

# MONTEGO FREEPORT LTD. and Its Subsidiaries

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2003

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### 1 Identification

- (a) The Government of Jamaica, through the Urban Development Corporation, owns approximately 82% of the issued share capital of the company. The primary activities of the group are tourism and real estate related. The company is incorporated in Jamaica.

The company has three wholly owned subsidiaries that traded during the year; Montego Shopping Centre Limited, Seawind Limited and Seawind Beach Hotel Limited. The company also has wholly owned non-trading subsidiaries which are Montego Stevedoring Limited, Montego Shipping Services Limited and Montego Wharves Limited.

- (b) Grand Bay Developments Limited, a company incorporated in Jamaica, purchased the apartments in Seawind Towers which were owned by the group, together with certain development property, furniture, fixtures and equipment for approximately \$84,337,000. The sale was reflected in the financial statements as at 31 March 2000. Certain legal formalities pertaining to the sale of the apartments are still outstanding.
- (c) The Seawind Beach Hotel property is operated by Sunset Beach Resort and Spa Limited under the terms of a lease which is renewable on a monthly basis. An agreement for the sale of this property for US\$8.2 million to the present operators, along with two additional lots, was signed on 28 March 2003. The sale is expected to be completed in the year ended 31 March 2004

### 2 Significant Accounting Policies

**(a) Accounting convention**

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) Revenue recognition**

Revenue is recognised on an accrual basis net of general consumption tax and after eliminating sales within the group.

**(d) Consolidation**

These financial statements are stated in Jamaican dollars unless otherwise indicated. The consolidated financial statements include the financial statements of the company and its wholly owned subsidiaries.

**(e) Depreciation**

No depreciation is considered necessary on freehold land. Other fixed assets are depreciated on the straight line basis at the following rates: -

Buildings	2 1/2%
Furniture, fixtures and equipment	10%
Motor vehicles	20%
Jetty	2 1/2%

**(f) Foreign currency translation**

Assets and liabilities denominated in foreign currencies have been translated at the rates of exchange prevailing at year end. Transactions in foreign currencies have been translated at the rates of exchange prevailing on the date of transactions. Gains or losses arising on translation are reflected in the profit and loss account.

**(g) Deferred expenditure**

Expenditure relating to a proposed hotel expansion and future land development is deferred until the expansion work is completed.

**(h) Financial instruments**

The amounts included in the financial statements for receivables, cash and deposits, and payables reflect their approximate fair values because of the short-term nature of these instruments, Financial instruments are further discussed in note 21.

**(i) Comparative information**

Certain prior year figures have been restated to conform with current year's presentation.

**3 Operating Profit**

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

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Depreciation	2,492	2,215
Profit on disposal of fixed assets	(4,314)	(5,742)
Auditors' remuneration -		
Current year	990	960
Prior year	(153)	(40)
Directors' emoluments -		
Fees	457	310
Management remuneration	800	800
Staff costs (note 4)	9,699	9,201
	=====	=====

**4 Staff Costs**

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Salaries and wages	8,783	7,825
Statutory deductions	656	588
Other	260	788
	<u>9,699</u>	<u>9,201</u>
	=====	=====
	No.	No.

Average number of persons employed by the group during the year

19                      19

**5 Finance Income**

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest income	31,388	24,498
Net foreign exchange gains	<u>13,571</u>	<u>3,755</u>
	<u>44,959</u>	<u>28,253</u>
	=====	=====

**6 Exceptional Items**

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
(a) Pension fund surplus refunded (note 23)	-	18,030
(b) Provision for revenue payable to former Seawind Towers owners written back	3,307	-
(c) Seawind Towers accrued rental income written off	-	(932)
	<u>3,307</u>	<u>17,098</u>
	=====	=====

**7 Taxation**

Taxation is based on the profit for the year adjusted for taxation purposes for the group and comprises:

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Income tax at 33 1/3%	9,344	6,909
	=====	=====

Subject to agreement with the Commissioner of Income Tax, certain subsidiaries have tax losses amounting to approximately \$1,097,000 (2002 - \$5,180,000) available for set off against future taxable profits, which may be carried forward indefinitely.

**8 Net Profit**

<b>2003</b>	<b>2002</b>
<b>\$'000</b>	<b>\$'000</b>

Dealt with in the financial statements of:

The company	28,112	26,018
Subsidiaries	<u>11,177</u>	<u>12,643</u>
	39,289	38,661
	=====	=====

## 9 Earnings per Stock Unit

The calculation of the earnings per stock unit is based on the profit after taxation and the number of stock units in issue during the year.

## 10 Fixed Assets

### The Group

	Freehold Land \$'000	Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Jetty \$'000	Total \$'000
Cost or Valuation -							
1 April 2002	361,458	80,004	2,996	21,421	2,355	1,005	469,239
Additions	-	-	-	398	-	-	398
Disposals	(143)	(2,057)	(2,996)	(3,938)	(1,177)	-	(10,311)
31 March 2003	<u>361,315</u>	<u>77,947</u>	<u>-</u>	<u>17,881</u>	<u>1,178</u>	<u>1,005</u>	<u>459,326</u>
Depreciation -							
1 April 2002	-	22,868	2,996	19,723	1,444	100	47,131
Charge for the year	-	2,012	-	256	199	25	2,492
On disposals	-	(1,020)	(2,996)	(3,938)	(1,177)	-	(9,131)
31 March 2003	<u>-</u>	<u>23,860</u>	<u>-</u>	<u>16,041</u>	<u>466</u>	<u>125</u>	<u>40,492</u>
Net Book Value -							
31 March 2003	<u>361,315</u>	<u>54,087</u>	<u>-</u>	<u>1,840</u>	<u>712</u>	<u>880</u>	<u>418,834</u>
31 March 2002	<u>364,508</u>	<u>54,086</u>	<u>-</u>	<u>1,698</u>	<u>911</u>	<u>905</u>	<u>422,108</u>

The freehold land and buildings of Montego Freeport Limited and its subsidiaries are stated at a 1991 professional valuation carried out by Chang, Rattray and Company, Chartered Surveyors, on the basis of open market values for existing use. The resulting gain is included in capital reserve (note 16).

**The Company**

	<b>Freehold Land \$'000</b>	<b>Leasehold Improvements \$'000</b>	<b>Furniture, Fixtures and Equipment \$'000</b>	<b>Motor Vehicles \$'000</b>	<b>Jetty \$'000</b>	<b>Total \$'000</b>
Cost or Valuation -						
1 April 2002	340,756	2,996	16,994	1,560	1,005	363,311
Additions	-	-	372	-	-	372
Disposals/write offs	-	(2,996)	(795)	(382)	-	(4,173)
31 March 2003	340,756	-	16,571	1,178	-	359,510
Depreciation -						
1 April 2002	-	2,996	16,048	649	100	19,793
Charge for the year	-	-	196	199	25	420
Disposals/write offs	-	(2,996)	(795)	(382)	-	(4,173)
31 March 2003	-	-	15,449	466	125	16,040
Net Book Value -						
31 March 2003	340,756	-	1,122	712	880	343,470
31 March 2002	340,756	-	946	911	905	343,518

The freehold land and buildings of the company are stated at a 1991 professional valuation carried out by Chang, Rattray and Company, Chartered Surveyors, on the basis of open market values for existing use. The resulting gain is included in capital reserve (note 16).

**11 Deferred Expenditure**

	<b>The Group and the Company</b>	
	<b>2003 \$'000</b>	<b>2002 \$'000</b>
Professional fees re roadway development and proposed hotel expansion	12,060	12,060

## 12 Receivables

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Trade	19,621	18,050	14,123	12,814
Other	4,394	9,387	3,322	7,420
	<u>24,015</u>	<u>27,437</u>	<u>17,445</u>	<u>20,234</u>
Less: Provision for doubtful debts	<u>(15,115)</u>	<u>(15,250)</u>	<u>(10,102)</u>	<u>(10,102)</u>
	<u>8,900</u>	<u>12,187</u>	<u>7,343</u>	<u>10,132</u>
	=====	=====	=====	=====

## 13 Cash and Deposits

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Cash	14,940	4,951	292,983	4,611
Deposits	294,982	211,765	7,320	208,764
	<u>309,922</u>	<u>216,716</u>	<u>300,303</u>	<u>213,375</u>
	=====	=====	=====	=====

The weighted average effective interest rate on cash and deposits was 18.3% (2002 - 15.8%).

## 14 Payables

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Trade	2,335	5,081	2,235	4,980
Deposits on sale of land and property	76,711	8,469	75,295	6,123
Accruals	2,657	3,040	2,070	2,566
Other	82	104	-	22
	<u>81,785</u>	<u>16,694</u>	<u>79,600</u>	<u>13,691</u>
	=====	=====	=====	=====

## 15 Share Capital

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Authorised -		
564,000,000 ordinary shares of \$0.50 each	282,000	282,000
	=====	=====
Issued and fully paid -		
563,065,690 stock units of \$0.50 each	281,533	281,533
	=====	=====

## 16 Capital Reserve

	<b>The Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	398,448	392,804
Capital gain on disposal of fixed assets, transferred from profit and loss account	3,037	5,644
	<u>401,485</u>	<u>398,448</u>
	=====	=====
Comprising:		
Unrealised -		
Balance at beginning of year	382,351	392,804
Transfer of realised surplus on disposal of fixed assets	(1,134)	(10,453)
	<u>381,217</u>	<u>382,351</u>
Realised -		
Balance at beginning of year	16,097	-
Transfer from unrealised surplus on disposal of fixed assets	1,134	10,453
Transfer from profit and loss account	3,037	5,644
	<u>20,268</u>	<u>16,097</u>
	<u>401,485</u>	<u>398,448</u>
	=====	=====

	<b>The Company</b>	
	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	308,087	303,183



Gain on sale of fixed assets, transferred from profit and loss account	-	4,904
	<u>308,087</u>	<u>308,087</u>
	=====	=====
Comprising:		
Unrealised -		
Balance at beginning of year	293,090	303,183
Transfer of realised surplus on sale of fixed asset	-	(10,093)
	<u>293,090</u>	<u>293,090</u>
Realised -		
Transfer from unrealised surplus on sale of fixed asset	14,997	10,093
Transfer from profit and loss account	-	4,904
	<u>14,997</u>	<u>14,997</u>
	<u>308,087</u>	<u>308,087</u>
	=====	=====

**17 Accumulated Losses**

<b>2003</b>	<b>2002</b>
<b>\$'000</b>	<b>\$'000</b>

Dealt with in the financial statements of:

The company	(24,015)	(52,126)
Subsidiaries	<u>22,675</u>	<u>14,534</u>
	<u>(1,340)</u>	<u>(37,592)</u>
	=====	=====

## 18 Subsidiaries

	2003	2002
	\$'000	\$'000
Shares at cost	(7)	(7)
Current accounts (net)	30,430	23,970
	<u>30,423</u>	<u>23,963</u>
Provision for losses	(3,015)	(3,015)
	<u>33,438</u>	<u>26,978</u>
	=====	=====

## 19 Related Company

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
National Hotels and Properties Limited	-	13,842	-	10,016
	=====	=====	=====	=====

The balance due to National Hotels and Properties Limited was repaid during the year.

## 20 Parent Corporation

	The Group		The Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Loan	-	153	-	-
Current account	-	1,701	-	2,034
	<u>-</u>	<u>1,854</u>	<u>-</u>	<u>2,034</u>
	=====	=====	=====	=====

The balances due to the parent corporation was repaid during the year.

## 21 Financial Instruments

### Currency risk

Cash, receivables and payables at 31 March 2003 include aggregate net foreign assets of approximately US\$1,699,000 (2002 - US\$1,526,000).

### Credit risk

There are no significant concentrations of credit risk attached to receivables as these

amounts are not concentrated in any given sector or institution and are shown net of provisions for doubtful debts. Cash and short term deposits are placed with substantial financial institutions.

**Interest rate risk**

The company's revenue and operating cash flows are subject to variations in market interest rates. The company's exposure and interest rate on its financial assets are reflected in note 13.

**Fair values**

Fair values of balances not discussed in note 2(h) were estimated as follows:

**Related company, parent corporation and subsidiaries**

The fair values of related company, parent corporation and subsidiary balances approximate to their carrying values, based on the underlying net assets of the investee.

**22 Related Party Transactions**

During the year, the company entered into transactions with its parent corporation, subsidiary companies and other related companies, including loan receipts, advances and the provision of management and technical services.

**23 Pension Schemes**

The company had two pension schemes which were wound up during the year ended 31 March 2002. In the case of one scheme a surplus of \$18,030,000 was refunded to the company and in the case of the other, the surplus was used to augment final payments to current pensioners. No further pension liability exists in relation to pensioners.

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