

Pan-Jamaican Investment Trust Limited 1996

Statement from the Chairman and from the President

The year opened with the now familiar reliance on high interest rates as a means of monetary control. Predictably, there were relatively high levels of private capital inflows. The Net International Reserves (NIR) improved to US\$692.6 million and the Jamaican dollar enjoyed a revaluation of 12% vis a vis the U.S. dollar.

In a departure from previous policy, the growth in monetary supply was severely restricted with a consequent dramatic reduction in inflation to 15.8%, almost 11 percentage points below the level of the previous year. This was achieved, however, with substantial increase to domestic debt. Of more critical and immediate concern was a deepening of the difficulties faced by several major financial institutions as the consequences of their use of short term loans to finance long term assets took full toll.

The fall-out in the financial sector, the rapid expansion of which had been propelled by years of high inflation, seriously affected growth prospects for the economy and exacerbated a tenuous investment climate.

The major companies within the Pan-Jamaican Group, notably in the property and trading divisions and to a lesser extent those engaged in insurance and banking services, performed reasonably well in these circumstances. However, the weaker manufacturing and agricultural entities failed to achieve the necessary turn-around in their operations.

Gross income for the Group increased 4% to \$2 billion. Group profit before interest and taxation however, declined marginally by 2% to \$227.5 million from \$231.7 million in 1995. Profits attributable to stockholders fell 4% to \$69.5 million compared to \$72.3 million in the previous year.

ASSETS

Group assets at December 1996 were valued at \$3.3 billion compared to \$3.5 billion in the previous year. For the first time in some two decades, Jamaica experienced a reduction in property values, this by 11% as determined by our property valuers. Consequently, PanJamaican's investment properties, while clearly remaining the bulwark of our Group, reflected a valuation of \$1.6 billion in December 1996 compared to \$1.8 billion at December 1995.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended December, 1996.

INSURANCE, PROPERTY, BANKING & OTHER

First Life Insurance Company Limited
Jamaica Property Company Limited
Jamaica Property Development Limited
Jamaica Property Management Limited
Pan Caribbean Merchant Bank Limited
Portfolio Partners Limited
St. Andrew Developers Limited

The Insurance, Property and Banking division, representing sectors which bore the initial brunt of the escalating economic difficulties in 1996, had gross income of \$819 million, 11% less than the \$916.5 million recorded in 1995. Profits for the division declined 8% to \$194.7 million.

First Life Insurance Company, in concert with the rest of the insurance industry, was severely challenged by the poor investment climate, the particular difficulties in containing the cost of marketing and administering individual life policies and decline in confidence among the insured public.

First Life, however, with the advantage of strong capitalization, minimal asset/liability mismatch and decisive cost-cutting measures between 1995 and 1996, fared considerably better than most others within the sector.

The Individual Life line of business was most radically affected by cost containment and consolidation measures. New annualized income fell by 12% to \$29.23 million as uneconomical branches were closed, the complement of agents reduced and sales commissions restructured. The industry continues to seek optimum approaches to ensuring viability in writing and preserving this line of business.

Consequent on the company's emphasis on quality business as opposed to market share in Employee Benefits, net earned premiums for health insurance increased 10% to \$313.3 million with attendant improvement in contribution to profits. Pension Funds under management increased 30.2% to \$471.8 million with an average yield of 19.4% while Creditor Life business which covers the lives of those accessing bank loans, posted flat net premiums of \$32.3 million.

Jamaica Property Company Limited, holders of the division's property portfolio, performed well in a depressed real estate market and in light of increased softening of the demand for office rentals. Jamaica Property Development Limited continues to seek opportunities to fill developmental needs particularly in the low to middle income housing sector as allowed by current market conditions.

Pan Caribbean Merchant Bank (PCMB) increased revenues by 4% to \$83.5 million in the period under review. Strong growth was recorded in the bank's capital markets division as well as in trade, finance and corporate trust. PCMB's high rating in the Bank of Jamaica's upgraded inspection report reflected improvements in financial control, operations management and information technology.

In keeping with the Group's determination to increase efficiencies where possible, the portfolios of PCMB and Portfolio Partners Limited were merged in June 1996 with consequent improvement in revenues and lowering of administrative costs.

TRADING DIVISION

Hardware & Lumber Limited
H&L Agri & Marine Company Limited
H&L True Value Limited
Office Services Limited
Wherry Wharf Sales Company Limited

The Trading division performed satisfactorily in a highly competitive market, with all the companies within the division recording positive results. Gross income was \$1.1 billion, an increase of 21% over 1995 while profits before interest and taxation increased 12% to \$73.1 million.

In wholesale business, lumber sales accounted for a 10% increase in gross profits despite some slippage in this area of trade as a whole.

H&L Agri & Marine Company Ltd. continued on its growth path recording a 15% increase in sales. This company has established strong links with major international suppliers and won wide respect both through provision of technologically advanced products and close interaction with the agricultural sector.

A welcome improvement was recorded in the performance of Office Services Ltd. (OSL). The company which has an excellent reputation in interior construction spanning some thirty years, continued to attract major clients for its core business as well as in its office maintenance and scaffolding departments.

An opportunity for a major thrust in retail marketing has been presented by the formalizing of an alliance between Hardware & Lumber Ltd. and True Value International, one of the largest hardware cooperatives worldwide with membership in excess of 10,000. Four refurbished retail outlets in Kingston and Ocho Rios have superseded the old Hole-in-the-Wall stores and hold much promise for successfully tapping the expanding home improvement market.

MANUFACTURING DIVISION

Scott's Preserves Limited
Busha Browne's Company Limited

The manufacturing division recorded a very disappointing year in which gross income declined by 26% to \$60.7 million and losses increased to \$22.5 million.

Uneconomical levels of operations at the Scott's factory in Twickenham Park could not be sustained and the decision was taken to close this plant in September 1996. However, it is not expected that the supply of Scott's and Busha Browne's processed foods and condiments, several of which have been successfully marketed both locally and overseas, will be affected as arrangements have been made to fully utilize contract manufacturers for these products.

The Pan-Jamaican Group remains committed to pursuing opportunities for export earnings and continues to encourage the unique product development and creative marketing in the United Kingdom and United States by which the Busha Browne's Company in particular has distinguished itself.

AGRICULTURE

Long Pond Estates Limited
Jamaican Floral Exports Limited

During the year under review, the Agricultural division once again posted substantial losses of \$17.9 million.

Efforts to secure refinancing of the Long Pond sugar factory in Trelawny and salvage the Group's investment in this venture included a Rights Issue under which loan notes were issued to existing shareholders with the option to convert to 'A' Shares in the company.

J. Wray & Nephew has contributed substantially to the capital injection and provides the management strength and experience vital to the company's prospects for return to profitability.

Jamaican Floral Exports returned a small operating loss consequent on lower prices in the export market due to the revaluation of the Jamaican dollar and some loss of production resulting from unfavourable weather conditions in the first half of the year.

GENERAL

In the year under review and in subsequent months, Jamaican businesses have been severely affected by illiquidity, an under-performing economy and damaging loss of investor confidence.

The Pan-Jamaican Group has been able to maintain its strong asset base and avoid both the prospect of forced liquidation in a depressed market or the necessity of Government assistance.

In the period during which the economy moves toward righting itself with attendant recovery in equity and real estate values, Pan-Jamaican will continue its consolidation of proven areas of strength, its demand for cost containment and independent profitability of companies within the Group.

Our directors and management teams have had the difficult task of balancing the need for aggressive strategies with caution in an environment of low risk tolerance. We acknowledge their efforts to protect and serve our shareholders and diverse customers whose continued support and confidence are greatly valued as we face the challenges ahead.

Maurice W. Facey, O.J., J.P.
Chairman

Richard O. Byles, M.Sc., B.Sc.
President and Chief Executive Officer
