PEGASUS HOTELS OF JAMAICA LIMITED

Notes to the Financial Statements

31 March 2002

1. Identification and Principal Activity

Pegasus Hotels of Jamaica Limited is a company limited by shares and 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 "The Jamaica Pegasus", formerly "Le Meridien Jamaica Pegasus".

By a Management Agreement dated 29 September 1997, Meridien SA was responsible for the management of the hotel. The agreement was for a period of five years commencing 1 April 1997 and ending 31 March 2002. Meridien SA did not seek to continue for a further term (Note 20).

Fees payable under the agreement was the sum of:

(a)3% of the hotel's gross revenue, less commissions, and
(b)7%% of the hotel's gross operating profit as defined by the Agreememt.

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, group balances, and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated wtth each item. The fair values of the company's financial instruments are discussed in Note 18.

(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 9). 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 first-out basis. Net realisable value is the estimate of the selling price in the ordinary course of business.

(g) Trade receivables

Normally, guest accounts should be paid 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 purpose 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:

	2002 $'000	2001 $'000
Auditors' remuneration	900	900
Depreciation	51,030	45,516
Directors' emoluments	300	300
Gain on disposal of fixed assets	-	(292)
Management fees	12,859	10,582
Repairs and maintenance	31,086	30,126
Replacement reserve	21,578	17,840
Staff costs (Note 5)	125,937	110,879
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5 Staff Costs

	2002 $'000	2001 $'000
Wages and salaries	99,267	91,002
Statutory contributions	7,337	5,979
Pension costs	3654	2,773
Others	15,679	11,125
	125,937	110,879
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Average number of persons employed by the company during the year

	2002 No.	2001 No.

Full-time	206	214
Part-time	50	42
	256	256
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6 Finance (Expense)Income, Net

	2002 $'000	**2001 $'000**
Interest earned	3,244	2,095
Foreign exchange gain, net	2,525	2,592
Interest expense		
Loan	(5,298)	(2,114)
Leases	(92)	-
Bank charges	(631)	(1,426)
	(252)	1,147
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7 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 $19,654,000 (2001 - $46,109,000) and may be carried forward indefinitely.

8 Loss per Stock Unit

The calculation of loss per stock unit is based on the net loss and 114,444,181 ordinary stock units in issue for both years.

9 Fixed Assets

	Land $'000	**Buildings $'000**	**Fixtures & Furnishings $'000**	**Motor Vehicles $'000**	**Total $'000**
Cost or Valuation -					
1 April 2001	345,195	518,189	304,554	1,945	1,169,883
Additions	-	-	4,620	2,841	7,461

Disposals	-	-	(646)		(646)
31 March 2002	345,195	518,189	308,528	4,786	1,176,698
Depreciation -					
1 April 2001	-	59,281	209,286	1,945	270,512
Charge for the year	-	7,410	43,336	284	51,030
On disposals	-	-	(646)	-	(646)
31 March 2002	-	66,691	251,976	2,229	320,896
Net Book Value -					
31 March 2002	345,195	451,498	56,552	2,557	855,802
31 March 2001	345,195	458,908	95,268	-	899,371

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 17). All other fixed assets and subsequent additions are stated at cost.

Motor vehicles costing $2,841,000 with accumulated depreciation of $284,000 were acquired under finance lease arrangements.

10. Long Term receivables

National Housing Trust contributions amounting to $170,746 are recoverable over the years 2002 to 2004.

11. Inventories

	2002	**2001**
	$'000	**$'000**
Food and beverage	6,758	6,488
China and glassware	3,710	3,627
Other	7,914	8,452
	18,382	18,567

12. Accounts Receivable

	2002 $'000	2001 $'000
Trade receivables	32,048	36,940
Credit card receivables	3,016	2,907
Prepayments and other	12,355	8,124
	47,419	47,971
Less: Provision for doubtful accounts	(1,371)	(1,112)
	46,048	46,859

13. Cash and Bank Balances

	2002 $'000	2001 $'000
Cash at bank-and in hand	5,971	7,910
Short term deposits	25,857	11,154
	31,828	19,064

The weighted average effective interest rate on short term deposits was 13% (2001 - 16%) and these deposits have an average maturity of 30 days.

14 Borrowings

	2002 $'000	2001 $'000
Bank overdraft	2,779	1,374
Long term liability	39,629	31,236
Lease obligation	1,787	-
	44,195	32,610

(a) Bank overdraft

The company has a bank overdraft facility up to $12,000,000 (2000 - $9,000,000), which attracts interest at 24% (2001 - 34%) 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

	2002 $'000	2001 $'000
Development Bank of Jamaica Limited	39,629	31,236
Less: Current portion	(11,323)	(7,158)
	28,306	24,078

This represents the balance owing on a long term loan faciliity of $45,290,000 which was obtained for certain specified refurbishment projects. The facility attracts interest at a fixed rate of 13% and is secured on:
(i) promissory note to the value of the facility;
(ii) a mortgage of the company's land; and
(iii) a debenture over the fixed and floating assets, present and future, of the company.

The aggregate amount of principal payments required in each of the next four years is as follows:

	$'000
2003	11,323
2004	11,323
2005	11,323
2006	5,660
	39,629

(c) Lease obligation

	2002 $'000	2001 $'000
Payable in the year ending -		
2003	900	-
2004	900	-
2005	376	-
Total minimum lease payments	2,176	-
Less: Future finance charges	(389)	-
Present value of minimum lease payments	1,787	-
Less: Current portion	(739)	-

	1,048	-

Finance lease arrangements were obtained for the purchase of two motor vehicles (Note 9). These leases are denominated in US dollars and attract interest at rates of 12 - 14%. The balance is repayable in 36 equal consecutive monthly instalments commencing September 2001.

15. Accounts Payable

	2002 **$'000**	**2001** **$'000**
Trade payables	7,894	14,180
Accruals	7,549	5,997
Other	15,888	24,757
	31,331	44,934

16. Share Capital

	2002 **$'000**	**2001** **$'000**
Authorised -		
115,000,000 ordinary shares of $1 each	115,000	115,000
Issued and fully paid -		
114,444,181 stock units of $1 each	114,444	114,444

17. Capital Reserves

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

18. 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 2002, the company has interest-bearing assets as disclosed in Note 13, and incurs interest on its borrowings at prevailing market rates, as disclosed in Note 14.

(b) Currency risk

The balance sheet at 31 March 2002 includes aggregate net foreign assets, of approximately US$230,000 (2001 - US$143,000) in respect of transactons 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 balance 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 balance, trade receivables and payables, bank overdraft, and group balances, reflect their approximate fair values because of the short-term maturity of these instruments.

Long term liability and lease obligation 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.

19. 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 2000, indicated that the plan was adequately funded at that date.

20 Subsequent Event

Following the decision by Meridien SA not to seek an extension of its management contract for a further term, the company assumed management of the hotel for an interim period commencing 1 April 2002.