Lascelles, de Mercado 1997

Chairman's Statement

To be submitted to the Stockholders at the Eighty Third Annual General Meeting to be held on the 19th May, 1998 at 11:00 o'clock in the forenoon.

OPENING REMARKS

Jamaica's economy contracted during the year under review creating the most difficult business conditions. The continuation of the policy of high interest rates and persisting with an over valued currency has resulted in challenging the financial viability of all highly geared businesses involved in productive enterprise, whether for the local or export markets. If this policy, which already has been in place for far too long, is continued for much longer it will have the inevitable consequence of destroying the productive base of the country. No sector of the economy has been spared the terrible consequences of this overworked policy. The ability of the productive sectors to continue will, if there is to be no policy change, be dependent upon direct assistance from the Government of Jamaica - an unsustainable solution. The task and responsibility of rebuilding the productive base of the country will come at great cost which will have to be shared by all Jamaicans and those yet unborn.

In my Statement last year I remarked that the very strong debt-to-equity ratio and the adequate working capital ratio of Lascelles, as reflected in the Group Balance Sheet then, placed it in a position to weather the economic storm. This remark is equally applicable to Lascelles this year and is a source of comfort when planning the affairs of your Group. We have not and we will not waiver in our export effort as we believe that it is just a matter of time for the currency and interest rates to find internationally competitive levels.

CONSOLIDATED PROFIT & LOSS AND BALANCE SHEET

The Company's Balance Sheet and the Group's Consolidated Balance Sheet as at 30th September, 1997 are submitted as well as the Consolidated Profit & Loss Account for the year ended on that date, and the Notes to those Financial Statements and the Report of the Auditors.

Compared to last year, the Group recorded a smaller Profit attributable to the Members due primarily to the effects of the economic environment generally and on our sugar operations in particular. Profit after Taxation for the year under review decreased when compared to that of the previous year. Details of the foregoing are set out elsewhere in this report.

The Wines and Spirits Division is committed to establish our brands worldwide. The Division has over many, many years firmly established its rums as the number one spirit in Jamaica and must therefore continue if not intensify its investments in building international brand equity. The economic policies and by extension the economic conditions in Jamaica make it increasingly difficult to allocate investment dollars to new markets even those that promise an exciting future. Notwithstanding these circumstances, the Division has not lessened its efforts in existing markets as we remain committed as ever to the development of those export markets and growing our brand equity.

Our development plans for the U.S. market have led to the closure of our U.S. subsidiary, Carriage House Imports, at no little cost, in order to let l.D.V., one of the world's largest spirits companies, handle our brands in that market. I.D.V.'s undoubted market knowledge and their distribution channels will greatly enhance our effort there. On 1st October 1997 your Group activated Wray & Nephew (Canada) Limited, a wholly owned subsidiary, in order to further focus our attention on our brand building efforts in the Canadian market.

Finally, although the revaluation of the Jamaican dollar has made it more difficult to operate, the Division has instituted a programme of cost containment, the savings therefrom when added to other resources have provided the financial wherewithal to cover the cost of putting away an ever increasing quantity of rum for aging to meet the expanding export markets.

1997 was an extremely difficult year for the Agro-Industrial (AGRI) Division and indeed for the whole sugar industry. The revaluation of the Jamaican dollar and the pound Sterling resulted in a drop of sugar price from approximately $20,500 per ton to approximately $17,100 per ton; a 17% drop in revenue would be untenable in the short term at least for most agricultural enterprises. Despite this, we are firmly committed to being a net foreign exchange earner as we believe the unfriendly (to exporters) exchange rate is unsustainable and the natural forces of the global market will cause the Jamaican dollar to find an internationally competitive level resulting in the re-establishment of the full fortunes of this Division.

Knowing how difficult it is to exploit export markets, we have put ourselves in a position to take advantage of the generous preferential sugar markets in Europe and the United States. Sugar is still an important contributor to our status as a net foreign exchange earner, a status that was arrived at by a fulfillment of carefully laid plans, not chance. This strategy has led us to undertake a massive expansion of the Appleton Estate factory to achieve much greater efficiencies in the future and to do this in such a way as to facilitate even further expansion at minimal cost should further increase in cane supply warrant such a course.

The Insurance Division was once again able to operate profitably although at a reduced level when compared to the previous year. Competition within the Industry caused a significant reduction in rates rendering certain underwriting risk unacceptable. This led to a contraction in the book of insurance business being underwritten, the quality of which has enabled profits to be generated therefrom. While other Divisions of our Group suffer mightily under the present economic regime, the Insurance Division seeks to exploit that regime fully by taking advantage of the high interest rates on investment funds. It is pleasing to note that not only is this Division profitable, but it has consistently made underwriting profits despite the not-so-healthy general insurance sector.

The Automotive Division comprises two of the oldest and most respected car dealerships in Jamaica, John Crook Limited and Kingston Industrial Garage and a third subsidiary, Cars and Commercials Limited, representing a broad range of marques including Ford, Rover, Daihatsu and Subaru. The merger of these operations during the year under review happened simultaneously with the acquisition of the BMW Agency and has been substantially buoyed by that acquisition. The losses in this Division of 1996 have been turned around into a small profit in 1997 and we believe that the foundation laid by the merger will form the basis of profitable operations in the future.

The Food and Drug Division continued the trend established in the preceeding year of increasing sales volumes. However, the cost of securing increased sales, especially the cost of credit including the writing off of bad debts, caused the Division to incur a loss from operations during the year under review. Steps will be taken, including a reorganization of management, to correct this situation.

Ajas Ltd., your Group's aircraft handling subsidiary, realizing that its revenue to very large extent is denominated in United States dollars set about to increase its book of business as being the route to survive the effects of revaluation of the Jamaican dollar. To the extent that AJAS was able to post an increase in operating profit is a source of great pride as it truly reflects the results of management's ability to innovate.

The Consolidated Book Value of the Investment Portfolio after being reclassified to conform with current generally accepted accounting practice, increased from $531,639,000 at 30th September 1996 to $594,443,000 at 30th September 1997.
The excess of market value over cost of the Group's Quoted Investments decreased from some $1,512 million to some $1,463 million at 30th September 1996 and 1997 respectively.

CASH DISTRIBUTIONS

Dividends on the 6% Cumulative Preference Stock and on the 15% Cumulative Preference Stock have been paid. Interim Dividends and Distributions were declared and paid to the Holders of Ordinary Stock in March and September 1997.

LASCELLES COMMUNITY FUND

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

STAFF & 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 and 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.

GEORGE ASHENHEIM
Chairman