

PEGASUS HOTELS OF JAMAICA LIMITED 1996

Notes to the Financial Statements

31 March 1996

1. Ownership

The company is a public quoted company and is 59.8% owned by National Hotels and Properties Limited, a wholly owned subsidiary of Urban Development Corporation, which is owned by the Government of Jamaica.

These financial statements are expressed in Jamaican dollars.

2. Significant Accounting Policies

(a) Depreciation

- (i) Depreciation is calculated on buildings and furniture and fittings on the straight line basis at rates that will write off their cost or carrying value over the period of their estimated useful lives. Annual rates of depreciation are 1.43% for buildings, 14.28% for furniture and fittings

and 20% for motor vehicles.

- (ii) A replacement reserve for soft furnishings and minor equipment is credited with 5% of gross sales. Replacements are charged against the reserve as and when incurred.

(b) Revaluation of fixed assets

Land, buildings and certain fixtures and furnishings are revalued on a replacement cost basis every three years (note 6). The scheduled revaluation for 31 March 1996 resulted in a net surplus of S775,052,000 which has not been booked as it is the directors' opinion that current market conditions do not support any further upliftment in the carrying value of the company's fixed assets.

(c) Inventories

Inventories are stated at the lower of cost and net realizable value, cost being determined on the first-in first-out basis.

(d) Foreign currency translation

Balances payable and receivable in foreign currencies are translated at rates of exchange ruling at year end, any resultant gain or loss on translation is reflected in the profit and loss account.

The rates ruling at year end were as follows:

	Buying		Selling	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
United States dollar	39.6721	33.1005	40.0169	33.4051
Pound sterling	57.3209	51.7021	58.2433	52.2295

(e) Gross revenue

This consists of gross income from all departments examine of General Consumption Tax.

3. Management

By a Management Agreement dated 30 May 1994, Forte (UK) Ltd. is responsible for the management of the hotel. The agreement is for a period of three years commencing on 1 April 1994, with an option to continue for three further terms of three years, subject to certain performance criteria being met.

Fees payable are the sum of:

- (a) 3% of the hotel's gross revenue less commissions and
- (b) 7 1/2% of the hotel's gross operating profit as defined by the Agreement.

4. Exceptional Items.

1996	1995
\$'000	\$'000

- (a) Loss in respect of sale of US dollar draft to

the Bank of Jamaica (BOJ)	5,918	-
(b) Refund of HEART Contributions	(2,708)	-
(c) Redundancy payments	<u>3,753</u>	<u>4,371</u>
	<u>6,963</u>	<u>4,371</u>

(a) This represents the amount charged to the company by its bankers plus cost incurred in respect of a draft for US\$150,000 paid to the BOJ. The company has been unable to obtain payment in respect of this draft from the BOJ and has initiated legal proceedings for its recovery (note 14).

(b) This represents over/payment by the company of HEART Contributions during the years 1992 to 1995

(c) This represents payments to former employees in connection with the termination of their employment.

5. Taxation

(a) The tax charge is based on profit for the year adjusted for taxation purpose and comprises:

	1996 \$'000	1995 \$'000
Income tax @ 33 1/3%	20,676	12,129
Prior year under/(over) provision	327	(84)
Special tax credit arising from the issue of bonus shares	<u>(4,954)</u>	<u>(3,032)</u>
	<u>16,049</u>	<u>9,013</u>

(a) Approximately \$3,715,766 of the special tax credit claimed

above is based on an additional bonus issue of shares amounting to \$14,863,066 which is to be made in June 1996 and which is subject to the approval of the shareholders at the company's next annual general meeting.

- (b) The tax charge for the year is disproportionate to the profit before taxation due primarily to book depreciation exceeding capital allowances claimed for tax purposes by approximately \$19,000,000

6. Fixed Assets

	Land \$'000	Buildings \$'000	Fixtures and Furnishings \$'000	Motor Vehicles \$'000	Work in Progress \$'000	Total \$'000
Cost or Valuation	345,195	518,189	182,754	2,379	5,149	1,053,666
1 April 1995						
Additions	-	-	-	-	5,845	5,845
	-	-	9,807	-	(9,807)	-
Transfers						
31 March 1996	345,195	518,189	192,561	2,379	1,187	1,059,511

Depreciation -

1 April 1995	-	14,820	37,560	1,271	-	53,651
Charge for the year	-	7,410	26,954	476	-	34,840
31 March 1996	-	22,230	64,514	1,747	-	88,491

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Net Book Value -

31 March 1996	<u>345,195</u>	<u>495,959</u>	<u>128,047</u>	<u>632</u>	<u>1,187</u>	<u>971,020</u>
31 March 1995	<u>345,195</u>	<u>503,369</u>	<u>145,194</u>	<u>1,108</u>	<u>5,149</u>	<u>1,000,015</u>

Land was revalued in March 1993 on the basis of fair market value by Langford and Brown, valuers and real estate agents. Buildings and fixtures and furnishings were revalued in March 1993 on a replacement cost basis by Stoppi Cairney Bloomfield, quantity surveyors. The surpluses arising on these revaluations were credited to capital reserve (note 9). All other fixed assets and subsequent additions are stated at cost.

7. Long Term Receivable

National Housing Trust contributions amounting to \$170,746 are recoverable over the years 2001 to 2004.

8. Share Capital

	1996 \$'000	1995 \$'000
Authorised 90,000,000 (1995 - 85,187,000) ordinary shares of \$1 each	<u>90,000</u>	<u>85,187</u>
Issued and fully paid 89,178,394 (1995 - 84,224,040) stock units of \$1 each	<u>89,178</u>	<u>84,224</u>

During the year the company increased its authorised share capital by \$4,813,300 and made a bonus issue of one ordinary share for every seventeen stock units issued.

The issue was made by utilising \$4,954,354 of the company's revenue reserve.

9. Capital Reserve

	1996 \$'000	1995 \$'000
Unrealised surplus on revaluation of land, buildings and furniture and fixtures	<u>863,404</u>	<u>863,404</u>

10. Dividends

	1996 \$'000	1995 \$'000
Paid, \$0.10 gross (1995 - \$0.30)	8,442	21,056
Declared, \$0.20 (1995 - Nil)	<u>16,845</u>	-
	<u>25,267</u>	<u>21,056</u>

11. Earnings per Stock Unit

The calculation of earnings per stock unit is based on the net profit of \$27,793,866 (1995 \$21,071,000) and 104,041,460 ordinary stock units which represent the number of ordinary stock units in issue at the end of the year plus the additional bonus issue of 14,863,066 ordinary shares which is to be made in June 1996 (note 5(a)). The comparative 1995 figure has been restated to give effect to the subsequent bonus issues.

12. Replacement Reserve

A replacement reserve is built up from the trading account to cover the cost of replacing furniture and equipment, fixtures and fittings, furnishings and linen. The sum provided for replacement represents 5% of gross sales note 2 (a)). Movement on this reserve is as follows:

	1996	1995
	\$'000	\$'000
Balance at beginning of year	-	-
Provided during the year	<u>17,715</u>	<u>14,116</u>
Expenditure during the year	17,715	14,116
Balance at end of year	<u>17,479</u> <u>236</u>	<u>14,116</u> -

13. Pension Plan

The company operates a pension plan administered by Life of Jamaica Limited in which all permanent employees must participate. The company contributes at the rate of 5% of pensionable salaries; employees contribute at a mandatory rate of 5%, but may make voluntary contributions not exceeding a further 5%.

The last actuarial valuation of the scheme, carried out as at 31 December 1994, indicated that the scheme was adequately funded.

The company's contribution for the year amounted to \$1,867,965 (1995 - \$1,666,324).

14. Contingencies

- (a) In 1993, the company agreed to sell to the BOJ US\$150,000 foreign exchange for the sum of J\$3,300,000 and, pursuant thereto, procured from its bankers and delivered to the BOJ's agent a cheque drawn by its bankers payable to the company in the said sum of US\$150,000. The BOJ failed to pay to the company the agreed price of J\$3,300,000 or any sum at all for the foreign exchange but nevertheless demanded and received payment of the face value of the cheque from the company's bankers in July 1995 on the basis that they were holders in due course of the instrument, whereupon the bank debited the company's account with the sum of US\$150,000.

The company has filed suit against the BOJ for recovery of the said sum of US\$150,000 or the Jamaican dollar equivalent at the date of payment or judgement plus interest and costs.

- (b) The wage agreement between the company and its employees who are represented by the Bustamante Industrial Trade Union, expired on 30 November 1995. Negotiations for a new agreement are in progress. The company has made an offer for an increase of 22% while the union is claiming an 80% increase. The matter has been referred to the Industrial Disputes Tribunal.

These financial statements include a provision for retroactive wages which has been calculated based on the company's offer of 22%. Should the ultimate settlement be based on the union's demand, an additional charge of approximately \$4,000,000 will be incurred.
