Pan-Jamaican Investment Trust Limited 1997

Notes to the Financial Statements

31 December 1997

1. Significant Accounting Policies

   (a) Accounting convention,

   These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain securities, investment in subsidiaries and investment properties.

   (b) Consolidation

   The group financial statements comprise the financial statements of the company, its subsidiaries and associated companies made up to 31 December 1997 except for Long Pond Estates Limited which is made up to 30 September 1997.

   All amounts are stated in Jamaican dollars. At 31 December the rate of exchange was approximately J$36 to US$1(1996:J$35 to US$1).

The wholly and partly owned subsidiaries at 31 December 1997 are:

	Principal Activities	Proportion of issued equity capital held 67	
		Company	Subsidiary
First Life Insurance Company Limited	Life and Health Insurance		73%
Jamaica Property Company Limited	Office Rental		100%
Jamaica Property Development Limited	Property Management		100%
Jamaica Property Management Limited	Property Management		100%
Pan Caribbean Merchant Bank Limited	Merchant Banking		100%
Pan Caribbean Investments Limited	Financial Services		100%
Portfolio Partners Limited	Investment Management		100%
Hardware and Lumber Limited	Trading		69%
H.& L. True Value Limited	Trading		100%
H.& L Agri & Marine Company Limited	Trading		100%
Hole-In-The-Wall Limited	Trading		100%
Office Services Limited	Construction and Janitorial Services		100%
Wherry Wharf Sales Company Limited	Trading		93%
Jamaican Floral Exports Limited	Horticulture	80%	
Jamaican Floral Exports (1993) Limited	Horticulture		50%
Jamaican Heart Limited	Horticulture		100%
Pan-Jamaican Mortgagee Society Limited	Financial Services	100%	
Scotts Preserves Limited	Manufacturing	100%	
Busha Browne's Company Limited	Distribution		100%
Busha Browne's Company Limited (Incorporated in the Bahamas)	Distribution		100%
Scotts of Jamaica Limited	Distribution		100%

The company and all subsidiaries, except where indicated otherwise, are incorporated in Jamaica.

During the year, a subsidiary, Inter-Amco Inc., was sold. The results of Inter-Amco Inc. have been included in the consolidated profit and loss, up to the date of disposal.

The group acquired an additional 11% of the issued share capital of Hardware & Lumber Limited during the year.

(c) Expenses

Expenses are charged to income as incurred except for amounts allocated to lands awaiting development, construction in progress and developments for sale, subject to carrying costs not exceeding realisable value. Expenses which relate to future periods are included in deferred expenditure and amortised over the expected periods of benefit.

(d) Fixed assets and depreciation

Fixed assets are stated at cost, with the exception of certain freehold land and buildings which are stated at depreciated replacement cost or market value as computed in 1977. Additions subsequent to valuation are stated at cost. The cost or valuation of fixed assets is written off on the straight line method over the expected useful lives of the assets held at the beginning of the year. The expected average useful lives are as follows:

Buildings	20 to 50 years
Plant, furniture and equipment	8 to 15 years
Motor vehicles	5 years
Leasehold improvement	Life of lease
Plant stock	5 years
Leased assets	Life of lease

Gains and losses arising on disposal of fixed assets are dealt with in the profit and loss account.
Repairs and maintenance expenditure are charged to profit and loss account.

(e) Investment properties

Freehold land and buildings held for investment are stated at market value. Valuations are revised on the basis of annual appraisals carried out by independent property appraisers and valuers.

(f) Investments

Investments are stated as follows:

(i) Quoted equities held by the insurance and banking subsidiaries at market value and all other equities at cost with adjustment for any permanent diminution in value;

(ii) Unquoted equities are stated at cost with adjustment for any permanent diminution in value;

(iii) Government of Jamaica and other securities at cost after provision for any anticipated loss on realisation;

(iv) Mortgage loans at the aggregate of the unpaid principal;

(v) Policy loans at the aggregate of the unpaid balance;

(vi) Investments in associated companies are accounted for using the equity method of accounting;

(vii) Assets held under repurchase agreement are stated at cost;

(viii) Commercial paper investment is stated at cost;

(ix) Deposits are stated at cost.

(x) Equity investment is stated at the cost of the investment plus the group's and company's share of reserves arising since acquisition of the investment.

(q) Investment reserves

The group's life insurance subsidiary, First Life Insurance Company Limited, reflects realised gains or losses together with unrealised appreciation or depreciation in market values of quoted equities and investment properties in investment reserves. A percentage of this reserve is transferred annually to the profit and loss account.

(h) Reserve for future benefits

The reserve for future benefits to policyholders is calculated by the company's actuary based on the details of business in force at the year end, and represents the amount required, together with future premiums and interest, to provide for future benefits on insurance and annuity contracts. These reserves are actuarially determined using interest and mortality assumptions appropriate to the policies in force. Movements in reserves are reflected in the profit and loss account.

(i) Taxation and deferred taxation

Taxation charged in these financial statements is based on the profit for the year. Deferred taxation is recorded only in respect of timing differences which are expected to reverse in the foreseeable future.

(j) Foreign currency translation

Assets or liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Losses or gains are reflected in the profit and loss account.

(k) Inventories

Inventories are stated at the lower of cost and net realizable value, cost being determined on the FIFO and average cost bases.

(l) Finance leases

The gross investment in finance leases net of unearned income is recorded as a receivable balance. Income is recognised over the term of the lease.

(m) Provision for credit losses

Provision for credit losses is based on management's evaluation of the potential losses in the credit portfolio, taking into consideration the business and economic conditions.

(n) Premium income

Premiums are recognized as earned when due and are stated net of reinsurance premiums.

(o) Retirement benefit plans

Retirement benefits are actuarially determined based on career earnings. Employers' contributions to fund past service deficiencies and future service liabilities are made monthly and are charged to the profit and loss account.

2. Consolidated Profit and Loss Account

(a) Group profit before taxation is arrived at after taking into account the following items:

	1997	1996
	$'000	$'000
Interest earned from banking operations	35,546	47,110
Investment income	101,120	118,053
Directors' emoluments		
Fees	74	25
Other	19,637	17,197
Auditors' remuneration		
Current year	11,810	10,911
Prior year	71	883
Depreciation	31,608	31,112
Provision for credit losses	6,229	896
Amortisation of deferred expenditure	3,896	4,362
Profit on disposal of subsidiary	3,323	-
Share of (profit)/losses in associated companies	**(7,874)**	**10,274**

(b) Interest

	1997 $'000	1996 $'000
Mortgage debentures and fixed loans	11,260	15,675
Bank overdraft and other	40,505	67,128
Interest on banking operations	22,027	21,669
	73,792	**104,472**

(c) The charge for taxation comprises:

	1997 $'000	1996 $'000
Income tax at 33 1/3%	3,468	4,001
Prior year (over)/underprovision of income tax	(1,880)	3,515
Premium tax	2,837	2,754
Investment income tax	8,774	8,584
Share of tax charge of associated company	-	74
Stamp duties	2,136	7,096
	15,335	**26,024**

Subject to the agreement with the Commissioner of Income Tax, tax losses available for set off against future profits of certain subsidiaries amounted to $228,121,000 (1996 - $194,166,000)

	1997 $'000	1996 $'000
(d) Net loss dealt with in the financial statements of the holding company was	**(24,250)**	**(3,067)**

3. Dividends

The company made capital distribution of 2 cents per share.

4. Earnings per Stock Unit

The calculation of earnings per stock unit is based on:

(i) the group profit after taxation and minority interest;

(ii) the weighted average number of units in issue during the year (1997- 158,040,000; 1996 -152,521,271);

5. Fixed Assets

THE GROUP

	Land & Buildings $'000	Leasehold Improvement & Plant Stock $'000	Work in Progress $'000	Plant, Equipment & Furniture $'000	Motor Vehicles $'000	Total $'000
Cost or Valuation -						
1 January 1997	28,271	33,398	19,291	171,925	28,208	281,093
Additions	85	2,110	5,598	18,549	2,207	28,549
Disposals	(4,983)	(5,880)	-	(26,490)	(3,106)	(40,459)
31 December 1997	23,373	29,628	24,889	163,984	27,309	269,183
Depreciation -						
1 January 1997	11,929	12,607	-	64,771	11,181	100,488
Charge for the year	4,078	2,727	-	20,058	4,745	31,608
On disposals	(39)	(2,356)	-	(12,767)	(2,086)	(17,248)
31 December 1997	15,968	12,978	-	72,062	13,840	114,848
Net Book Value -						
31 December 1997	**7,405**	**16,650**	**24,889**	**91,922**	**13,469**	**154,335**
31 December 1996	**16,342**	**20,791**	**19,291**	**107,154**	**17,027**	**180,605**

THE COMPANY

	Leasehold Improvement $'000	Plant, Equipment & Furniture $'000	Motor Vehicles $'000	Total $'000
Cost -				
1 January 1997	199	2,636	1,853	4,688
Additions	-	6	-	6
31 December 1997	199	2,642	1,853	4,694
Depreciation -				
1 January 1997	133	1,319	736	2,188
Charge for the year	15	206	309	530
31 December 1997	148	1,525	1,045	2,718
Net Book Value -				
31 December 1997	**51**	**1,117**	**808**	**1,976**
31 December 1996	**66**	**1,317**	**1,117**	**2,500**

6. Investment Properties

Investment properties were valued at current market value as at 31 December 1997 by The C.D. Alexander Company Realty Limited, property appraisers and valuers.

7. Investments

	THE GROUP 1997 $'000	THE GROUP 1996 $'000	THE COMPANY 1997 $'000	THE COMPANY 1996 $'000
Associated companies -				
Cost	55,273	55,900*	48,358	44,358
Group's/company's share of -				
Net loss	(45,315)	(53,189)*	(36,144)	(36,144)
Write down of investment	(12,214)	-	(12,214)	-
Reserves	45,445	45,519*	-	-
	43,189	48,230	-	8,214
Equity Investment	55,710	52,984*	-	-
Quoted	71,015	65,809	35,012	35,032
Unquoted	7,468	3,877	562	1,572
Government of Jamaica and other securities	400,220	130,453	22,410	15,474
Mortgage loans	22,774	22,727	-	-
Assets held under repurchase agreements	82,944	165,200	-	-
Commercial paper	10,000	-	-	-
Deposits	-	7,635	-	-
NHT contributions	161	265	12	12
	693,481	**497,180**	**57,996**	**60,304**

The group's associated companies and shareholdings are as follows:

Proportion held by First Life Insurance Company Limited -

Impan Properties Limited	- 20%
Knutsford Holdings Limited	- 28%
St. Andrew Developers Limited	- 66%

Proportion held by the company -   - 40%
Long Pond Estates Limited

The Group's investment in St. Andrew Developers Limited is intended to be short term and, as a result, this is accounted for on the equity method.

The National Housing Trust contributions were made prior to 31 July 1979 and are recoverable in the years 2001 to 2004.

* Reclassified for comparative purposes

8. Other Insurance and Banking Assets

	THE GROUP 1997 $'000	1996 $'000
Loans on policies	27,154	23,435
Loans to customers and lease receivables	245,991	255,307
Accrued interest	48,117	34,195
Customers' liability under guarantees	26,462	32,342
Receivables	62,583	77,697
Cash resources	65,692	75,217
	475,999	**498,193**

(a) Included in loans to customers and lease receivables is the group's investment in finance leases as follows:

Minimum lease payments receivable, less provision for losses	76,933
Less: Unearned finance income	(18,788)
	58,145

Minimum lease payments are receivable in the years ending 31 December:

	$'000
1998	36,258
1999	24,345
2000	13,152
2001	3,178
	76,933

(b) Cash resources include a subsidiary's statutory cash reserve with the Bank of Jamaica amounting to $25,222,000 (1996 - $17,524,000). This amount is held on a non-interest bearing basis and is not available for investment or other use by the subsidiary.

9. Deferred Expenditure

Deferred expenditure comprises -

	THE GROUP	
	1997	1996
	$'000	$'000
Horticulture development costs	8,849	3,906
Other expenditure	18,034	13,501
	26,883	**17,407**

Expenditure on horticultural projects is being amortised over five to six years. Other expenditure is amortised over three to five years.

10. Bank Indebtedness

	The Group		The Company	
	1997	1996	1997	1996
	$'000	$'000	$'000	$'000
Bank loans and overdrafts	48,145	116,754	12,755	31,093
Amounts included in -				
Current maturities	11,206	8,923	-	-
Long term liabilities	21,691	41,273	-	-
	32,897	50,196	-	-
Aggregate amount	**81,042**	**166,950**	**12,755**	**31,093**
Amount secured	**31,154**	**111,258**	-	-

11. Share Capital

	1997 $'000	1996 $'000
Authorised -		
Ordinary shares of 10c each	**17,500**	**17,500**
Issued and fully paid -		
Ordinary stock units of 10c each	**15,804**	**15,804**

12. Capital and Other Reserves

	THE GROUP 1997 $'000	THE COMPANY 1996 $'000
Share premium -		
Balance at beginning and end of year	14,768	14,768
Realised capital reserves -		
Balance at beginning of year	287,941	300,192
Capital gain arising on sale of subsidiary	2,227	-
Transfer to retained earnings -		
Capital distribution	(3,161)	(3,161)
Unquoted investments written off	(5,732)	(5,732)
.Write down of investment in associated company	(12,214)	(12,214)
	269,061	279,085
Unrealised capital reserves -		
Balance at beginning of year	16,402	-
Arising during the year -		
Exchange gain on translation of foreign subsidiary	322	-
Other	3,068	-
	19,792	-

Insurance and Banking Reserves		
Investment reserves:		
Balance at beginning of year	442,983	-
Arising during the year -		
Realised and unrealised gain on investment properties	24,558	-
Realised and unrealised gain on other investments (net)	13,147	-
Transfer to ordinary life business revenue account	(71,877)	-
Other	(7,340)	-
	401,471	-
Special reserves (note 13):		
Balance at beginning of year	33,142	-
Transfer from profit and loss -		
Insurance	8,067	-
Banking	2,883	-
	44,092	-
	749,184	**293,853**

13. Special Reserves

Insurance

First Life Insurance Company Limited has included actuarial reserves for future policyholder benefits as part of policyholders' funds and additional reserves that are required to be set aside by Insurance Regulatory Authorities as part of shareholders'funds. The Special Reserve represents:

(a) The sum of the negative reserves which have been offset in the reserve for future benefits, and

(b) The difference between the cash surrender value (CSV) of the policies and the reserve for future benefits, where the CSV is greater.

The reserve is non-distributable.

Banking

This represents the amount that Pan Caribbean Merchant Bank Limited is required to set aside under the licence under which it operates and is non-distributable.

14. Policyholders' Funds

	THE GROUP	
	1997	1996
	$'000	$'000
Policyholders'funds comprise the following actuarial liabilities:		
Reserve for future benefits receivables	368,951	383,962
Deposit administration funds	408,106	309,362
Pooled pension funds	203,494	156,988
Policy dividends on deposit	18,425	15,672
Other policyholders'funds	1,455	2,324
	1,000,431	868,308

The actuary has given his opinion that the actuarial liabilities are adequate to provide for future payments under the terms of the policies in force.

15. Other Insurance and Banking Liabilities

	THE GROUP	
	1997	1996
	$'000	$'000
Amounts due to other banks	41,809	44,541
Customers' deposits and savings accounts	105,238	92,697
Customers' liabilities under guarantees	26,462	32,342
Payables	75,265	80,529
Benefits payable to policyholders	14,667	10,144
Bank overdraft	99	-
	263,540	260,253

16. Long Term Liabilities

		THE GROUP		THE COMPANY	
		1997	1996	1997	1996
		$'000	$'000	$'000	$'000
Secured loans					
First mortgage debenture stocks					
9 1/2%	1975 - 1999	1,064	1,649	1,149	1,649
21%	1984 - 2001	500	500	500	500
13%	1976 - 2000	201	252	201	252
12%	1979 - 2003	1,329	1,651	1,489	1,651
21%	1988 - 1997	-	101	-	101
22%	1983 - 1997	-	149	-	149
21%	1988 - 1998	43	198	71	198
18 1/2%	1995 - 1999	6,000	9,000	6,000	9,000
22%	1985 - 2006	810	4,247	4,063	4,247
22%	1987 - 2007	-	1,323	1,279	1,323
First mortgage debentures -					
22%	1989 - 2009	-	1,000	1,000	1,000
Mortgage loans -					
15%	1983 - 2003	-	394	-	-
Bank of Nova Scotia Jamaica Limited					
Variable rate	1996 - 2001	717	1,218	-	-
Trafalgar Development Bank Limited					
32%	1990 - 1998	503	1,215	-	-
9.5%	1996 - 1999	-	5,250	-	-
13.5%	1996 - 1999 (US$101,309)	3,693	-	-	-
3%	1998 - 2002 (US$400,240)	14,644	-	-	-
Variable rate	1990 - 1998	11	4,106	-	-

Agriculture Development Bank				
11.5% 1999 - 2003	-	4,375	-	-
CIBC Jamaica Limited				
14% 1997 - 2000	11,586	17,500	-	-
Victoria Mutual Building Society				
12% 1997- 2001 (£1,000,000)	59,023	-	59,023	-
MF&G Trust & Merchant Bank Limited				
42% 1997 - 2001	914	1,183	-	-
Total Secured	**101,038**	**55,311**	**74,775**	**20,070**

	The Group		The Company	
	1997	1996	1997	1996
	$'000	$'000	$'000	$'000
Unsecured loans				
30% Debt Bonds 1994 - 1998	-	3,985	-	-
Variable rate Debt Bonds repayable 1993 - 1996	-	4,750	-	-
Variable rate loans repayable 1994 - 1998	1,743	4,058	-	-
Variable rate Debt Bonds				
1997 - 1998	16,000	-	-	-
1998 - 2001	25,490	-	-	-
2000 - 2001	16,000	-	-	-
Variable rate Debt Bonds repayable 2001	-	30,000	-	-
Pan Caribbean Merchant Bank Limited	-	1,377	783	-
Bank of Nova Scotia Limited	-	15,155	-	-
First Life Insurance Company Limited	-	-	3,981	-

Allied Insurance Brokers Limited				
12% 1997 - 2000	6,578	-	-	-
Total unsecured	65,811	59,325	4,764	-
	166,849	114,636	79,539	20,070
Less current maturities	33,611	36,122	8,115	4,318
	133,238	**78,514**	**71,424**	**15,752**

17. Retirement Benefit Plans

The company and its subsidiaries participate in contributory pension plans administered by First Life Insurance Company Limited. Benefits under the plans are based on the employees' earnings during recognised service.

(a) First Life Insurance Company Limited

The latest actuarial valuation which was carried out at 31 December 1995, revealed a past service surplus of $4,084,000. The actuary has recommended that the employer contribute at a rate of 3.1% of members' earnings until the next valuation date, which should be no later than 31 December 1998. The employees contribute at 5%. Effective 1 January 1998, the company implemented the actuary's recommendation.

(b) Jamaica Property Company Limited

The latest actuarial valuation which was carried out at 31 December 1995 revealed that there was inadequate funding to provide the benefits under the plan and that there was a deficiency of $3,248,000 as at that date.

In order to restore the solvency of the scheme, the actuaries have recommended that, allowing for members contribution at the rate of 5% of earnings, the employer should contribute 6% of members' pensionable earnings and that the valuation be conducted no later than 31 December 1998. The company has been contributing at the rate of 10% of members' pensionable earnings since 1996.

(c) Pan Caribbean Merchant Bank Limited

Based on the latest actuarial valuation which was carried out at 31 December 1995, the scheme is adequately funded.

(d) Hardware and Lumber Limited and its Subsidiaries

The company and most of its subsidiaries participate in a plan whose benefits are based on 2% of final five years' average salary for each year of service. The latest actuarial valuation, which was carried out at 31 December 1996, indicated that there was a past service deficiency of $2,294,000. The trustees have implemented the actuary's recommendation that, effective 1 January 1997, the employer contributes at the rate of 6.2% of members' earnings until the next valuation date which should occur no later than 31 December 1999. The employer's contribution of 6.2% includes a contribution of 3% of members' basic earnings, which is required to eliminate the deficiency over a period of three years. The employees contribute at a rate of 5% of earnings.

One subsidiary, Office Services Limited, participates in a plan whose benefits are based on career earnings. The latest actuarial valuation, which was carried out as at 31 December 1995, indicated that there was a funding surplus of $157,000.

(e) Jamaican Floral Exports Limited and its Subsidiaries

The company operates a trusteed pension plan for non-unionised employees. The plan is administered by First Life Insurance Company Limited and benefits are based on accumulated contributions.

(f) Scott's Preserves Limited

The latest actuarial valuation which was carried out at 31 December 1989 indicated that the scheme was adequately funded. The employer contributes at a rate of 10% of pensionable earnings while the employees contribute at a rate of 5% of pensionable earnings.

During the year contributions made by the group were $12,573,000 (1996 - $6,860,000) and by the company $573,000 (1996- $594,000).

18. Contingency

(a) The Jamaica Public Service Company Limited (JPS) has made a claim for approximately $4,800,000 against a subsidiary for additional electrical charges in respect of electricity allegedly consumed during the period 1990 - 1997. The company lawyers have advised that JPS, based on its own Standard Terms and conditions of Electricity Supply, is restricted from imposing retroactive charges for a period exceeding three months. An accrual has been made which approximates to an average consumption for three months.

(b) The Commissioner of Income Tax has assessed one of the subsidiaries on an estimated basis for income taxes totalling $1,500,000 in respect of the years of assessment 1987 - 1989. No provision for liability has been made in the accounts based on the subsidiary's objection to the matter.

19. Capital Expenditure

Capital expenditure authorised and committed by the group at 31 December 1997, not provided for in these financial statements, amounted to:

	GROUP & COMPANY	
	1997	1996
	$'000	$'000
	16,831	-

20. Assets under Management

Assets under management, which are not beneficially owned by certain subsidiaries, but which are managed by these subsidiaries on behalf of investors, have been excluded from the consolidated balance sheet. At the balance sheet date, the book value of these assets amounted to $2,113,690,000 (1996: $1,720,024,000).