MONTEGO FREEPORT LTD. and Its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2005

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1. Identification

Montego Freeport Limited (the company) is a company limited by shares. The Government of Jamaica, through the Urban Development Corporation, owns approximately 82% of the issued share capital of the company, which is listed on the Jamaica Stock Exchange.

The company and its subsidiaries (the Group) are incorporated and domiciled in Jamaica and has its registered offices at Montego Freeport Shopping Centre, Montego Bay.

The principal activity of the Group is property ownership and rental.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

2. Significant Accounting Policies

(a) Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of investment properties.

The preparation of financial statements in conformity with IFRS 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.

(b) Basis of consolidation
Subsidiaries, which are those entities in which the Group has an interest of more

than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition, The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

The subsidiaries consolidated and percentage ownership are as follows:

Trading:	
Montego Shopping Centre Limited	100%
Seawind Limited	100%
Seawind Beach Hotel Limited	100%
Non-Trading:	
Montego Wharves Limited	100%
Montego Shipping Services Limited	100%
Montego Stevedoring Limited	100%

(c) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rate 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 differences on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

(d) Revenue recognition

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

(e) Property, plant and equipment

Property, plant and equipment are recorded at historical or deemed cost, less depreciation.

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. The rates used are:

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

Land is not depreciated.

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 are determined by comparing proceeds with cost and are included in operating profit.

Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(f) Impairment of non-current assets

Property, plant and equipment 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 value of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(g) Short term investments
Short term investments comprise deposits with a maturity of 90 to 360 days, and are stated at cost.

(h) Investment properties
Investment properties, which are not occupied by the Group, are treated as a long-term investment and carried at fair value, representing open market value determined annually. The open market value for land is determined every three years by external valuers and by the directors in the intervening years. The most recent external valuation was at 31 March 2004. For buildings, open market value is determined by the directors. Changes in fair values are recorded in the profit and loss account, then transferred to capital reserve.

(i) Investments in subsidiaries
Investments in subsidiaries are stated at cost.

(j) Trade receivables
Trade receivables are carried at original invoice 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 Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest.

(k) 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 on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) Payables
Payables are recorded at cost.

(m) 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 Group's liability for current tax is calculated at tax rates applicable 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

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(o) Financial instruments

Financial instruments carried on the balance sheet include receivables, cash and short term deposits, short term investments and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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.

3. Operating Profit

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

	2005 $'000	2004 $'000
Depreciation	656	651
Auditors' remuneration -		
Current year	1,152	1,046
Prior year	-	(33)
Directors' emoluments -		
Fees	420	525
Management remuneration	800	800
Staff costs (Note 4)	13,074	10,670

4. Staff Costs

	2005 $'000	2004 $'000
Salaries and wages	9,218	8,701
Statutory contributions	2,481	689
Other	1,375	1,280
	13,074	10,670

The number of persons employed full-time by the Group at year end was 19 (2004 - 19).

5. Finance Income

	2005 $'000	2004 $'000
Interest income	31,150	48,006
Net foreign exchange gains	10,204	20,163
	41,354	68,169

6. Taxation

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

	2005 $'000	2004 $'000
Current taxation	20,924	15,973
Deferred taxation (Note 18)	(5,921)	(20,070)
	15,003	(4,097)

(b) Reconciliation of applicable tax charge to effective tax charge:

	2005 $'000	2004 $'000
Profit before tax	140,685	166,070
Tax calculated at 33 1/3%	46,895	55,357
Adjusted for the effects of:		
Income not subject to tax	(45,472)	(40,686)
Expenses not deductible for tax purposes	19,285	837
Utilisation of previously unrecognised tax losses	-	(52)
Tax loss for year	159	-
Other charges and allowances	(5,864)	(19,553)
Tax charge/(credit)	15,003	(4,097)

Subject to agreement with the Taxpayer Audit and Assessment Department, certain subsidiaries have tax losses amounting to approximately $1,419,000 (2004 - $941,000) available for offset against future taxable profits, which may be carried forward indefinitely.

7. Profit Attributable to Stockholders

	2005 $'000	2004 $'000
(a) Net profit is dealt with as follows in the financial statements of:		
The company	171,688	121,359
Subsidiaries	(49,019)	48,808
	122,669	170,167

	2005 $'000	2004 $'000
(b) Retained earnings/(accumulated losses) are dealt with as follows in the financial statements of:		
The company	(1,428)	5,775
Subsidiaries	2,510	51,529
	1,082	57,304

8. 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.

	2005	2004
Net profit attributable to stockholders ($'000)	122,669	170,167
Weighted average number of stock units in issue	563,066	563,066
Earnings per stock unit ($)	0.22	0.30

9. (Loss)/Gain on Sale of Investment Properties

This represents the (loss)/gain on sale of investment properties held by the Group.

10. Investment Properties

	The Group		The Company	
	2005	**2004**	**2005**	**2004**
	$'000	**$'000**	**$'000**	**$'000**
At beginning of year	1,514,973	1,853,064	1,498,850	1,530,457
Disposed during the year	(16,456)	(406,718)	(12,600)	(98,957)
Transfers	-	-	3,836	-
Fair value gains	128,215	68,627	128,215	67,350
At end of year	1,626,732	1,514,973	1,618,301	1,498,850

Rental income and repairs and maintenance expenditure in relation to investment properties, for the Group, amounted to $1,103,928 (2004 - $5,184,092) and $429,339 (2004 - $971,910), respectively.

Land and buildings included in investment properties were valued by the directors at current market value as at 31 March 2005.

11. Property, Plant and Equipment
The Group

	Freehold Land $'000	Buildings $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Jetty $'000	Total $'000
At Cost -						
1 April 2004	319	3,780	17,725	1,178	1,005	24,007
Additions	-	-	224	-	-	224
Disposals	-	-	(14,359)	-	-	(14,359)
31 March 2005	319	3,780	3,590	1,178	1,005	9,872
Depreciation -						
1 April 2004	-	1,330	15,975	665	150	18,120
Charge for the year	-	95	337	199	25	656
Disposals	-	-	(14,359)	-	-	(14,359)
31 March 2005	-	1,425	1,953	864	175	4,417
Net Book Value -						
31 March 2005	319	2,355	1,637	314	830	5,455

31 March 2004	319	2,450	1,750	513	855	5,887

The Company

	Land $'000	Buildings $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Jetty $'000	Total $'000
At Cost -						
1 April 2004	-	-	17,081	1,178	1,005	19,264
Additions	-	-	224	-	-	224
Transfers	176	2,172	93	-	-	2,441
Disposals	-	-	(14,359)	-	-	(14,359)
31 March 2005	176	2,172	3,039	1,178	1,005	7,570
Depreciation -						
1 April 2004	-	-	15,696	665	150	16,511
Charge for the year	-	-	282	199	25	506
Transfers	-	868	93	-	-	961
Disposals	-	-	(14,359)	-	-	(14,359)
31 March 2005	-	868	1,712	864	175	3,619
Net Book Value -						
31 March 2005	176	1,304	1,327	314	830	3,951
31 March 2004	-	-	1,385	513	855	2,753

Included in the table above are amounts totaling $3,888,000 (2004 - $3,888,000) for the Group and the Company, representing previous Jamaican GAAP revalued amounts of land and buildings which have been used as the deemed cost of these assets under these provisions of IFRS 1 (Note 2e).

12. Receivables

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade	152	103	53	53
Deposits	22,728	4,230	21,490	3,783

Interest	1,171	5,192	897	4,885
Other	1,700	761	1,248	252
	25,751	10,286	23,688	8,973

13. Cash and Short Term Investments

	The Group		The Company	
	2005	**2004**	**2005**	**2004**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and in hand	4,757	3,912	4,293	2,313
Short term deposits	145,678	668,513	135,857	661,571
Cash and cash equivalents	150,435	672,425	140,150	663,884
Short term investments	-	57,890	-	55,890
	150,435	730,315	140,150	719,774

The weighted average effective interest rate on cash and short term deposits was 10.5% (2004 - 7.7%) and these deposits have an average maturity of under 90 days. In the prior year, short term investments which mature between 90 days to 360 days had an effective interest rate of 7.0%.

14. Payables

	The Group		The Company	
	2005	**2004**	**2005**	**2004**
	$'000	**$'000**	**$'000**	**$'000**
Trade	812	812	812	812
Deposits on sale of land and buildin	25,068	6,123	23,831	6,123
Accruals	2,358	2,783	2,181	2,327
Other	574	47	519	-
	28,812	9,765	27,343	9,262

15. Related Party Transactions and Balances

The company entered into transactions in the normal course of business with its subsidiaries and parent corporation as follows:

(a) Sales/purchases -

	2005 $'000	2004 $'000
Rental paid to subsidiary	835	835

(b) Loans/advances from subsidiaries (net) -

	2005 $'000	2004 $'000
At beginning of year	366,934	33,445
(Repayments)/additions	(366,562)	333,489
At end of year	372	366,934

(c) Loans/advances from parent corporation (net) -

	2005 $'000	2004 $'000
At beginning of year	38	-
(Repayments)/additions	(38)	38
At end of year	-	38

Balances due to subsidiaries are interest free, have no set repayment terms and are not due for payment within the next twelve months.

16. Share Capital

	2005 $'000	2004 $'000
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

17. Capital Reserve

	The Group		The Company	
	2005	2004	2005	2004

	$'000	$'000	$'000	$'000
Unrealised surplus on investment properties	1,337,777	1,347,272	1,330,358	1,338,170
Unrealised surplus on property, plant and equipment	4,142	4,142	-	-
Fair value gains on investment properties	128,215	68,627	128,215	67,350
Realised surplus on property, plant and equipment	-	5,923	-	-
Realised surplus on investment properties	18,535	486,294	12,538	165,655
	1,488,669	1,912,258	1,471,111	1,571,175

18. Deferred Taxation

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 on the deferred tax account is as follows:

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Net liability at beginning of year	9,948	30,018	8,635	6,122
(Credited)/charged to profit and loss account (Note 6)	(5,921)	(20,070)	(5,182)	2,513
Net liability at end of year	4,027	9,948	3,453	8,635

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities are attributable to the following items, prior to offsetting of balances:

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Deferred income tax assets -				
Tax losses	-	(314)	-	-
Accelerated tax depreciation	-	(36)	-	-

	The Group 2005	The Group 2004	The Company 2005	The Company 2004
	-	(350)	-	-
Deferred income tax liabilities -				
Unrealised foreign exchange gains	650	6,721	650	6,721
Interest receivable	390	1,731	299	1,628
Investment properties	2,279	1,018	1,954	-
Accelerated tax depreciation	708	828	550	286
	4,027	10,298	3,453	8,635
Net deferred income tax liabilities	4,027	9,948	3,453	8,635

Deferred tax assets amounting to $473,000 (2004 - nil) have not been recognised in the financial statements of certain subsidiaries as it is not probable that future taxable profits will be available against which the temporary differences can be utilised.

The deferred tax credit in the profit and loss account comprises the following temporary differences:

	The Group		**The Company**	
	2005	**2004**	**2005**	**2004**
	$'000	**$'000**	**$'000**	**$'000**
Tax losses carried forward	314	52	-	-
Accelerated tax depreciation	(84)	(342)	264	(11)
Investment properties	1,261	(22,400)	1,954	-
Unrealised exchange gain	(6,071)	2,197	(6,071)	2,197
Interest receivable	(1,341)	423	(1,329)	327
	(5,921)	(20,070)	(5,182)	2,513

Deferred income tax liabilities have not been provided for on the withholding and other taxes that would be payable on the undistributed earnings of certain subsidiaries to the extent such earnings are permanently reinvested. Such undistributed earnings totaled $2,510,000 (2004 - $51,279,000).

19. Financial Risk Management

The Group'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 Group 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 exposure to foreign currency risk arises because certain of the Group's financial instruments are denominated in foreign currencies. The consolidated balance sheet at 31 March 2005 includes aggregate net foreign assets of approximately US$998,000 (2004 -US$10,593,000) in respect of transactions arising in the ordinary course of business.

(b) 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, 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 places with substantial financial institutions.

(c) 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. The Group's revenue and operating cash flows are subject to variations in market interest rates. The Group's exposure and interest rates on its financial assets are reflected in Note 13.

(d) 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 2005, the Group had no significant exposure to such risks.

(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, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keep-

ing 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 Group 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 Group 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 are not necessarily indicative of the amounts that the Group 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 are receivables, cash and short term deposits, short term investments and payables.

The fair values of the balances due to subsidiaries could not be reasonably determined as these instruments were granted under special terms and are not likely to be traded in a fair market exchange.