Pan-Jamaican Investment Trust Limited 1997

STATEMENT FROM THE CHAIRMAN

& FROM THE PRESIDENT

Pan-Jamaican Investment Trust Ltd. experienced mixed results in the difficult economic conditions of 1997 with profit slipping marginally but with the overall strength and viability of the Group unimpaired.

The achievement of price stability and low inflation were the Government's overriding objectives for the period, hence except for some respite early in the year, the policy of protracted reliance on high interest rates was pursued as a means of containing money supply in tandem with use of the Net International Reserves to defend the exchange rate against strong speculative pressure.

The result was single digit inflation of 9.2% for the first time in ten years and a limited depreciation of 3% in the rate of exchange.

Success in the reduction of inflation, however, came at the expense of factors conducive to growth in the economy and real output fell by more than 2% for the second year in succession. Notable declines were recorded in manufacturing and agriculture, the latter exacerbated by drought conditions for much of the year. Most significantly, the fall-out in the financial services sector which began in the latter half of 1996 escalated toward crisis proportions with Government being obliged to intervene in support of banks and insurance companies with some $75 billion to date.

In this environment of a contracting economy, the Pan-Jamaican Group recorded improved results in its insurance, property and banking interests.
Profits returned in its trading operations were, however, disappointing and there were continuing losses in the manufacturing and agricultural divisions.

Gross income for the Group rose marginally by 6.7% to $2,146.5 million over that recorded in 1996 while Group profits before interest and taxation at $194.5 million showed a decline of 14.5% compared to $227.5 million a year earlier. Profits attributable to shareholders similarly declined 11.3% to $61.7 million from $69.5 million in 1996.

Assets

Group assets at December 31, 1997 were valued at $3,448.1 million, an increase of 5.5% on the 1996 value of $3,267.0 million. Investment properties reflected a valuation of $1,605 million compared to $1,589 million in 1996 and net worth for the Group improved marginally to $1,270.0 million from $1,247.4 million in 1996.

Dividends

The Directors propose no further dividend payment in respect to 1997 besides the interim 2 cents per share Capital Distribution made in November of that year.

Insurance, Property, Banking & Other

In a climate in which major life insurance and banking entities faced insolvency and were forced to seek extensive Government support, the insurance, property and banking division performed creditably to post improved revenue of $1,071.2 million compared to the previous year's earnings of $1,007.7 million.
There was a corresponding marginal increase in operating profits for the period. However, a decision to fully provide for the Holding Company's equity investment in Long Pond Estates reflected in profits before interest and taxation declining slightly to $191.0 million from $194.7 million in 1996.

First Life Insurance Company's main areas of operation namely Group health and life insurance, individual life insurance and pensions management all recorded improved contributions to the division's performance. This was partly a reflection of the determined effort to reduce overhead expense and achieve higher levels of productivity.

The Company's group health line of business which has traditionally enjoyed a leadership position in the market, has been targeted as a growth area for the company. The emphasis on providing superior service was rewarded with a 30% increase in premiums to $407 million compared to $313.3 million in 1996. At December 1997, market share stood at 45% as opposed to 34% a year earlier.

Pension funds administered by the company increased by 33.6% to $611.6 million from $457.8 million in 1996 with a satisfactory average yield of 20% recorded. Creditor Life which covers the lives of those accessing bank loans, showed modest growth of 6.8% to record premiums of $34.5 million for the year under review.

The deliberate and far-reaching efforts to contain the cost of writing new individual life business resulted in a substantial reduction in annualized premium income from $29.3 million in 1996 to $10.3 million in 1997. However, given the reduction in front-end costs, the division returned profits of $2.0 million compared to a loss of $8.4 million in the previous year.

In 1997, First Life's investment portfolio yielded 22.3% on average assets. Net investment income fell to $99.1 million from $122.2 million in 1996, however, investment assets grew by $205.3 million to $2,530.4 million compared to $2,325.1 million recorded in the previous year.

Jamaica Property Company Ltd. in which the bulk of the Group's investment properties reside, posted flat earnings of $190.2 million compared with prior year earnings of $188.7 million. Despite the continued malaise in the economy and attendant downturn in demand for commercial space, the company achieved some improvement in its vacancy factor which stood at 11% at year end. The company, whose development subsidiary enjoys a long and outstanding reputation for commercial and residential development, continued to pursue new initiatives in the low income housing sector.

First Life's subsidiary, Pan Caribbean Merchant Bank, performed satisfactorily in a year marked by losses and closures in the banking sector. Revenue and pre-tax profits were flat at $59.6 million and $7.7 million respectively. Positive developments for the bank included its success in limiting credit related exposure by increased fee business, modest but encouraging growth of 32% in its assets under management and continued satisfactory rating by the Bank of Jamaica.

Trading Division

The trading Division recorded gross income of $1,045.5 million, a 12.3% increase over income of $926.6 million in 1996. However, profits for the period fell sharply to $40.3 million from $73.2 million recorded in the previous year.

This performance was attributable to a number of factors common to the sector, including high financing costs reflected in a 7.6% decline in residential and non-residential construction during the year, tight liquidity with attendant downturn in activity by retailers and reduced margins necessitated by an influx of imports on the market.

The Hardware and Lumber wholesale division recorded an 11% increase in sales for 1997. However, net profits for the period were flat. In response to strong and increasing competition in the business, the company implemented cost saving measures during the review period and continued to rationalize its product range and volume.

The retail division under the H&L True Value banner showed notable improvement with sales 32% above 1996 levels. The division has responded positively to comprehensive efforts to firmly position True Value in the marketplace and plans are being pursued to maximize the division's potential as a major growth area for the Hardware & Lumber Group.

H&L Agri & Marine continued its focus on the supply of branded, technologically advanced agricultural products and the forging of close links with major participants in the sector. The division's performance, however, was significantly affected by high finance costs and severe drought conditions as reflected in flat sales for the period under review.

Office Services Limited, specialists in interior construction and maintenance, suffered a 7% fall in sales and similar decline in profits as a result of the significant curtailing of building activities.

In July 1997 the Directors of Pan-Jamaican Investment Trust communicated to shareholders of Hardware & Lumber Ltd. their proposal, in light of the company's financial position and the performance of its shares on the Jamaica Stock Exchange, to take the company in significantly new directions involving risks not consistent with its position as a publicly listed entity. An offer was made to the shareholders of Hardware & Lumber to purchase all the ordinary shares not owned by Pan-Jamaican.

As a result, Pan-Jamaican acquired an additional 11.4% of Hardware & Lumber shares, a quantity insufficient to take the company private and effect the plans for restructuring of its core operations. Alternative approaches more acceptable to the company's shareholders will therefore have to be pursued in our continuing efforts to improve the Group's profitability.

Manufacturing Division

The manufacturing division lost substantial ground in 1997 suffering a 62% decline in gross income and losses of $11.6 million.

The prevailing economic climate and consequent reduction in contract sales forced a decision to close the Twickenham Park factory in late 1996 and terminate arrangements for co-packing other brands.

Commencing in 1997, the Group effected a programme to outsource production and concentrate exclusively on marketing of the Scotts and Busha Browne's brands. The downturn in sales reflected this reorganization as well as difficulties in sourcing adequate raw material.

An aggressive programme to expand production during 1998 has been put in place in concert with our co-packers. Busha Browne's Company Limited continues on a path of planned growth in the USA and Canada while postponing re-entry to the UK/EEC until adequate production levels have been achieved. The emphasis in Scott's Preserves will be on rebuilding its local market share in tandem with a modest export programme targeting the ethnic market in the USA.

Agriculture

The Agricultural Division also recorded a decline in the year under review with gross earnings of $11.7 million compared with $17.5 million in 1996 and losses of $25.2 million.

Jamaican Floral Exports recorded an operating loss as orchid production fared badly in the prevailing weather conditions while anthurium production was once again affected by blight.

The sugar operations in Trelawny suffered from the severe drought and continues to be funded through convertible loan notes from J. Wray & Nephew Limited which, under an agreement reached in 1995 provides the management at the factory.

General

Having attained a measure of economic stability for two consecutive years, the challenge for the economy is to lower interest rates to spur investment and growth, but in a manner that does not reverse some of the undoubted gains. The orderly transition to growth is therefore the task at hand and success is going to require a unity of effort by the Government and the private sector working for the best interest of the country.

The Pan-Jamaican Group has responded to the stringent demands of the past three years by consolidation and reorganization of operations where necessary for optimum efficiencies and ultimately, protection of our asset base.
Whilst this necessary emphasis on consolidation needs to continue, it now needs to be more equally matched by efforts to secure opportunities for growth.

We should like to acknowledge the committed efforts of our management teams and staff across the Group to meet these objectives and to thank our shareholders and numerous customers for their confidence and support during a challenging period.

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

Richard O. Byles, M.Sc.
President & Chief Executive Officer