PEGASUS HOTELS OF JAMAICA LIMITED 1998

Notes to the Financial Statements

31 March 1998

1. Ownership and Principal Activity

   Pegasus Hotels of Jamaica Limited is a company limited by shares, incorporated under the Laws of Jamaica. The company 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.

   The company owns and operates "Le Meridien Jamaica Pegasus".

   These financial statements are expressed in Jamaican dollars.

2. Significant Accounting Policies

   (a) Accounting convention

   These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

   (b) 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 revenue. Replacements are charged against the reserve as and when incurred.

(c) Revaluation of fixed assets

Land, buildings and certain fixtures and furnishings are revalued on a replacement cost basis every three years (Note 7). The scheduled revaluation for 31 March 1996 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.

(d) Inventories

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

(e) Foreign currency translation

Transactions during the year are converted at rates of exchange ruling on transaction dates. 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.

3. Gross Revenue

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

4. Management

By a Management Agreement dated 29 September 1997, Meridien SA is responsible for the management of the hotel. The agreement is for a period of five years commencing on 1 April 1997, with an option to continue for a further term of five 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.

5. Exceptional Item

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

6. Taxation

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

	1998	1997
	$000	$ 000
Income tax @ 33 1/3%	-	12,130
Prior year over provision	-	(5)
Special tax credit arising from the issue of bonus shares	-	(2,601)
	-	**9,524**

There is no provision for taxation in these financial statements due to statutory losses incurred. Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of the company amount to approximately $9,245,000 and may be carried forward indefinitely.

7. Fixed Assets

	Land	Buildings	Fixtures & Furnishings	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000
Cost or Valuation					
1 April 1997	345,195	518,189	219,704	2,379	1,085,467
Additions	-	-	47,721	-	47,721
Disposals	-	-	(6,674)	-	(6,674)

31 March 1998	345,195	518,189	260,751	2,379	1,126,514
Depreciation					
1 April 1997	-	29,640	87,735	2,183	119,558
Charge for the year	-	7,410	30,724	130	38,264
On disposals	-	-	6,674	-	6,674
31 March 1998	-	37,050	111,785	2,313	151,148
Net Book Value					
31 March 1998	**345,195**	**481,139**	**148,966**	**66**	**975,366**
31 March 1997	**345,195**	**488,549**	**131,969**	**196**	**965,909**

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 reserves (Note 10). All other fixed assets and subsequent additions are stated at cost.

8. Long Term Receivable

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

9. Share Capital

	1998 $'000	1997 $'000
Authorised - 115,000,000 (1997 - 105,000,000) ordinary shares of $1 each	**115,000**	**105,000**
Issued and fully paid - 114,444,455 (1997 - 104,040,855) stock units of $1 each	**114,444**	**104,041**

During the year, the company increased its authorised share capital by the creation of 10,000,000 new ordinary shares of $1 each. The issued share capital was increased by the issue of 10,403,600 $1 ordinary shares to stockholders being a bonus issue of one share for every ten stock units held. The issue was credited as fully paid by the capitalization of $10,403,600 out of earnings for the year. The stocks issued were then converted to stock units of identical denomination ranking pari passu with previously issued stock units.

10. Capital Reserves

	1998 $'000	1997 $'000
Balance at beginning of year		
Unrealised surplus on revaluation of land, buildings and furniture and fixtures	861,360	863,404
Movement during the year		
Realised surplus transferred to profit and loss account relating to the disposal of furniture and fixtures	(3,066)	(2,044)
Balance at end of year	**858,294**	**861,360**

11. Dividends

	1998 $'000	1997 $'000
Paid, additional 1996 dividends, gross	-	991
Declared, $Nil (1997 - $0.10, gross)	-	11,444
	-	**12,435**

12. (Loss)/Earnings per Stock Unit

The calculation of (loss)/earnings per stock unit is based on the net (loss)/profit for the year and 114,444,455 ordinary stock units in issue after the bonus issue. The earnings per stock unit for 1997 have been adjusted accordingly.

13. 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)). Movements on this reserve are as follows:

	1998	1997
	$'000	$'000
Balance at beginning of year	93	236
Provided during the year	17,210	17,850
	17,303	18,086
Expenditure during the year	(17,303)	17,993
Balance at end of year	-	93

14. 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 at that date. The results of the valuation as at 31 December 1997 are not yet available.

The company's contribution for the year amounted to $2,778,000 (1997 - $2,525,000).

15. Contingency

The wage agreement between the company and its line employees who are represented by the Bustamante Industrial Trade Union, expired on 31 October 1997. Negotiations for a new agreement are in progress. The company has determined it can offer no increase, while the union is claiming a 12 1/2% increase. The matter has been referred to the Industrial Disputes Tribunal.

These financial statements include no provision for retroactive wages arising from this claim. Should the ultimate settlement be based on the union's demand, an additional charge of approximately $1,400,000 will be incurred for the five months ended 31 March 1998.