# PEGASUS HOTELS OF JAMAICA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## 31 MARCH 2004

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**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 hotel "The Jamaica Pegasus".

The company is a public listed company and its registered office is 81 Knutsford Boulevard, Kingston 5.

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 International Financial Reporting Standards, and have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Jamaica adopted International Financial Reporting Standards (IFRSs) as its national accounting standards, effective for accounting periods beginning on or after 1 July 2002. The financial statements for the year ended 31 March 2004 have therefore been prepared in accordance with IFRSs and comparative information in respect of the year ended 31 March 2003 has been restated to conform with the provisions of IFRSs. The company has opted for early adoption of IFRS 1, First-Time Adoption of International Financial Reporting Standards, and has applied the

provisions of that standard in the preparation of these financial statements. The effect of adopting IFRSs on the equity and net profit as previously reported is detailed in Note 21.

The preparation of financial statements in conformity with International Financial Reporting Standards 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. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates.

**(b) Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated using the closing exchange rate. Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealised foreign exchange difference on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

**(c) Fixed assets and depreciation**

Land and buildings are shown at fair value, based on annual valuations by external independent valuers, less subsequent depreciation for buildings. All other fixed assets are stated at historical cost, less depreciation.

Increases in the carrying amount arising on revaluation of land and buildings are credited to capital reserves in stockholders' equity. Decreases that offset previous increases of the same asset are charged against capital reserves; all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. Land is not depreciated. The expected useful lives of the other fixed assets are as follows:

| | |
|---|---|
| Buildings | 70 years |
| Fixtures and furnishings | 7 years |
| Motor vehicles | 5 years |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is

written down immediately to its recoverable amount.

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

Repairs and maintenance expenses are charged to the profit and loss account during the financial period in which they are incurred.

**(d) Impairment of non-current assets**

Fixed assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows.

**(e) 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 estimated selling price in the ordinary course of business, less the cost of selling expenses.

**(f) Trade receivables**

Normally, guest accounts are paid at the time of departure. However, credit facilities are extended to many businesses and organisations. Trade receivables are carried at original invoiced amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the expected cash flows discounted at the market rate of interest for similar borrowers.

**(g) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. 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.

**(h) Trade payables**

Trade payables are stated at cost.

**(i) Borrowings**

Loans and advances to the company are recognised initially at the proceeds received and are subsequently stated at amortised cost using the effective yield method. Transaction costs in respect of loans and advances to the company are deferred and amortised over the period of the liability using the effective interest rate implicit in the liability. Loans and advances and the associated transaction costs are offset in the balance sheet.

**(j) Finance leases**

Leases of fixed assets where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The fixed asset acquired under the finance lease is depreciated over the shorter of the useful life of the asset or the lease term.

**(k) Income taxes**

Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case deferred tax is also dealt with in equity.

**(l) Employee benefit costs**

The company operates a defined benefit plan, the assets of which are generally held in a

separate trustee-administered fund. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan assets, together with adjustments for actuarial gains and losses and past service cost. The defined benefit obligation is determined annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the remaining service lives of the employees.

**(m) Revenue recognition**

Revenue comprises gross income from room, food and beverage, communications and other sales, and excludes General Consumption Tax. Revenue is recognised on an accrual basis, on performance of the underlying service or transaction.

**(n) Segment reporting**

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

**(o) Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, trade receivables and payables, bank overdraft and long term liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The determination of the fair values of the company's financial instruments are discussed in Note 20.

**(p) Comparative information**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives in respect of the year ended 31 March 2003 have been adjusted or extended to reflect the requirements of International Financial Reporting Standards (Note 21).

**3. Segment Reporting**

**Telephone,**

| | Rooms 2004 $'000 | Food & Beverage 2004 $'000 | Telex & Cable 2004 $'000 | Other 2004 $'000 | Total 2004 $'000 |
|---|---|---|---|---|---|
| **Revenue** | 313,586 | 191,565 | 14,472 | 18,450 | 538,073 |
| Segment result | 262,113 | 32,271 | 3,739 | 16,497 | 314,620 |
| Unallocated costs | | | | | 298,980 |
| **Operating profit** | | | | | 15,640 |

| | Rooms 2003 | Food & Beverage 2003 | Telephone, Telex & Cable 2003 | Other 2003 | Total 2003 |
|---|---|---|---|---|---|
| Revenue | 272,255 | 165,593 | 17,845 | 19,299 | 474,992 |
| Segment result | 229,651 | 25,804 | 4,738 | 17,348 | 277,541 |
| Unallocated costs | | | | | 255,601 |
| Operating profit | | | | | 21,940 |

Due to the integrated nature of operations, management is unable to provide segment information for assets, liabilities, capital expenditure and depreciation.

There is no secondary format for segment reporting as the company operates from a single location.

**4. Results from Operations**

The following items have been charged in arriving at operating profit:

| | 2004 $'000 | Restated 2003 $'000 |
|---|---|---|
| Auditors' remuneration - | | |

| | | |
|---|---|---|
| Current year | 1,100 | 1,030 |
| Prior year | - | 60 |
| Depreciation | 51,714 | 45,799 |
| Directors' emoluments | 300 | 300 |
| Repairs and maintenance | 36,876 | 34,386 |
| Replacement of soft furnishings | 28,934 | 23,807 |
| Staff costs (Note 5) | 159,417 | 149,786 |

**5. Staff Costs**

| | **2004** | **Restated 2003** |
|---|---|---|
| | **$'000** | **$'000** |
| Wages and salaries | 123,888 | 114,744 |
| Statutory contributions | 8,515 | 7,791 |
| Pension (Note 10) | 8,360 | 1,818 |
| Other | 18,654 | 25,433 |
| | 159,417 | 149,786 |

Number of persons employed by the company at the end of the year:

| | **2004** | **2003** |
|---|---|---|
| | **No.** | **No.** |
| Full-time | 216 | 215 |
| Part-time | 51 | 48 |
| | 267 | 263 |

**6. Finance Income**

| | **2004** | **2003** |
|---|---|---|
| | **$'000** | **$'000** |
| Interest earned | 19,378 | 8,033 |
| Net foreign exchange gains | 3,991 | 4,278 |
| Interest expense - | | |
| Loan | (5,970) | 7,013 |
| Leases | (206) | (120) |
| Bank | (468) | (492) |
| | 16,725 | 4,686 |

**7. Taxation Expense**

(a) Taxation is based on the profit for the year adjusted for taxation purposes and comprises income tax at 33 1/3%:

| | **2004** | **Restated 2003** |
|---|---|---|
| | **$'000** | **$'000** |
| Current taxation | 16,926 | 4,251 |
| Adjustment to prior year provision | 2,111 | - |
| Tax credit on bonus issue of shares | (1,438) | - |
| | 17,599 | 4,251 |
| Deferred taxation (Note 18) | (5,349) | 2,711 |
| | 12,250 | 6,962 |

(b) The tax on the company's profit differs from the theoretical amount that would arise using the applicable tax rate of 33 1/3%, as follows:

| | 2004 | Restated 2003 |
|---|---|---|
| | $'000 | $'000 |
| Profit before taxation | 32,365 | 26,626 |
| Tax calculated at a tax rate of 33 1/3% | 10,788 | 8,875 |
| Adjusted for the effect of: | | |
| Adjustment to prior year provision | 2,111 | - |
| Tax credit on bonus issue of shares | (1,438) | - |
| Other charges and allowances | 789 | (1,913) |
| | 12,250 | 6,962 |

(c) The current tax on the company's profit differs from the theoretical amount that would arise using the applicable tax rate of 33 1/3%, as follows:

| | **2004** | **Restated 2003** |
|---|---|---|
| | **$'000** | **$'000** |
| Profit before taxation | 32,365 | 26,626 |
| Expenses not deductible for current tax purposes | 57,964 | 45,232 |
| Income not subject to current tax | (9,880) | (4,957) |
| Capital allowances | (29,671) | (23,695) |
| | 50,778 | 43,206 |

| | | |
|---|---|---|
| Utilisation of tax losses brought forward | - | (30,453) |
| Statutory profit | 50,778 | 12,753 |
| | ======== | ======== |
| Current tax calculated at a tax rate of 33 1/3% | 16,926 | 4,251 |
| | ======== | ======== |

**8. Earnings per Stock Unit**

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year. The comparative figure for the previous year has been adjusted to reflect the issue of 5,722,000 bonus shares during the year (Note 16).

| | **2004** | **Restated 2003** |
|---|---|---|
| Net profit attributable to stockholders ($'000) | 20,115 | 19,664 |
| Number of ordinary stock units ('000) | 120,166 | 120,166 |
| Earnings per stock unit ($) | 0.17 | 0.16 |
| | ======= | ======= |

The company has no dilutive potential ordinary shares.

**9. Fixed Assets**

| | **Land $'000** | **Buildings $'000** | **Fixtures & Furnishings $'000** | **Motor Vehicles $'000** | **Work in Progress $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| At Cost or Valuation - | | | | | | |
| 1 April 2003, as restated | 465,288 | 1,856,422 | 286,342 | 4,786 | 1,836 | 2,614,674 |
| Additions | - | - | - | 737 | 41,841 | 42,578 |
| Disposals | - | - | - | (1,520) | - | (1,520) |
| Transfers | - | - | 43,677 | - | (43,677) | |
| Revaluation | 39,472 | 156,818 | - | - | - | 196,290 |
| 31 March 2004 | 504,760 | 2,013,240 | 330,019 | 4,003 | - | 2,852,022 |
| Depreciation - | | | | | | |
| 1 April 2003, as restated | - | - | 230,762 | 2,798 | - | 233,560 |
| Charge for the year | - | 26,520 | 24,600 | 594 | - | 51,714 |
| On disposals | - | - | - | (1,520) | - | (1,520) |
| Revaluation | - | (26,520) | - | - | - | (26,520) |
| 31 March 2004 | - | - | 255,362 | 1,872 | - | 257,234 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net Book Value - | | | | | | |
| 31 March 2004 | 504,760 | 2,013,240 | 74,657 | 2,131 | - | 2,594,788 |
| 31 March 2003, as restated | 465,288 | 1,856,422 | 55,580 | 1,988 | 1,836 | 2,381,114 |

Land and buildings were revalued on 31 March 2004 on a fair market value basis by Property Consultants Limited. The surpluses arising on these revaluations, net of applicable deferred income taxes, were credited to capital reserves (Note 17).

The historical cost of land is $521,000. If buildings were stated on the historical cost basis, the cost would be $11,727,000 with accumulated depreciation of $5,344,000 (2003 - $5,177,000).

Motor vehicles costing $2,841,000 with accumulated depreciation of $1,421,000 (2003 - $853,000) are being acquired under finance lease arrangements (Note 14(b)(ii)).

**10. Retirement Benefit Asset**

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 defined benefit asset was determined as follows:

| | **2004** | **Restated 2003** |
|---|---|---|
| | **$'000** | **$'000** |
| Fair value of plan assets | 179,011 | 118,830 |
| Present value of obligations | (138,817) | (110,629) |
| | 40,194 | 8,201 |
| Unrecognised actuarial gain | (35,048) | (3,741) |
| | 5,146 | 4,460 |
| Limitation on recognition of asset due to uncertainty of obtaining future benefits | (4,821) | - |
| | 325 | 4,460 |

The movement in the defined benefit asset during the year is as follows:

| | **Restated** |
|---|---|

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| At beginning of year | 4,460 | 2,831 |
| Amounts recognised in the profit and loss account | (8,360) | (1,818) |
| Contributions paid | 4,225 | 3,447 |
| At end of year | 325 | 4,460 |

The amounts recognised in the profit and loss account in staff costs are as follows:

| | 2004 $'000 | Restated 2003 $'000 |
|---|---|---|
| Current service cost | (3,715) | (3,547) |
| Interest cost | (13,955) | (12,016) |
| Expected return on plan assets | 14,131 | 12,880 |
| | (3,539) | (2,683) |
| Change in asset not eligible for recognition due to limitation | (4,821) | 865 |
| | (8,360) | (1,818) |
| Actual return on plan assets | 53,190 | 11,893 |

The principal actuarial assumptions used were as follows:

| | 2004 | Restated 2003 |
|---|---|---|
| Discount rate | 13% | 13% |
| Long term inflation rate | 7% | 7% |
| Expected return on plan assets | 12.5% | 12.5% |
| Future salary increases | 10% | 10% |
| Future pension increases | 3.5% | 3.5% |

**11. Inventories**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Food and beverage | 11,026 | 7,087 |
| China and glassware | 3,533 | 3,019 |

| | | |
|---|---|---|
| Other | 9,771 | 6,663 |
| | 24,330 | 16,769 |

**12. Accounts Receivable**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Trade receivables | 40,770 | 34,660 |
| Less: Provision for impairment | (929) | (860) |
| | 39,841 | 33,800 |
| Credit card receivables | 2,741 | 3,306 |
| Interest receivable | 8,664 | 131 |
| Prepayments | 16,738 | 15,274 |
| Other | 1,653 | 2,562 |
| | 69,637 | 54,973 |

**13. Cash and Cash Equivalents**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Cash at bank and in hand | 27,948 | 14,835 |
| Short term deposits | 71,674 | 80,966 |
| | 99,622 | 95,801 |
| Bank overdraft (Note 14) | (93) | (408) |
| | 99,529 | 95,393 |

The weighted average effective interest rate on short term deposits was 22% (2003 - 12%) and these deposits have an average maturity of 10 days.

**14. Borrowings**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Bank overdraft | 93 | 408 |
| Long term liabilities | 35,502 | 56,048 |
| | 35,595 | 56,456 |

(a) Bank overdraft

The company has a bank overdraft facility of up to $12,000,000 (2003 - $12,000,000), which attracts

interest at 24.75% (2003 - 19.75%) 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 liabilities

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Long term loan | 35,109 | 54,811 |
| Lease obligation | 393 | 1,237 |
| | 35,502 | 56,048 |
| Less: Current portion | (20,089) | (20,569) |
| | 15,413 | 35,479 |

(i) Long term loan

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Development Bank of Jamaica Limited | 35,109 | 54,811 |
| Less: Current portion | (19,696) | (19,696) |
| | 15,413 | 35,115 |

This represents the balance owing on a long term loan which was obtained for certain specified refurbishment projects. The loan attracts interest at a fixed rate of 13% and is secured on:

- promissory notes to the value of the loan;
- a mortgage of the company's land; and
- 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 three financial years is as follows:

| | $'000 |
|---|---|
| 2005 | 19,696 |
| 2006 | 14,032 |
| 2007 | 1,381 |

| | |
|---|---|
| | 35,109 |

(ii) Lease obligation

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Payable in the financial year ending - | | |
| 2004 | - | 1,063 |
| 2005 | 480 | 443 |
| Total minimum lease payments | 480 | 1,506 |
| Less: Future finance charges | (87) | (269) |
| Present value of minimum lease payments | 393 | 1,237 |
| Less: Current portion | (393) | (873) |
| | - | 364 |

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**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Trade payables | 32,953 | 21,821 |
| Accruals | 7,613 | 8,294 |
| Other | 9,466 | 11,042 |
| | 50,032 | 41,157 |

**16. Share Capital**

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Authorised - | | |
| 121,000,000 (2003 - 115,000,000 ordinary shares of $1 each | 121,000 | 115,000 |
| Issued and fully paid - | | |
| 120,165,973 (2003 - 114,444,181) stock units of $1 each | 120,166 | 114,444 |

| | | |
|---|---|---|
| | ======== | ======== |

In June 2003, the authorised ordinary share capital of the company was increased to $121,000,000 by the creation of an additional 6,000,000 ordinary shares of $1 each. Shares totaling 5,721,792 units were then issued as fully paid up bonus shares by the capitalisation of profits of $5,721,792 on the basis of one ordinary share for every twenty ordinary shares held, and rank parri passu with the existing ordinary shares of the company. The ordinary shares were then converted to stock units.

**17. Capital Reserves**

Capital reserves represent the unrealised surplus on revaluation of land and buildings, net of applicable deferred income taxes.

**18. Deferred Income Taxes**

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 1/3%.

The movement in deferred taxation is as follows:

| | **2004** | **Restated 2003** |
|---|---|---|
| | **$'000** | **$'000** |
| Balance at start of year | 621,711 | 516,506 |
| (Credit)/charge to the profit and loss account | (5,349) | 2,711 |
| Charge to equity | 61,113 | 102,494 |
| Balance at end of year | 677,475 | 621,711 |
| | ======== | ======== |

Deferred income tax liabilities and assets are offset when there is a legally enforceable right to set off current tax liabilities against current tax assets. The movement in deferred tax liabilities and assets, prior to offsetting of balances, is as follows:

Deferred tax liabilities

| | Revaluation of buildings $'000 | Retirement benefit asset $'000 | Interest receivable $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 April 2003, as restated | 644,612 | 1,487 | 43 | 646,142 |
| Charge/(credit) to the profit and loss account | - | (1,379) | 2,845 | 1,466 |
| Charge to equity | 61,113 | - | - | 61,113 |
| At 31 March 2004 | 705,725 | 108 | 2,888 | 708,721 |

Deferred tax assets

| | Excess of depreciation over capital alowances $'000 | Unrealised foreign exchange losses $'000 | Total $'000 |
|---|---|---|---|
| At 1 April 2003, as restated | 24,327 | 104 | 24,431 |
| Credit to the profit and loss account | 6,815 | - | 6,815 |
| At 31 March 2004 | 31,142 | 104 | 31,246 |

These balances include the following:

| | 2004 $'000 | Restated 2003 $'000 |
|---|---|---|
| Deferred tax liabilities to be recovered after more than 12 months | 705,731 | 644,720 |
| Deferred tax assets to be settled after more than 12 months | 31,142 | 24,327 |

The revaluation of buildings results in a differential between the carrying value of the buildings and their tax base. Deferred taxation is charged or credited on the unrealised gain or loss, respectively, arising from the revaluation.

**19. Financial Risk Management**

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is primarily exposed to such risks arising from

its US Dollar transactions for purchases, and its US Dollar denominated investments. The balance sheet at 31 March 2004 includes aggregate net foreign assets of approximately US$403,000 (2003 - US$269,000), in respect of such transactions.

(b) Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. At 31 March 2004, the company's operating cash flows are substantially independent of changes in market interest rates, however, the company has interest-bearing assets as disclosed in Note 13, and interest-bearing liabilities as disclosed in Note 14.

(c) Market risk
Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. At 31 March 2004, the company had no significant exposure to such risks.

(d) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company has no significant concentrations of credit risk as the company has a large and diverse customer base, with no significant 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 sales of products and services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions.

(e) Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

(f) Cash flow risk
Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

## 20. Fair Values of Financial Instruments

In assessing the fair value of financial instruments, the company uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts that the company would realise in a current market exchange.

The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities include cash and bank balances, trade receivables and payables and bank overdraft.

The long term loan and the 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, and is estimated to be the fair value of such liabilities as they attract terms and conditions available in the market for similar transactions.

## 21. Effect of Transition to IFRSs

The company adopted 1FRSs effective 1 April 2003. Prior to that date, the financial statements of the company were prepared in accordance with Jamaican Generally Accepted Accounting Principles (Jamaican GAAP). The financial statements for the year ended 31 March 2003 has been restated to reflect the financial position and results under 1FRSs. The financial effects of conversion from Jamaican GAAP to 1FRSs are as follows:

### (a) Reconciliation of equity at 1 April 2002 (date of transition to IFRSs)

| | Note | Previous Jamaican GAAP $'000 | Effect of Transition to IFRSs $'000 | IFRSs $'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Fixed assets | (i) | 855,802 | 1,173,382 | 2,029,184 |

| | | | | |
|---|---|---|---|---|
| Pension surplus | (ii) | - | 2,831 | 2,831 |
| Inventories | | 18,382 | - | 18,382 |
| Accounts receivable | | 46,219 | - | 46,219 |
| Taxation recoverable | | 1,329 | - | 1,329 |
| Cash and bank balances | | 31,828 | - | 31,828 |
| **Total Current Assets** | | 97,758 | - | 97,758 |
| **Total Assets** | | 953,560 | 1,176,213 | 2,129,773 |
| **Liabilities** | | | | |
| Bank overdraft | | 2,779 | - | 2,779 |
| Accounts payable | | 32,165 | - | 32,165 |
| Current portion of long term liabilities | | 12,062 | - | 12,062 |
| Total Current Liabilities | | 47,006 | - | 47,006 |
| Long term liabilities | | 29,354 | - | 29,354 |
| Deferred tax liabilities | (iii) | - | 516,506 | 516,506 |
| **Total Liabilities** | | 76,360 | 516,506 | 592,866 |
| **Shareholders' Equity** | | | | |
| Share capital | | 114,444 | - | 114,444 |
| Capital reserves | (i), (iii) | 846,457 | 587,268 | 1,433,725 |
| Replacement reserve | (iv) | 2,618 | (2,618) | - |
| Accumulated deficit | (i),(ii),(iii),(iv) | (86,319) | 75,057 | (11,262) |
| **Total Equity** | | 877,200 | 659,707 | 1,536,907 |

**(b) Reconciliation of equity at 31 March 2003**

| | **Note** | **Previous Jamaican GAAP $'000** | **Effect of Transition to IFRSs $'000** | **IFRSs $'000** |
|---|---|---|---|---|
| Assets | | | | |
| Fixed assets | (i) | 822,754 | 1,558,360 | 2,381,114 |
| Pension surplus | (ii) | - | 4,460 | 4,460 |
| Inventories | | 16,769 | - | 16,769 |
| Accounts receivable | | 54,973 | - | 54,973 |

| | | | | |
|---|---|---|---|---|
| Cash and bank balances | | 95,801 | - | 95,801 |
| Total Current Assets | | 167,543 | - | 167,543 |
| Total Assets | | 990,297 | 1,562,820 | 2,553,117 |
| | | | | |
| Liabilities | | | | |
| Bank overdraft | | 408 | - | 408 |
| Accounts payable | | 41,157 | - | 41,157 |
| Taxation payable | | 914 | - | 914 |
| Current portion of long term liabilities | | 20,569 | - | 20,569 |
| Total Current Liabilities | | 63,048 | - | 63,048 |
| Long term liability | | 35,479 | - | 35,479 |
| Deferred tax liabilities | (iii) | - | 621,711 | 621,711 |
| Total Liabilities | | 98,527 | 621,711 | 720,238 |
| Shareholders' Equity | | | | |
| Share capital | | 114,444 | - | 114,444 |
| Capital reserves | (i),(iii) | 846,457 | 863,576 | 1,710,033 |
| Replacement reserve | (iv) | 3,309 | (3,309) | - |
| (Accumulated deficit)/retained earnings | (i),(ii),(iii),(iv) | (72,440) | 80,842 | 8,402 |
| Total Equity | | 891,770 | 941,109 | 1,832,879 |

**(c) Reconciliation of profit for the year ended 31 March 2003**

| | Note | Previous Jamaican GAAP $'000 | Effect of Transition to IFRSs $'000 | IFRSs $'000 |
|---|---|---|---|---|
| **Revenue** | | 474,992 | - | 474,992 |
| Direct costs | | (197,451) | - | (197,451) |
| **Gross profit** | | 277,541 | - | 277,541 |
| Other operating income | | 8,571 | - | 8,571 |
| Administration expenses | (i),(ii) | (142,650) | 7,805 | (134,845) |
| Other operating expenses | (iv) | (130,018) | 691 | (129,327) |
| **Operating profit** | | 13,444 | 8,496 | 21,940 |
| Finance income, net | | 4,686 | - | 4,686 |
| **Profit before taxation** | | 18,130 | 8,496 | 26,626 |
| Taxation | (iii) | (4,251) | (2,711) | (6,962) |
| **Net Profit** | | 13,879 | 5,785 | 19,664 |

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(i) Under previous Jamaican GAAP, land, buildings and fixtures and furnishings were carried at market values in 1993, plus subsequent additions at cost, less disposals. On transition to IFRSs, land and buildings are stated at current market values based on annual independent valuations, and fixtures and furnishings are stated on a historical cost basis.

(ii) Retirement benefits, which was not recognised under previous Jamaican GAAP, is now made in full. The retirement benefit asset is determined by independent actuaries using the projected unit credit method.

(iii) Provision for deferred tax, which was not required under previous Jamaican GAAP, is now made in full using the liability method.

(iv) Under previous Jamaican GAAP, a replacement reserve was built up to cover the cost of replacing soft furnishings and minor equipment, and replacements charged against this reserve as and when incurred. On transition to IFRSs, the reserve is not built up, and replacements are charged directly to the profit and loss account.