

Jamaica Money Market Brokers Limited

Notes to the Financial Statements

31 August 2002

1 Identification

Jamaica Money Market Brokers Limited (*the company') is incorporated in Jamaica. It has four wholly-owned subsidiaries, JMMB Securities Limited, JMMB Unit Trust Managers Limited, and JMMB insurance Brokers Limited, all of which are incorporated in Jamaica, and Cayman Valugrowth Fund, incorporated in The Cayman Islands. Only one of the subsidiaries, JMMB Securities Limited, has commenced trading. The company and its subsidiaries are collectively referred to as "group". The company also has a 45% interest in two associated companies, Caribbean Money Market Brokers Limited and CMMB Securities Limited, both incorporated in Trinidad and Tobago.

The principal activities of the group and its associated companies are brokering, dealing in money market instruments, operating foreign exchange cambios and managing funds on behalf of clients.

These financial statements are presented in thousands of Jamaican dollars (\$'000), unless otherwise stated.

Where necessary, prior years' comparatives have been reclassified to conform to the current period's presentation.

2 Significant accounting policies

(a) Consolidation

In preparing consolidated financial statements, the company combines Its financial position and results of operations with those of the trading subsidiary (note 1), after eliminating material intra-group amounts. The financial statements of the subsidiary as at and for the period ended August 31, 2002 which were used in the

consolidation were unaudited. Audited consolidated financial statements were not presented as at February 28, 2002 and for the year then ended (or for earlier years) as the subsidiary's assets, liabilities and results of operations were immaterial to the group, the subsidiary having only commenced its stockbroking business on February 20, 2002.

(b) Interest in associated companies

The group's interest in its associated companies has been accounted for by the equity method. The financial statements of the associated companies as at August 31, 2002 and for the six months then ended are unaudited.

(c) Foreign currencies

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling on that date,

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in the statement of operating results.

(d) Revenue recognition:

Income and expenses are recorded on the accrual basis, except that where collectibility of interest income is considered doubtful, it is recorded when received.

(e) Allowance for notes receivable losses:

The allowance for notes receivable losses is maintained at a level considered adequate to provide for probable losses. The provision is increased by amounts charged to earnings and reduced by net charge-offs. The level of allowance is based on management's evaluation of probable losses, which takes into account prevailing and anticipated business and economic conditions and the net realisable value of securities held.

(f) Resale and repurchase agreements:

Transactions involving purchases of securities under resale agreements (or reverse repos) or sales of securities under repurchase agreements (or repos) are accounted for as short-term collateralised lending and borrowing, respectively. It is the policy of the group to obtain possession of collateral with a market value equal

to or in excess of the principal amount loaned under resale agreements.

(h) Pension scheme costs:

Pension scheme costs, being the contributions to the scheme which the company operates to provide retirement pensions for the group's employees, are made on the basis provided for in the rules of the scheme, and charged to the statement of operating results when due.

(I) Depreciation:

Fixed assets, with the exception of freehold land, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives.

The depreciation rates are as follows:

Freehold buildings	2 1/2%
Leasehold improvements	The shorter of the estimated useful life and the period of the lease
Motor vehicles	20%
Computer equipment and software	33 1/3%
Equipment, furniture and fittings	10%

3 Income tax

	Six months to	Year ended		
	Aug. 31	Feb. 28	Feb. 28	Feb. 29
	2002	2002	2001	2000
	\$000	\$000	\$000	\$000
Provision for charge at 33 1/3% on current period's profits as adjusted for income tax purposes	-	-	34,136	58,707
Adjustments in respect of under/(over) provision in prior period	(40,515)	(30,950)	(21,378)	(13,091)
	(40,515)	(30,950)	12,758	45,616
Share of tax at 35% on profits of associated company	26,333	18,337	264	-
	(14,182)	(12,613)	13,022	45,616
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The credits to the tax provision are in respect of an adjustment to the accounting records so that they reflect the tax position as per the tax returns filed or

amended subsequent to the issue of the prior periods' financial statements. Arising from the adjustment, there is no tax charge for the group, notwithstanding the profits shown in the statement of operating results. The reason there is no tax charge is that, in determining the tax liability, adjustments have been made for certain items, the most significant being tax-free income on investments in certain Government of Jamaica securities and the increase in net accrued interest receivable.

The group has not made any provision for deferred taxation.

Subject to agreement by the Commissioner, Taxpayer Audit and Assessment, at the balance sheet date, tax losses, available for set off against future taxable profits, amounted to approximately \$474,000,000 for the group of which approximately \$472,000,000 is for the company.

4 Cash and cash equivalents

Cash and cash equivalents of the group and the company include:

- (a) \$4,475,808 deposited at an interest rate of 12% under an agreement with a building society which co-ordinates and administers a home ownership assistance programme on behalf of the company for its employees.
- (b) US\$425,206 and £432,277 (equivalent to J\$53,325,314) deposited as collateral for certain securities sold under repurchase agreements.
- (c) US\$3,267,113 (equivalent to J\$159,957,874), being margins used to collateralise the excess of the settlement value as at the balance sheet date of securities sold not yet purchased over their initially recorded amounts.

5 Notes receivable

	<u>Group and Company</u>
	(\$'000)
J\$ promissory notes (0% - 18.50%)	151,503
US\$ promissory notes and debentures (10% - 14%)	
(US\$2,489,820)	<u>121,901</u>
	273,404
Less: allowances for losses	<u>(45,590)</u>
	227,814

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Notes receivable are scheduled to mature within one to three months of the balance sheet date. Certain notes receivable are pledged as security for certain securities sold under repurchase agreements (note 7).

6 Other receivables

Other receivables of the group and the company:

(a) are shown after a provision for doubtful debt of \$4,232,809, and

(b) include interest-free loans to the company's Employee Share Ownership Plan ("ESOP") amounting to \$3,375,610. The number of shares held by the ESOP scheme at August 31, 2002 was 73,169,338, which represents 20% of the issued share capital (see note 12).

7 Resale and repurchase agreements

	<u>Group and Company</u>
	<u>\$'000</u>
(a) Resale agreements	
Denominated in Jamaican dollars	5,138,667
Denominated in United States dollars	
(US\$288 million)	1,410,928
Denominated in Pounds Sterling (£82,855)	6,208
	<u>6,555,803</u>
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(b) Repurchase agreements	
Denominated in Jamaican dollars	21,851,280
Denominated in United States dollars	
(US\$420.6 million)	20,496,877
Denominated in Pounds Sterling (£9.7 million)	732,797
	<u>43,080,954</u>
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Certain securities and short-term deposits (notes 5 and 8) and interest accrued thereon are pledged as security towards the excess of securities sold under repurchase agreements over securities purchased under resale agreements.

8 Investments

	<u>Group</u>	<u>Company</u>
	\$ '000	\$ '000
Short-term		
Government of Jamaica securities		
Treasury bills	58,532	58,532
Local registered stocks	10,836,343	10,891,455
Notes and debentures	5,711,989	5,656,877
Eurobonds	<u>10,087,239</u>	<u>10,087,239</u>
	26,694,103	26,694,103
Other eurobonds	3,231,524	3,231,524
Corporate bonds	481,423	481,423
Money market fund	<u>198,798</u>	<u>193,403</u>
	30,605,848	30,600,453
Certificates of deposit	<u>4,063,506</u>	<u>4,063,506</u>
	<u>34,669,354</u>	<u>34,663,959</u>
Long-term		
Sovereign bonds	1,052,435	1,052,435
Corporate bonds	40,147	40,147
Quoted equities	18,978	17,171
Units in unit trusts	2,694	2,694
	1,114,254	1,112,447
Less: Provisions and amortisations	<u>(47,840)</u>	<u>(47,840)</u>
	<u>1,066,414</u>	<u>1,064,607</u>
	<u>35,735,768</u>	<u>35,728,566</u>
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9 Other asset

This represents one qualifying share held in the Jamaica Stock Exchange Limited ("JSE"), at cost. The qualifying share entitles JMMB Securities Limited to operate as a broker/dealer and be a member of the Council of JSE. Under JSE's constitution, its members are not entitled to dividends from JSE, and are not entitled to its residual assets or the assets of the Compensation Fund, upon a winding up or liquidation, as the assets would be required to be used for development of the securities market in Jamaica.

10 Interest in associated companies

Caribbean Money Market Brokers Limited commenced operations in August 2000 and CMMB Securities Limited commenced operations on April 12, 2002. The balance is made up as follows:

	<u>Group and Company</u>
	<u>\$'000</u>
Shares, at cost	33,421
Share of post-acquisition profits [note 2(b)]	88,703
	<u>122,124</u>
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11 Fixed assets

	<u>Group</u>			<u>Company</u>		
	<u>August 31, 2002</u>			<u>August 31, 2002</u>		
	Net book			Net book		
	<u>Cost</u>	<u>Depreciation</u>	<u>Value</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Value</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Freehold land and buildings	47,588	5,581	42,007	47,588	5,581	42,007
Leasehold improvements	20,014	12,650	7,364	20,014	12,650	7,364
Motor vehicles	32,999	10,747	22,252	31,042	10,553	20,489
Computer equipment and software	151,824	83,499	68,325	147,450	82,857	64,593
Furniture, fixtures and equipment	55,976	17,312	38,664	55,871	17,306	38,565
Construction in progress	26,897	-	26,897	26,897	-	26,897
Total	<u>335,298</u>	<u>129,789</u>	<u>205,509</u>	<u>328,862</u>	<u>128,947</u>	<u>199,915</u>
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12 Share capital

	<u>Group and Company</u>
	<u>\$'000</u>
Authorised:	
366,600,000 ordinary stock units of \$1.00 each	366,600
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Issued and fully paid:	
365,846,688 ordinary stock units of \$1.00 each	365,847

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Subsequent to the balance sheet date, on October 25, 2002, the company subdivided its capital into ordinary stock units of \$0.50 each. The company further subdivided its capital into ordinary stock units of \$0.25 each on November 14, 2002,

13 Dividends

The rate of dividend paid in each of the periods shown is as follows:

<u>Period</u>	<u>No. of shares of \$1.00 each</u>	<u>Gross dividend</u>	<u>Dividend per share</u>
Six months to August 31, 2002	365,846,688	117,180,694	32.03 cents
Year to February 28, 2002	365,846,688	100,128,007	27.37 cents
Year to February 28, 2001	214,246,688	82,420,701	38.47 cents
Year to February 28, 2000	136,936,688	46,578,456	34.01 cents

14 Managed funds

The company acts as agents and earns fees for managing clients' funds on a non-recourse basis under a management agreement. The company has no legal or equitable right or interest in these funds and is the custodian of the securities in which the clients participate. Accordingly, the securities in which the clients' funds are invested have been excluded from these financial statements.

At August 31, 2002, these funds amounted to \$5,794,117,745, which includes pension scheme contributions, inclusive of accrued interest, amounting to \$27,897,275.

15 Related parties

A related party is one which controls or exercises significant influence over or is controlled or significantly influenced by the group or any member of it in making financial and operating decisions, or, along with any member of the group, is subject to common control or significant influence.

The balance sheet includes balances arising in the normal course of business with related parties and the profit and loss account includes income earned from, and expenses incurred in, transactions with related parties, in the ordinary course of business.

16 Commitments

(a) Capital commitments:

At the balance sheet date, amounts committed for capital expenditure, but not contracted, for which no provision has been made in the financial statements, amounted to approximately \$87,500,000.

(b) Lease commitments:

Commitments under non-cancellable operating lease agreements, expiring between 2003 and 2007, amounted to \$18,143,000 at August 31, 2002. The lease rentals are payable as follows:

	<u>Group and Company</u> <u>(\$'000)</u>
Within one year	4,030
Subsequent years	<u>14,113</u>
	18,143
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17 International Accounting Standards

The Institute of Chartered Accountants of Jamaica has adopted International Accounting Standards ('IAS') as Jamaica's national accounting standards. These standards are applicable to financial statements for accounting periods beginning on or after July 1, 2002. The financial position and results of operations of an enterprise determined under the provisions of IAS may sometimes differ from those determined under the provisions of accounting standards formerly applicable in Jamaica. The directors and management are currently undertaking an analysis to determine the likely impact, if any, of IAS on the group.

16 Taxation

The Company is subject to income tax on its chargeable income at the normal corporate rate prevailing in Jamaica (currently 33 1/3 %). If the shares in the Company are listed on the JSE, under current Jamaican tax law, dividends paid by JMMB will be subject to income tax at the rate of 0% and paid gross to shareholders. Capital distributions by the Company are subject to transfer tax at the normal rate prevailing

in Jamaica (currently 7 1/2 %). Transfers of shares over the JSE are exempt from transfer tax and ad valorem stamp duty. Dividends paid to JMMB by its associated companies in the Republic of Trinidad & Tobago, Caribbean Money Market Brokers Limited and CMMB Securities Limited are exempt from income tax as both entities are resident in jurisdictions which have introduced the Caricom Tax Convention into their domestic law.