PEGASUS HOTELS OF JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2005

---

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, unless otherwise restated.

2. Significant Accounting Policies

(a) Basis of preparation
These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRSs), and have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Jamaica adopted IFRSs as its national standards, effective for accounting periods beginning on or after 1 July 2002. The financial statements for the period ended 31 March 2005 were therefore prepared in accordance with IFRSs. In particular, the company opted for early adoption of IFRS 1, First-time Adoption of International Reporting Standards and applied the provisions of that standard in the preparation of those financial statements.

The preparation of financial statements in conformity with IFRSs 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) Investments

Investments are classified as originated debt. Management determines the classification of investments at the time of purchase. Securities which are purchased directly from the issuer, are classified as originated debt. These include bonds and investment debentures. They are initially recorded at cost, which is the cash given to originate the debt including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Purchases and sales of investments are recognised at trade date, which is the date that the company commits to purchase or sell the asset. The cost of purchase includes transaction costs. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models.

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

(g) 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.

(h) 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.

(i) Trade payables
Trade payables are stated at cost.

(j) 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.

(k) 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.

(l) 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.

(m) Employee benefit costs
The company converted its defined benefit plan to a contribution plan effective 1 January 2005. (Note 12)

(i) Defined Benefit Plan
The company operated 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.

(ii) Defined Contribution Plan
The company participates in a contribution pension scheme whereby it pays fixed contributions into a fund administered by trustees. The company has no legal or constructive obligation to pay further contributions if the fund does not hold suffi-

cient assets to pay all benefits relating to the employees service in current and prior periods. Contributions to the scheme are charged to the profit and loss in the year in which they are incurred.

(n) 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.

(o) Segment reporting

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

(p) 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 22.

(q) Dividends

Dividends are recorded in the financial statements in the period in which they have been approved.

(r) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Segment Reporting

(a) Primary reporting format - business segments

	Rooms 2005 $'000	Food & Beverage 2005 $'000	Telephone, Telex & Cable 2005 $'000	Other 2005 $'000	Total 2005 $'000
Revenue	351,826	209,780	14,601	13,384	589,591
Segment result	286,760	55,694	5,292	11,539	359,285
Unallocated costs					331,800
Operating profit					27,485

	Rooms 2004	Food & Beverage 2004	Telephone, Telex & Cable 2004	Other 2004	Total 2004
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

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

(b) Secondary reporting format

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:

	2005 $'000	2004 $'000
Auditors' remuneration	1,254	1,100
Depreciation	49,122	51,714
Directors' emoluments	300	300
Repairs and maintenance	54,179	36,876
Replacement of soft furnishings	22,049	28,934
Staff costs (Note 5)	158,478	159,417

5. Staff Costs

	2005 $'000	2004 $'000
Wages and salaries	128,803	123,888
Statutory contributions	8,698	8,515
Pension - defined benefit scheme (Note 12)	3,684	8,360
Pension - defined contribution	1,016	-
Other	16,277	18,654
	158,478	159,417

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

	2005	2004
Full-time	214	216
Part-time	48	51
	262	267

6. Finance Income

	2005 $'000	2004 $'000
Interest earned	19,985	19,378
Net foreign exchange gains	3,255	3,991
Interest expense -		

Loan	(4,710)	(5,970)
Leases	-	(206)
Bank	(685)	(468)
	17,845	16,725

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%:

	2005	**2004**
	$'000	**$'000**
Current taxation	26,815	16,926
Adjustment to prior year provision	(601)	2,111
Tax credit on bonus issue of shares	-	(1,438)
	26,214	17,599
Deferred taxation (Note 20)	(11,576)	(5,349)
	14,638	12,250

(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:

	2005	**2004**
	$'000	**$'000**
Profit before taxation	45,330	32,365
Tax calculated at a tax rate of 33 1/3%	15,110	10,788
Adjusted for the effect of:		
Adjustment to prior year provision	(601)	2,111
Tax credit on bonus issue of shares	-	(1,438)
Other charges and allowances	129	789
	14,638	12,250

(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:

	2005 $'000	2004 $'000
Profit before taxation	45,330	32,365
Expenses not deductible for current tax purposes	58,111	57,964
Income not subject to tax in current period	(2,461)	(9,880)
Capital allowances	(20,534)	(29,671)
Statutory profit	80,446	50,778
Current tax calculated at a tax rate of 33 1/3%	26,815	16,926

8. Earnings per Stock Unit

Earnings per stock unit is calculated by dividing the net profit attributable to stock-holders by the weighted average number of ordinary stock units in issue during the year.

	2005	2004
Net profit attributable to stockholders ($'000)	30,692	20,115
Number of ordinary stock units ('000)	120,166	120,166
Earnings per stock unit ($)	0.26	0.17

The company has no dilutive potential ordinary shares.

9. Dividends

	2005 $'000	2004 $'000
Interim dividends - 10c (2004 - Nil) per stock unit	12,017	-

10. Fixed Assets

	Land $'000	Buildings $'000	Fixtures & Furnishings $'000	Motor Vehicles $'000	Total $'000
At Cost or Valuation -					
1 April 2004	504,760	2,013,240	330,019	4,003	2,852,022

Additions	-	-	13,905	-	13,905
Revaluation	78,407	236,343	-	-	314,750
31 March 2005	583,167	2,249,583	343,924	4,003	3,180,677
Depreciation -					
1 April 2004	-	-	255,362	1,872	257,234
Charge for the year	-	28,761	19,769	592	49,122
Revaluation	-	(28,761)	-	-	(28,761)
31 March 2005	-	-	275,131	2,464	277,595
Net Book Value -					
31 March 2005	583,167	2,249,583	68,793	1,539	2,903,082
31 March 2004	504,760	2,013,240	74,657	2,131	2,594,788

Land and buildings were revalued on 31 March 2005 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 19).

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 $5,511,000 (2004 - $5,344,000).

11. Investments

	2005 $'000	2004 $'000
Originated debt-		
Government of Jamaica securities maturing after 12 months	72,501	-
Government of Jamaica securities maturing within 12 months	27,500	-
	100,001	-

The weighted average effective interest rate on the Government of Jamaica securities is 16.8%

12. Retirement Benefit Asset

The company operated 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%.

On December 14, 2004, the trustees of the pension plan passed a resolution to convert the existing pension plan from a defined benefit to a defined contribution plan effective 1 January 2005. The company has agreed to transfer its contributions and all interest and surplus accrued to the converted plan to the employees accounts in the new plan, after deducting an amount to be utilised for the benefit of the current pensioners. As a result of the conversions, each employee will be credited with his/her contribution and all accrued interest.

A portion of the company's contribution with interest and surpluses will also be credited to each individual's account, which will be calculated based on years of service and amount of contributions by an independent actuary.

As of 1 January 2005, future pensions will be calculated on what has been accrued to each individual's account based on their and the company's contributions and earnings of the pension fund. The defined benefit asset was determined as follows:

	2005	**2004**
	$'000	**$'000**
Fair value of plan assets	206,899	179,011
Present value of obligations	(206,899)	(138,817)
	-	40,194
Unrecognised actuarial gain	-	(35,048)
	-	5,146
Limitation on recognition of asset due to uncertainty of obtaining future benefits	-	(4,821)
	-	325

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

	2005	2004
	$'000	**$'000**
At beginning of year	325	4,460
Amounts recognised in the profit and loss account	(3,684)	(8,360)
Contributions paid	3,359	4,225
At end of year	-	325

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

	2005	2004
	$'000	**$'000**
Current service cost	(3,455)	(3,715)
Interest cost	(11,970)	(13,955)
Expected return on plan assets	15,796	14,131
	371	(3,539)
Change in asset not eligible for recognition due to limitation	(4,821)	(4,821)
Loss recognised on conversion of plan	766	-
	(3,684)	(8,360)
Actual return on plan assets	32,073	53,190

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	12.5%	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%

13. Inventories

	2005 $'000	2004 $'000
Food and beverage	11,643	11,026
China and glassware	2,888	3,533
Other	10,395	9,771
	24,926	24,330

14. Accounts Receivable

	2005 $'000	2004 $'000
Trade receivables	42,346	40,770
Less: Provision for impairment	(517)	(929)
	41,829	39,841
Credit card receivables	1,574	2,741
Interest receivable	2,387	8,664
Prepayments	26,329	16,738
Other	4,951	1,653
	77,070	69,637

15. Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with maturity dates not exceeding 90 days.

	2005 $'000	2004 $'000
Cash at bank and in hand	19,812	27,948

Short term deposits	17,349	71,674
	37,161	99,622
Bank overdraft (Note 16)	(2,746)	(93)
	34,415	99,529

The weighted average effective interest rate on short term deposits was 8% (2004 - 22%) and these deposits have an average maturity of 10 days.

16. Borrowings

	2005	**2004**
	$'000	**$'000**
Bank overdraft	2,746	93
Long term liabilities	34,514	35,502
	37,260	35,595

(a) Bank overdraft

The company has a bank overdraft facility of up to $12,000,000 (2004 - $12,000,000) which attracts interest at 20.5% (2004 - 24.75%) 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

	2005	**2004**
	$'000	**$'000**
Long term loan	34,514	35,109
Lease obligation	-	393
	34,514	35,502
Less: Current portion	(20,066)	(20,089)
	14,448	15,413

(i) Long term loan

	2005 $'000	2004 $'000
Development Bank of Jamaica Limited	34,514	35,109
Less: Current portion	(20,066)	(19,696)
	14,448	15,413

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
2006	20,066
2007	7,414
2008	6,034
2009	1,000
	34,514

(ii) Lease obligation

	2004 $'000
Payable in the financial year ending 31 March 2005	480
Less: Future finance charges	(87)
Present value of minimum lease payments	393
Less: Current portion	(393)
	-

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. The lease was fully repaid during the year.

17. Accounts Payable

	2005	**2004**
	$'000	**$'000**
Trade payables	24,948	32,953
Accruals	6,600	7,613
Other	11,578	9,466
	43,126	50,032

18. Share Capital

	2005	**2004**
	$'000	**$'000**
Authorised -		
121,000,000 (2004 - 121,000,000) ordinary shares of $1 each	121,000	121,000
Issued and fully paid -		
120,165,973 (2004 - 120,165,973) stock units of $1 each	120,166	120,166

19. Capital Reserves

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

20. 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:

	2005 $'000	2004 $'000
Balance at start of year	677,475	621,711
Credit to the profit and loss account	(11,576)	(5,349)
Charge to equity	88,369	61,113
Balance at end of year	754,268	677,475

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 2004	705,725	108	2,888	708,721
Credit to the profit and loss account	-	(108)	(2,200)	(2,308)
Charge to equity	88,369	-	-	88,369
At 31 March 2005	794,094	-	688	794,782

Deferred tax assets

	Excess of depreciation over capital allowances $'000	Unrealised foreign exchange losses $'000	Total $'000
At 1 April 2004	31,142	104	31,246
Credit/(charge) to the profit and loss account	9,372	(104)	9,268
At 31 March 2005	40,514	-	40,514

These balances include the following:

	2005 $'000	2004 $'000
Deferred tax liabilities to be recovered after more than 12 months	794,094	705,731
Deferred tax assets to be settled after more than 12 months	40,514	31,142

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.

21. 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 2005 includes aggregate net foreign assets of approximately US$464,000 (2004 - US$403,000), 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 2005, 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 16.

(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 2005, 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.

22. 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.

	2005 Carrying Amount $'000	2005 Fair Value $'000	2004 Carrying Amount $'000	2004 Fair Value $'000
Financial assets				
Originated debt	72,501	72,686	-	-