PEGASUS HOTELS OF JAMAICA LIMITED 2001

Notes to the Financial Statements

31 March 2001

1. Identification 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".

   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 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.

   These financial statements are expressed in Jamaican dollars.

2. Significant Accounting Policies

   (a) Basis of preparation

   These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

(b) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, trade receivables and payables, and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each Rem. The fair values of the company's financial instruments are discussed in Note 19.

(d) Fixed assets

All fixed assets are initially recorded at cost. Land is revalued on a fair market value basis, buildings and certain fixtures and furnishings are revalued on a replacement cost basis (Note 10). No valuations have been booked since 31 March 1993 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.

Depreciation is calculated on buildings, fixtures and furnishings and motor vehicles 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 fixtures and furnishings and 20% for motor vehicles.

Gains or losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

(e) Replacement reserve

A replacement reserve is built up from the trading account to cover the cost of replacing soft furnishings and minor equipment. The reserve is credited with an amount equivalent to 5% of gross revenue. Replacements are charged against the reserve as and when incurred.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the first-in firstout basis. Net realisable value is the estimate of the selling price in the ordinary course of business.

(g) Trade receivables

Normally, guest accounts are payable at the time of departure. However, credit facilities are extended to many businesses and organisations. Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, and deposits held at call with banks, net of bank overdrafts.

(i) Foreign currency translation

Transactions during the year are converted into Jamaican dollars at the appropriate rates of exchange ruling on transaction dates. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the appropriate rates of exchange ruling on balance sheet date. Gains or losses arising from fluctuations in exchange rates are reflected in the profit and loss account.

(j) Revenue recognition

Sales are recognised on an accrual basis, on performance of the underlying service or transaction.

(k) Employee benefit costs

The company operates a defined benefit contribution plan, the assets of which are generally held in a separate trustee-administered fund. The company accrues and funds pension costs annually. Such costs are actuarially determined and include amounts to fund past and future service benefits and expenses.

(l) Comparative information
Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Sales

This comprises gross income from room, food and beverage, communications and other sales, and excludes General Consumption Tax.

4. Operating Loss

The following items have been charged/(credited) in arriving at operating loss:

	2001 $'000	2000 $'000
Auditors' remuneration	900	850
Depreciation	45,516	44,913
Directors' emoluments	300	300
Gain on disposal of fixed assets	(292)	(2,464)
Management fees	10,582	9,618
Repairs and maintenance	30,126	24,080
Replacement reserve	17,840	16,225
Staff costs (Note 5)	**110,879**	**103,552**

5. Staff Costs

	2001 $'000	2000 $'000

Wages and salaries	91,002	85,892
Statutory deductions	5,979	6,180
Pension costs	2,773	2,376
Others	11,125	9,104
	110,879	103,552

Average number of persons employed by the company during the year:

	2001 No.	2000 No.
Full-time	214	215
Part-time	42	35
	256	250

6. Finance Income/(Expense)

	2001 No.	2000 No.
Interest earned	2,095	-
Foreign exchange gains, net	2,592	148
Interest expense	(2,114)	-
Bank charges	(1,426)	(239)
	1,147	(91)

7. Exceptional Item

This represented the proceeds of an insurance claim for loss of business and loss of profits arising from flood damages in 1998.

8. Taxation

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 $46,109,000 (2000 - $29,700,000) and may be carried forward indefinitely.

9. Loss per Stock Unit

The calculation of loss per stock unit is based on the loss and 114,444,455 ordinary stock units in issue for both years.

10. Fixed Assets

	Land	Buildings	Fixtures & Fumishings	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000
Cost or Valuation -					
1 April 2000	345,195	518,189	273,708	2,379	1,139,471
Additions	-	-	43,236	-	43,236
Disposals	-	-	(12,390)	(434)	(12,824)
31 March 2001	345,195	518,189	304,554	1,945	1,169,883
Depreciation -					
1 April 2000	-	51,870	183,571	2,379	237,820
Charge for the year	-	7,411	38,105	-	45,516
On disposals	-	-	(12,390)	(434)	(12,824)
31 March 2001	-	59,281	209,286	1,945	270,512
Net Book Value -					
31 March 2001	345,195	458,908	95,268	-	899,371
31 March 2000	345,195	466,319	90,137	-	901,651

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 Caimey Bloomfield, quantity surveyors. The surpluses arising on these revaluations were credited to capital reserves (Note 18). All other fixed assets and subsequent additions are stated at cost.

11. Long Term Receivables

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

12. Inventories

	2001	2000
	$'000	$'000
Food and beverage	6,488	6,030
China and glassware	3,627	3,972
Other	8,452	7,931
	18,567	**17,933**

13. Accounts Receivable

	2001	2000
	$'000	$'000
Trade receivables	36,940	30,662
Credit card receivables	2,907	4,213
Prepayments and other	8,124	5,122
	47,971	39,997
Less: Provision for doubtful accounts	(1,112)	(4,360)
	46,859	**35,637**

14. Bank and Cash

	2001	2000
	$'000	$'000
Cash at bank and in hand	7,910	10,866
Short term deposits	11,154	14,364
	19,064	**25,230**

The weighted average effective interest rate on short term deposits was 16% (2000-10%) and these deposits have an average maturity of 30 days.

15. Borrowings

	2001	2000
	$'000	$'000
Bank overdraft	1,374	2,383
Loans	31,236	-
	32,610	2,383

(a) Bank overdraft

The company has a bank overdraft facility up to $9,000,000 (2000 - $7,000,000), which attracts interest at 28% (2000 - 38%) and is immediately rate sensitive. The facility is secured by an undertaking not to dispose of or charge the company's assets in any way without the bank's prior consent, except in the normal course of business.

(b) Long term liability

	2001	2000
	$'000	$'000
Development Bank of Jamaica	31,236	-
Less: Current portion	(7,158)	-
	24,078	-

The company has an approved long term loan facility of $45,290,000 in total, which it may utilise in certain specified refurbishment projects. The facility attracts interest at a fixed rate of 13%. This facility is secured on: (i) promissory notes to the value of the amount utilised; (ii) a mortgage of a portion of the company's land; and (iii) a debenture over the fixed and floating assets, present and future, of the company.

(c) Maturity of borrowings

The aggregate amount of principal payments on loans, required in each of the next five years is as follows:

	2001
	$'000
2002	7,158
2003	7,809
2004	7,809
2005	7,809
2006	651
	31,236

16. Accounts Payable

	2001	2000
	$'000	$'000
Trade payables	14,180	18,244
Accruals	5,997	7,062
Other	24,757	13,101

	44,934	38,407

17. Share Capital

	2001 $'000	2000 $'000
Authorised -		
115,000,000 ordinary shares of $1	115,000	115,000
Issued and fully paid -		
114,444,455 stock units of $1 each	114,444	114,444

18. Capital Reserves

Capital reserves represent the unrealised surplus on revaluation of land, buildings, furniture and fixtures.

19. Financial Instruments

(a) Interest rate risk

The company's income and operating cash flows are substantially independent of changes in market interest rates. At 31 March 2001, the company has interest-bearing assets as disclosed in Note 14, and incurs interest on its borrowings at prevailing market rates, as disclosed in Note 15.

(b) Currency risk

The balance sheet at 31 March 2001 includes aggregate net foreign assets of approximately US$143,000 (2000 - net foreign liabilities of approximately US$78,000) in respect of transactions arising in the ordinary course of business.

(c) Credit risk

The company has no significant concentration of credit risk attaching to trade receivables as the company has a large and diverse customer base, with no balances arising from any single economic or business sector, or any single entity or group of entities. The company has policies in place to ensure that sale of products and services are made to customers with an appropriate credit history. Trade receivable balances are shown net of provision for doubtful debts, and the company's historical experience in collection of accounts receivable falls within this provision. Cash and short term investments are held with substantial financial institutions.

(d) Fair values

The amounts included in the financial statements for cash and bank balances, trade receivables and payables, reflect their approximate fair values because of the short-term maturity of these instruments.

Long term liabilities incur interest at prevailing market rates and reflect the company's contractual obligations. The carrying values of these liabilities closely approximate amortised cost, which is deemed to be the fair value of such liabilities.

20. 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%, and may make voluntary contributions not exceeding a further 5%.

The last actuarial valuation of the plan, carried out as at 31 December 1997, indicated that the plan was adequately funded at that date.

21. Contingent Liability

The company has received an assessment from the Taxation Audit and Assessment Department for approximately $16 million, in respect of General Consumption Tax for the period 1 January 1994 to 31 December 1997. The company has objected to the assessment and the matter is currently under review. Consequently, no provision has been made in these financial statements in respect of this assessment, pending the outcome of the review.