

Lascelles, deMercado & Co. Limited

Chairman's Statement

General Comments

Most countries in the world have been affected, in varying degrees, by the effects of the international economic recession. The purchasing pattern of cautious consumers has had a most profound and in some cases catastrophic impact on the affairs of many countries and the businesses operating there. The interdependence of countries and their businesses in this global community is a sharp reminder of the need to conduct the affairs of your Group to international standards so as to prosper in these harsh but potentially rewarding international conditions. Your Group is well advanced to becoming internationally competitive in those areas where it has not already done so.

Your Group has embarked upon a massive capital expenditure programme- over \$1.5 billion already invested or committed evidences the seriousness of our intent to upgrade our operations. New technology, including plant, equipment and information services, has been introduced with the single purpose of improving the productivity of the various members of your Group to make them all become internationally competitive. No amount of capital expenditure will, in itself, cause improvement in levels of productivity without a commensurate investment in developing our human capital which is now being expertly undertaken at all levels of management and staff by your Group's Learning Centre.

Notwithstanding the difficult economic circumstances both at home and abroad, the overall performance of your Group improved during the year under review and the financial results reflect significant growth in both turnover and in profits. The level of unrealised gains in quoted investments, although amounting to more than \$2.5 billion, did not fare as well and, rather, reflected the state of the international capital markets as the level reduced during the year.

Consolidated Profit & Loss and Balance Sheet

The Company's Balance Sheet and the Group's Consolidated Balance Sheet as at 30th September 2001 are submitted as well as the Consolidated Statement of Operations for the year ended on that date and the notes to those financial statements along with the Report of the Auditors.

For the second year in a row, turnover surpassed that of the previous year, growing at a rate nearly three times the rate of increase in the level of inflation. The Insurance Division led the Group's revenue rate of growth, followed by the Agricultural Division, both with rates in excess of 50% more than the previous year, with lesser, but nonetheless significant, rates of growth in the Food and Drug and Export operations.

The containment of administrative, marketing and selling expenses to single digit percentage increases allowed your Group to retain more of the gross profit generated from its increased turnover at the operating profit line. The fall in average lending rates, the modest increase in external borrowing and the use of internally generated cash resources to finance capital additions, all contributed to the reduction in net finance costs.

The combination of the greatly improved revenue stream and the containment in expenses, resulted in the rate of growth in the net profit surpassing the rate of growth in turnover.

Your Group's overall financial health continues to benefit from an increase in net cash provided by operating activities, the growth in net foreign currency assets and the substitution of high cost short-term debt with longer term loans with more favourable rates.

Subsidiaries' Performance

Our objective of international competitiveness and the shift in our benchmarks to global standards has begun to bear fruit, as evidenced by the performance of the subsidiaries in the Group.

Wines & Spirits Divisions

One of the most pleasing achievements of your Group is the attainment of the milestone of one million cases of Appleton Jamaica Rum sold in one year. This achievement should be regarded as just desserts for the many, many years of investment of both time and money and a fitting reward for the Group's longstanding export strategy. It is the result of the combined efforts of more than one Division in your Group - the distilling at Appleton Estate of the finest rum in the world, the ageing, blending and bottling in Kingston and the enlightened and persevering sales and marketing efforts of Wray & Nephew at home and our many important distributors overseas.

The Kingston Division continued to pursue its goal of becoming internationally competitive by installing a new state of the art bottling line; the benefits to be derived therefrom will accrue to our benefit starting in the next fiscal year.

The fortunes of the Export Division should be greatly assisted in the coming year by the agreement recently reached with Brown-Forman, a leading U. S. purveyor of premium spirits, to act as distributor of Appleton Jamaica Rums and certain other of your Group's brands in the U.S. market.

Mexico, Canada, New Zealand, Peru and the Caribbean continue to produce sterling sales results, facilitated in no small measure, by the efforts of our distributors in those countries.

Agricultural Division

The Appleton Estate sugar factory produced approximately 31,000 tonnes of sugar for the 2001 crop, significantly more than the 23,000 tonnes in the preceding year. This was made possible by augmenting its usual cane supply with almost all of New Yarmouth Estate's cane production. Significant increases in cane supply to satisfy the new capacity of the factory will have to be derived from greatly improving the productivity of existing land now under cultivation. To this end, three centre pivot irrigation systems were installed during the year under review, as a pilot project for more widespread irrigation, and they promise to produce cane at the planned amounts. Therefore, heavy investments are also being made in the fields to provide additional canes, thus synchronizing field output with factory capacity as well as with the distilleries.

For the 2002 crop, further capital expenditure will be made, the most significant being the addition of a new bagasse-fuelled boiler to yet again increase the factory grinding rate. When both the field and factory operations reach their optimum levels of production, it will be possible to complete the sugar crop during the ideal reaping cycle; this situation, perforce, will provide critical mass in terms of throughput to permit operations to reach levels well beyond the economic breakeven point.

At the completion of all these capital expenditure programmes, the Agricultural Division will be poised to operate in cane, sugar and spirit production to international standards, at which time, this Division will be in a position to once again contribute significantly to the financial fortunes of your Group.

Insurance Division

The Insurance Division achieved very significant growth in revenue over that of last year, with a smaller, but quite pleasing, increase in profits. This resulted primarily from a combination of new business and increased rates on existing business, whilst reduced investment income reflected the general decline in interest rates in Jamaica.

The Division has now completed, on schedule and on budget, the installation and commissioning of its industry-specific information system, an important ingredient in its drive to achieve world-class standards in underwriting risks, in customer service and operational efficiency.

Food and Drug Division

The Food and Drug Division enjoyed significant revenue growth over that in the previous year, although improvement in the profit performance was not as impressive. Much time has been, is being and will be spent in developing our relationship with Unilever as we continue to benefit from the shared expertise of this major multinational corporation. At the same time, Magnum Tonic Wine and Sangster's Cream Liqueurs and other Group-owned Brands continue to provide good financial returns. Reorganization, by merging common services across this Division, is in progress and is expected to result in reduced expenses and improved profitability.

The reorganization of Plastic Containers Limited is now complete as is the capital-upgrade programme. As a result, this company is now competing successfully and profitably with imported plastic products. Plans are in place to increase revenues by supplementing our usual sales to the juice and beverage market by developing a range of products for the industrial market.

Finding solutions for the information technology needs of this Division was one of its top priorities. The Division should be congratulated for identifying Axapta, a software package from Europe and implementing its installation and commissioning it on time and on budget. This is a good example of the help that we have been able to derive from our relationship with Unilever.

Automotive Division

In the Automotive Division, the BMW marque continues to grow in consumer favour as evidenced by the increase in Unit sales. We have been afforded much technical help, including the design and completion of a modern After Sales Facility to support, to BMW's international standards, our many new BMW car owners; already there are demonstrable improvements in customer satisfaction and profitability. In the other sections of the Automotive Division, a new General Manager of the Ford, Subaru and Daihatsu marques was appointed and yet another General Manager put in charge of the Rover and Land Rover marques. Clearly there are obvious benefits to be derived from managerial focus. I will comment in future Reports on the effect of these structural changes in the organization.

Other Subsidiaries

The revenue of Ajas Limited, your Group's aircraft handling subsidiary, recorded a modest increase over that of the preceding year as a result of it, once again, being able to increase its flight handling activity and this, together with modest increases in handling rates and devaluation gains, more than offset the decline in cargo volumes which was suffered primarily at Norman Manley International Airport (N. M. I. A.). However, cargo operations at N.M.I.A. have now been consolidated into a single location and it is anticipated that this move, along with the procurement of new cargo business, will improve the profitability of that segment in the coming year.

The September 11th terrorist attack in the U. S. A. had its most immediate impact on Ajas since the aviation industry came to a virtual standstill for some time after this event. Business is generally growing from the low point which was reached immediately after these terrible events.

The overall performance of your Group, achieving growth significantly ahead of inflation, and record level profitability, could be cause for some satisfaction, particularly in the light of both the local and global economic environment. Needless to say, this overall result is made up of a wide variety of individual subsidiaries' results. A diverse group of companies, achieving uniformly excellent results is a worthwhile objective, but the harsh realities of today's business world makes its achievement highly unlikely.

Despite the difficulties of a few subsidiaries, the overall result stands as testimony to the efficacy not only of your Group's operating policies, but of the diverse composition of your Group itself.

Investments

The consolidated book value of the Investment Portfolio increased from \$604,585,000 at 30th September 2000 to \$683,389,000 at 30th September 2001. The excess market value over cost of the Group's quoted investments decreased from some \$3,186 million to \$2,642 million at September 2000 and 2001 respectively. This decline, in the opinion of your Directors, is not considered permanent and results from the downturn in the U.S. stock market during the year.

Board of Directors

One of your Directors, Lt. Col. Paul Hire-Miller is due to retire by rotation at the forthcoming Annual General Meeting (A. G. M.). Although eligible to stand for re-election, Lt. Col. Hire-Miller has informed me of his unwillingness to do so and, instead, to go on full retirement effective at the close of the forthcoming A. G. M. Lt. Col. Hire-Miller joined the company in an executive position in 1959 and was called to the Board in 1977. He retired as an executive in 1993 but remained on the Board in a non-executive capacity. At his own wish, as I have said, he will demit office as a Director at the close of the 2002 A. G. M. I would like to place on record our thanks to Lt. Col. Hire-Miller for his many years of service to the company and to wish him a happy retirement for many years to come.

Cash Distribution

Dividends on the 6% Cumulative Preference Stock and on the 15% Cumulative Preference Stock have been paid. The annual (ordinary) stockholders dividend of 2 cents per ordinary stock unit to stockholders on record as at March 19, 2002 will be paid out of franked profits on April 2, 2002.

Lascelles, deMercado Community Fund

The Community Fund continued to contribute to deserving causes in many areas during the year under review, on behalf of the Lascelles, deMercado Group of Companies.

Staff and Facilities

The Lascelles, Henriques et al Superannuation Fund continued to operate successfully under the guidance of its Trustees and Secretary. The extensive benefits, which it affords to members of staff in the fields of Pension, Disability and Life Insurance cover, are a source of great satisfaction to your Directors.

The Lascelles Employees' Co-operative Credit Union continued to function well during the year under review. Your Directors are happy with the continued interest shown by the Board of the Credit Union and its Secretary as well as its Members, in all the affairs of the Credit Union. Its facilities are proving to be of great benefit to its Members.

Your Directors are happy to record their recognition of and appreciation for the loyalty and keen interest shown by the Management and Staff of all Companies in the Group during the year under review.

G.N. Ashenheim
Chairman