefited from the demand for bananas in Jamaica, and we are increasing our sales of both green and ripe bananas.

As in Europe, supermarkets in Jamaica are increasing their share of the retail ripe banana trade. Our quality and distribution capabilities have allowed us to increase our share of this market. In 2000, we installed additional ripening capacity at our estate in Clarendon, Victoria Banana Company (VBC). We plan to further increase our ripening capacity in Jamaica in 2001. The size of the local market does not make it a substitute for our exports to the UK but it does provide us with a profit opportunity for non-exportable bananas.

Loads on the vessels chartered by our shipping line were below plan due to reduced banana volumes caused by bad weather in Costa Rica and Jamaica in the first quarter. In 2001, we have discontinued chartering entire ships and instead entered into contracts of affreightment which will limit losses arising from low volumes.

We have benefited from being an integrated banana company operating in all sectors of the industry - growing, shipping, importing, ripening and marketing. We recognize, however, that the new banana regime may make operation in one or more of the sectors untenable. We must therefore be prepared to swiftly adapt to the changing requirements of the marketplace. The operating details of the new regime are not yet known but we have examined the possible scenarios and are making plans for any eventuality.

Fresh Produce

In the UK, the trend is for the supermarkets to reduce the number of suppliers they deal with as they expand the use of category management. We must increase our volumes to remain competitive. Our revenues from fresh produce other than bananas grew significantly in 2000, however, we experienced losses as we were unable to modify our warehousing capability to efficiently meet the peaks and valleys of the increased volumes. The supermarkets' push for category management also resulted in lower prices and reduced margins. Cost containment programmes introduced earlier in the year resulted in a profitable fourth quarter and further modifications to our warehousing capability are necessary to maintain the viability of this division.

In Jamaica, our Produce Export division generated a small profit despite the drought. This operation was relocated to our Retirement Road warehousing complex to reduce cost and increase security.

Agro-Processing

This division has two operating units-Sunjuice in the United Kingdom and JP Foods in Jamaica. Sunjuice was established in 1989 as a joint venture. In 1998, we acquired full ownership of the company with the goal of making it the centre of the programme to reduce the relative importance of bananas to the Group.

Between 1998 and 2000, capital expenditure at Sunjuice totalled \$233.7 million with an additional amount of \$200 million scheduled for 2001. Sunjuice now manufactures a range of juices, juice drinks, smoothies and bio-yogurts in two factory locations within walking distance of

each other on the Llantrissant industrial estate in Wales. By September 2001, the factories will provide product packaged in plastic, Tetrapak and glass containers ranging from freshly squeezed unpasteurized juice to long life juice with all the variations of 'not from concentrate' to product based on concentrate. The factories are state-of-the-art and we are satisfied that they compare favourably with the best plants in the world.

Sunjuice manufactures private label products for supermarkets and other customers, as well as selling its own branded products Sunjuice and Frobishers. It also operates its own London distribution depot. Sunjuice is firmly established as a major supplier to the chill cabinets of many of the major supermarkets in the UK. We intend to build on this achievement by developing the strength of our own brands. We are also assessing the manufacture of other chilled products.

In Jamaica, JP Foods has not yet achieved profitability. The strategy is to concentrate on building value added products based on our agricultural capability in Jamaica. The focus is on snacks, sauces and prepared foods. Currently, the snack line consists of banana and plantain chips. We plan to add breadfruit and sweet potato chips in 2001. Much of the raw material is grown on our own farms and in 2001 we moved the manufacturing plant to Chocolate Walk located on the fringe of St. Mary Banana Estates. By locating the plant close to the source of the raw material we are able to minimize waste and maximize freshness.

Our Bell Road plant now concentrates on our health drink Stamina + and the ketchup line. A key ingredient of Stamina + is banana but the drink is fortified with other healthy products. Canned ackees, callaloo and a range of hot, jerk and spicy sauces and a spiced bun round out our Jamaica Best line of products. Ackees and peppers for the sauce line are grown at our Agualta Vale farm. The ackee grove is one of the largest in Jamaica and is now coming into full bearing.

Despite the losses generated by JP Foods, we remained committed to the concept of developing 'user-friendly' foods from crops grown locally. The year 2001 will not see major profits from this operation.

Discontinued Operations

During the year, we closed Jamaica Producers Trading, our tile and building supplies business at Retirement Road. After careful examination, we concluded that this non-core business did not have the growth and profit potential to justify the continued investment of management and financial resources. We also closed Springfield Banana Farms in St. Thomas, as we concentrated our banana growing operations on the large estates where we could achieve the greatest economies.

At the end of March 2001, we closed Sunburst, our marketing outlet for the processed foods in the UK. We will continue to sell Jamaica Best products in the UK through a distributor.

Investments

Despite the difficulties experienced by the Group over the last three years, we continue to have a strong balance sheet. This provides us with the financial capability to pursue the opportunities and face the challenges of the future. The companies in our equity portfolio have performed well and there have been substantial unrealized gains over the years. Although not reflected in the profit and loss account, these gains are a significant source of value. The fall in interest rates has, however, reduced our income from investments.

Information Technology

In 2000, we commenced installation of a wireless wide area network to seamlessly connect all our Jamaican operations using the most modern and cost-effective information technology. We implemented Oracle Financials in the fourth quarter with the objective of providing our management team with the most current information and improving the timeliness of our financial statement. We plan further enhancements in 2001.

We will also launch our website in 2001 with the goal of improving communication with customers, shareholders and other stakeholders with Internet access.

The Future

The real challenge for the Group lies in our ability to be flexible with a rapid response time as the banana drama unfolds. To do this, we must remain financially strong and flexible with well developed plans for any outcome. We must, above all, ensure that our management team is responsive to the synergies that exist across the Group.

Community Support

Your Group remains committed to many important projects both nationally and at the parish level. We remain a significant donor to PALS (Peace and Love in Schools), a programme of great importance in Jamaica today. We also contribute to the Schools Environment Programme, which teaches our young people to respect and nurture our environment.

The Youth in Agriculture programme encourages participants to farm and become self-sufficient.

The programme is active in 26 schools in St. Mary and has been very successful in training young farmers.

Acknowledgements

This past year has been a difficult one with many challenges at all levels. I have been fortunate to have the support and dedication of our Board of Directors who give unstintingly of their time to your Group. I thank them most sincerely.

After serving for 23 years, Mr. David Lord resigned from the Board in February 2001. His wise counsel and unfailing constructive and insightful contribution to our deliberations were appreciated and will be greatly missed.

The efforts and hard work of the staff, in sometimes difficult circumstances, have been invaluable and on behalf of the Board, I thank them.

C.H. Johnston
Chairman
April 10, 2001
