

Pan-Jamaican Investment Trust Ltd

Statement from the Chairman and President

Pan-Jamaican Investment Trust Ltd. achieved marked improvement in its performance during 1998, a period in which the Jamaican economy suffered continued decline, albeit at a reduced rate compared to the previous year.

The Government's short term economic policy was not without its successes as exchange rate and price stability was maintained, as was the build up of the Net International Reserves and importantly, inflation contained at 7.9%, the lowest since 1982 and the second consecutive year in single digit figures. Further, the Government sought to stimulate the productive sector through greater provision for direct low interest loans and support for troubled sectors critical to the economy.

Nonetheless, with the growing fiscal deficit and international developments affecting external borrowing, high domestic interest rates were maintained during the review period resulting in continued dampening of prospects for real growth.

In the prevailing environment, PanJamaican maintained a policy of strict asset protection, cost containment and focus on core or complementary operations with the best prospects in the short to medium term. The Group achieved some success with Gross Operating Revenue of \$2286.5 million in 1998, an increase of 6.5% over revenue of \$2146.5 million for the corresponding period in 1997. Group profits before taxation were \$165.8 million, a 35% improvement over the previous year and there was a corresponding 47.6% increase in Profits attributable to shareholders to \$91.1 million compared to \$61.7 million in 1997.

ASSETS

Group assets at December 31, 1998 were valued at \$3697.1 million, an increase of 7.2% over the previous year's value of \$3448.1 million. Investment properties reflected a valuation of \$1581.9 million compared to \$1605.5 million in 1997 and net worth for the Group improved marginally to \$1287.2 million from \$1261.9 million in 1997.

DIVIDENDS

Based on the Company's financial position, in November 1998, your Directors determined that the company pay an interim dividend by way of Capital Distribution for the year ended 1998 in the amount of \$0.02 per share from the company's Capital Reserves payable on November 30, 1998 to shareholders on record as at November 16, 1998. The Directors propose no further dividend payment in respect of 1998.

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 Pan Caribbean Investment Limited, Portfolio Partners Limited, St. Andrew Developers Limited

The Insurance, Property and Banking Divisions performed creditably in a period during which continued widespread failure of banking and insurance institutions necessitated escalating Government intervention, which by year end had exceeded \$85 billion. Concurrently, the real estate market remained soft, reflecting the sluggishness of the economy. Group revenues for 1998 increased by 18.8% to \$1,262.0 million compared to \$1,071.2 million in 1997. Profit before interest and tax of \$199.1 million was only marginally above the previous year's figure of \$190.9 million. This reflects the decision by your Directors to reduce Transfers from Investment Reserve to 12.5% from 15% in light of continued low inflation and the weak property market.

First Life's main profit centres, viz. Group Health and Life, Pensions Management and subsidiaries Jamaica Property Company and Pan Caribbean Merchant Bank, all posted improved results.

The Group Health Insurance portfolio maintained its leadership position in the industry with premiums totalling \$545.5 million, an increase of 34.0% over premiums of \$407.0 million in 1997. Pension Management, while feeling the effects of corporate redundancies and payouts to employees, recorded excellent results by its two pooled pension funds - the Money Market Fund with a 27.1% growth in unit values compared to 22.9% in 1997 and the Pooled Long Term Fund with unit value growth of 22.3% compared with 16.2% in the previous year. Pension funds under management increased to \$808.5 million compared to \$611.6 million in 1997. Satisfactory performances were also recorded in the Group Life and Creditor Life Insurance lines of business.

In respect to investments, with six-month Treasury Bills averaging 25.5% for 1998, the placing of First Life's liquid policyholder investment assets was heavily skewed in favour of Government of Jamaica and Bank of Jamaica instruments. These provided an average yield of 24.9% and at year end 1998, total investment assets amounted to \$2,791.4 million compared to \$2,530.5 million in 1997.

Individual Life insurance, while experiencing lower earned premiums, increased its contribution to profits as marketing expenses were curtailed. Given the challenges within the industry as a whole, emphasis continued to be on restructuring the division to ensure policyholders' future benefits.

Jamaica Property Company Ltd., a foundation company within the Group and repository of most of its investment properties, made its customary strong contribution to profits with revenues of \$198.1 million. This was achieved despite the persistent depression in the commercial real estate market.

Pan Caribbean Merchant Bank, now in its sixteenth year of operation, recorded its best performance to date with revenues of \$93.0 million compared to \$59.6 million in 1997. Profits were \$27.1 million, an increase of 230% over profits of \$8.2 million in the previous year. Pan Caribbean's success in adverse operating conditions has been based on expansion in securities trading volumes, an emphasis on relationship banking with both individual and institutional clients, tight expense management and determination to develop services in line with international standards.

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 showed considerable improvement in recording profits before interest and taxation of \$46.1 million on turnover of \$1,000.0 million compared to profits of \$40.3 million in 1997 on turnover of \$1,040.5 million.

The company's recovery efforts in the face of continuing decline in its traditional markets led to a shift in emphasis to retail operations as the area for future growth and profitability for the Division. The completion of the H&L True Value Super Store in the Lane Plaza, Constant Spring Road, phase one of which was opened in December 1998, will effectively double Hardware & Lumber's retail operations and provide the finest shopping experience available locally in the home improvement market.

The wholesale business strove to meet the challenges of stagnation in the construction industry and decline in contractor business by strong credit control and inventory policies as well as stringent accounts receivable management. Elsewhere in the Trading Division, H&L's provision of supplies and services to the agricultural sector continued to operate profitably based on its excellent linkages with the most technologically advanced suppliers and strong support from major user groups; this notwithstanding difficulties in the domestic market and the wider threat of changing international regimes.

Continuing retrenchment in interior office construction led to the closure of the partitioning department of Office Services Limited in May 1998. However, prospects for the remaining departments which provide office maintenance and scaffolding are good.

MANUFACTURING

Scott's Preserves Limited

Busha Browne's Company Limited

The Manufacturing Division represented by food processors Busha Browne's Company Ltd. and Scott's Preserves Ltd., again made a negative contribution to the Group's results with losses of \$13.9 million. This was despite measures designed to stem losses while pursuing development of the product line for the domestic and potentially lucrative export market.

Closure of the Scott's factory in Twickenham Park as reported in the Annual Report for 1997, the outsourcing of production and a programme to gradually rebuild market share both locally and overseas proved inadequate in the face of continuing difficulties in the sector. These were notably, low domestic demand, high interest and production costs relative to competing counterparts, the inability to maintain margins in a fiercely competitive export environment and adverse weather conditions affecting agricultural supplies to the sector. Reassessment of participation in this arena is being undertaken in light of the sector's prolonged and continuing decline.

AGRICULTURE

Long Pond Estates Limited

Jamaican Floral Exports Limited

The Agricultural Division has been viewed as representing an opportunity for meaningful contribution by PanJamaican in both traditional and non traditional exports. In addition to the normal vagaries of the sector, disappointing results have been experienced over the years partly attributable to the depressed domestic economy, a fall-off in export volumes and prices and an increasingly unfavourable export market. Consequently, during the period under review, arrangements were completed for the sale of the Group's interest in Jamaican Floral Export (1993) Limited.

Efforts to secure the future viability of the Long Pond sugar factory in Trelawny in which Pan-Jamaican maintains an interest, continue on the basis of the Government of Jamaica's commitment to providing financing for the restructuring of both the Long Pond and Hampden facilities in the area as well as the continued provision of management expertise by J. Wray & Nephew Limited.

PAN-JAMAICAN INVESTMENT TRUST AND ITS SUBSIDIARIES HAVE PUT IN PLACE PROGRAMMES FOR YEAR 2000 COMPLIANCE OF COMPUTERIZED SYSTEMS IN THE BANKING AND INSURANCE OPERATIONS AS WELL AS TECHNICAL SUPPORT SYSTEMS ACROSS THE GROUP. IN SEVERAL INSTANCES, NOTABLY GROUP HEALTH INSURANCE AND INVESTMENT MANAGEMENT, THIS HAS EXPEDITED THE UPGRADING OF SYSTEMS AND THE LAYING OF A FOUNDATION FOR INCREASED EFFICIENCY AND QUALITY SERVICE.

GENERAL

With continuing contraction in major sectors, tight credit and falling income levels, it is recognized that the primary objective for the economy must be acceleration in creating conditions more conducive to investment and growth.

Measures taken by Pan-Jamaican Investment Trust to protect its asset base have included lowering of transfers from the company's investment reserves as well as focusing its liquid investments in Government of Jamaica and Bank of Jamaica securities. However, the company has remained open to opportunities for growth through mergers, acquisitions and joint ventures.

Pan-Jamaican Investment Trust will consider further scope for strategic alliances in the Caribbean region and more developed markets elsewhere, for achieving its financial targets as well as enhanced service standards in keeping with the demands of the global marketplace.

In the year under review, there were a number of important developments in respect of financial legislation. These included the introduction of deposit insurance and establishment of the Jamaica Deposit Insurance Corporation in August 1998; the tabling in the House of Representatives in January 1999 of a Green Paper on Reform of the Pensions System in Jamaica and the proposed new Insurance Act currently in draft form. These follow amendments to the Banking, Financial Institutions and Building Societies Acts which came into effect in late 1997. Initiatives to modernize regulation of the financial sector have been recognized as imperative and Pan-Jamaican Investment Trust joins the board and membership of the private sector in seeking to participate in discussions and recommendations on these issues vital to the recovery and strengthening of the sector.

The results of the Group during the review period were commendable in the context of a generally unfavourable business climate and we should like to record our appreciation of the committed efforts by the Management teams and their Staff to achieve our business objectives. We further acknowledge with thanks the continued loyalty and support of our shareholders and numerous customers.

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

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