Pegasus Hotels of Jamaica Limited

Financial Statements
31 March 2007

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Independent Auditors' Report

To the Members of
Pegasus Hotels of Jamaica Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Pegasus Hotels of Jamaica Limited, set out on pages 1 to 21, which comprise the balance sheet as of 31 March 2007 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 March 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants

25 April 2007
Kingston, Jamaica

Pegasus Hotels of Jamaica Limited

Profit and Loss Account

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Revenue		738,015	658,433
Direct expenses		(275,050)	(253,611)
Gross Profit		462,965	404,822
Administration expenses		(188,158)	(170,922)
Other operating expenses		(235,162)	(224,532)
Other operating income	6	5,697	5,823
Operating Profit		45,342	15,191
Interest income		14,186	15,861
Interest expense	9	(6,210)	(3,834)
Profit before Taxation		53,318	27,218
Taxation	10	(12,238)	(9,816)
NET PROFIT		41,080	17,402
EARNINGS PER STOCK UNIT	11	$0.34	$0.14

Pegasus Hotels of Jamaica Limited

Balance Sheet
31 March 2007
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Non-Current Assets			
Fixed assets	13	3,618,685	3,215,550
Current Assets			
Inventories	15	32,495	25,903
Trade and other receivables	16	81,198	73,157
Investments	14	123,063	74,256
Cash and bank balances	17	22,432	52,864
		259,188	226,180
Current Liabilities			
Trade and other payables	19	90,288	76,962
Taxation payable		22,086	16,811
Current portion of long term liabilities	18	18,016	16,500
		130,390	110,273
Net Current Assets		128,798	115,907
		3,747,483	3,331,457
Stockholders' Equity			
Share capital	20	120,166	120,166
Capital reserve	21	2,721,511	2,359,308
Retained earnings		15,836	22,822
		2,857,513	2,502,296
Non-Current Liabilities			
Long term liabilities	18	19,995	37,961
Deferred tax liabilities	22	869,975	791,200
		3,747,483	3,331,457

Approved for issue on behalf of Board of Directors on 25 April 2007 and signed on its behalf by:

Marjorie Campbell Director

John Issa Director

Pegasus Hotels of Jamaica Limited

Statement of Changes in Shareholders' Equity

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Number of Shares	Share Capital	Capital Reserve	Retained Earnings	Total
	'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance as at 1 April 2005	120,166	120,166	2,126,872	41,470	2,288,508
Net profit	-	-	-	17,402	17,402
Fair value adjustments to land and buildings, net of taxation	-	-	232,436	-	232,436
Total recognised income for 2006	-	-	232,436	17,402	249,838
Dividends paid (Note 12)	-	-	-	(36,050)	(36,050)
Balance at 31 March 2006	120,166	120,166	2,359,308	22,822	2,502,296
Net profit	-	-	-	41,080	41,080
Fair value adjustments to land and buildings, net of taxation	-	-	362,203	-	362,203
Total recognised income for 2007	-	-	362,203	41,080	403,283
Dividends (Note 12)	-	-	-	(48,066)	(48,066)
Balance at 31 March 2007	120,166	120,166	2,721,511	15,836	2,857,513

Stockholders' Equity per Stock Unit-	
2006	$20.82
2007	$23.78

Pegasus Hotels of Jamaica Limited

Statement of Cash Flows

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	2007 $'000	2006 $'000
Cash Flows from Operating Activities		
Net profit	41,080	17,402
Adjusted for:		
Depreciation	64,600	53,754
Gain on disposal of fixed assets	(116)	(325)
Exchange gain on foreign balances	(1,201)	(1,616)
Interest income	(14,186)	(15,861)
Interest expense	6,210	3,834
Taxation expense	12,238	9,816
	108,625	67,004
Changes in operating assets and liabilities:		
Inventories	(6,592)	(977)
Receivables	(8,041)	1,525
Payables	(4,699)	33,836
	89,293	101,388
Interest received	12,762	16,494
Taxation paid	(19,079)	(22,101)
Net cash provided by operating activities	82,976	95,781
Cash Flows from Financing Activities		
Dividends paid	(30,041)	(36,050)
Long term loan received	-	40,000
Long term loan repaid	(16,450)	(20,054)
Interest paid	(6,210)	(3,834)
Net cash used in financing activities	(52,701)	(19,938)
Cash Flows from Investing Activities		
Investments	(47,383)	27,500
Purchase of fixed assets	(15,224)	(87,292)
Proceeds on disposal of fixed assets	699	782
Net cash used in investing activities	(61,908)	(59,010)
	(31,633)	16,833
Exchange gain on net foreign cash balances	1,201	1,616
(Decrease)/increase in cash and cash equivalents	(30,432)	18,449
Cash and cash equivalents at beginning of year	52,864	34,415
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 17)	22,432	52,864

Pegasus Hotels of Jamaica Limited
Notes to the Financial Statements
31 March 2007
(expressed in Jamaican dollars unless otherwise indicated)

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.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Interpretations and amendments to published standards effective in 2006
Certain interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new interpretations and amendments, and has adopted the following which are relevant to its operations:

- **IFRIC 4 - Determining whether an Arrangement contains a Lease**, requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The company assessed the impact of IFRIC 4 and concluded that there are no transactions to which this applies.

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Interpretations and amendments to published standards effective in 2006 (continued)

- **IAS 39 (Amendment) - The Fair Value Option**, changes the definition of financial instruments classified at fair value through income or expenditure and restricts the ability to designate financial instruments as part of this category.

  Financial assets that can no longer be so designated are to be classified as either loans and receivables, held-to-maturity or available-for-sale financial assets, and measured using a basis appropriate to the category. Financial liabilities that can no longer be so designated are classified as other liabilities and measured at amortised cost.

There was no impact on opening retained earnings at 1 April 2006 from the adoption of any of the above-mentioned standards.

Standards, interpretations and amendments to published standards that are not yet effective
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 April 2007.

- **IFRS 8, Operating Segments** (effective for annual periods beginning on or after 1 January 2009) IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by, and the amount reported for each operating segment item to be the measure reported to, the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IFRS 8 will replace IAS 14 – Segment Reporting. The company will apply IFRS 8 from 1 January 2009, but it is not expected to have any significant impact on the company's accounts, because the company's current reporting segments reflect internal reporting.

Pegasus Hotels of Jamaica Limited

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

The company has concluded that the following standards, interpretations and amendments to existing standards, which are published but not yet effective, are not relevant to its operations.

IFRIC 8 - Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).

IFRIC 10 - Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

IFRIC 7- Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006).

IFRIC 9- Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).

IFRIC 11- IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

(b) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured and presented using the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are translated into the functional currency using 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) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets

The company classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. At balance sheet date, trade and credit card receivables were classified as loans and receivables and investments and cash were classified as available for sale.

Financial liabilities

The company's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At balance sheet date, the following items were classified as financial liabilities: trade payables and long term liabilities.

Pegasus Hotels of Jamaica Limited
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2. Significant Accounting Policies (Continued)

(d) 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.

(e) Investments
The company classifies its investments as available-for-sale. Investments classified as available-for-sale are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates. Management determines the classification of investments at initial recognition and re-evaluates such designation at each reporting date.

Purchases and sales of investments are recognised at trade date, which is the date that the company commits to purchase or sell the asset. Investments classified as available-for-sale are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Investments are derecognised when the right to receive cash flows have expired or have been transferred and the company has transferred substantially all the risk and rewards of ownership.

Changes in the fair value of monetary available-for-sale investments are analysed between translation differences resulting in changes in amortised cost of the security and other changes. The translation differences are recognised in the statement of income and expenditure and other changes in the carrying amount are recognised in equity. Changes in the fair value of other monetary available-for-sale investments and non-monetary available-for-sale investments are recognised in equity.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale investments calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale investments are recognised in the profit and loss account when the company's right to receive payments is established.The fair values of quoted investments are based on current bid prices. If there is no active market for investments, the company establishes fair value by using valuation techniques, making maximum use of market inputs.

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) Trade payables

Trade payables are stated at cost.

(k) 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.

(l) 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.

Pegasus Hotels of Jamaica Limited
Notes to the Financial Statements
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2. Significant Accounting Policies (Continued)

(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 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.

(n) Employee benefit costs
The company participates in a contribution pension plan 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 sufficient 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 account in the year in which they are incurred.

(o) Revenue recognition
Provision of hotel services
Revenue comprises the fair value of 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.

Interest income
Interest income is recognised in the profit and loss account on a time-proportion basis using the effective interest method.

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

(q) Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which interim dividends are declared by the Board of Directors, and final dividends are approved by shareholders.

(r) Comparative information
Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been extended to reflect the requirements of amendments to existing IFRSs.

Pegasus Hotels of Jamaica Limited
Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management

(a) Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. 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.

(i) Market risk

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 exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises mainly from transactions for room sales. The balance sheet at 31 March 2007 includes aggregate net foreign assets of approximately US$606,000 (2006 – US$287,000), in respect of such transactions.

Price risk

Price 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 instrument or its issuer or factors affecting all instruments traded in the market. At 31 March 2007, the company had no significant exposure to such risks.

(ii) 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. Sales to retail customers are made in cash or via major credit cards. Cash transactions are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any financial institution.

(iii) 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 businesses, the company aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value 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 company's income and operating cash flows are substantially independent of changes in market interest rates, however, the company has interest-earning assets as disclosed in Notes 14 and 17, and interest-bearing liabilities as disclosed in Note 18.

3. Financial Risk Management (Continued)

(b) Fair value estimation

The fair value of financial instruments traded in active markets, such as available-for-sale securities, is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates presented are not necessarily indicative of the amounts that the company would realise in a current market exchange. The following methods and assumptions have been used in deriving the estimates of fair value:

(i) 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;

(ii) The company's borrowings, which incur interest at prevailing market rates and which reflect its contractual obligations, are carried at amortised cost which is deemed to be the fair value of such liabilities.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in respect of the company's property.

Property is carried at fair market value as determined by independent valuators. On the instructions of management, the valuators have used a direct sales comparison approach to determine fair market value. This approach is based on the principle of substitution, whereby there is a purchaser with perfect knowledge of the property market who would pay no more for the property than the cost of acquiring an existing comparable property, assuming no cost delay in making the substitution. This approach thus requires a comparison of the property with others of similar design and utility which were sold in the recent past.

However, as no two properties are exactly alike, adjustments are made by the valuators to reflect differences between properties. Consequently, the determination of fair market value of the property requires that the valuators analyse the differences in relation to age and physical condition, time of sale, land to building ratio, the advantages and disadvantages of the location and other functional gains to be derived from the property and make necessary adjustments.

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting

(a) Primary reporting format – business segments

	Rooms	Food & Beverage	Communication	Other	Total
	2007	**2007**	**2007**	**2007**	**2007**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	443,324	262,354	10,824	21,513	738,015
Segment result	362,271	75,323	5,128	20,243	462,965
Unallocated costs					417,623
Operating profit					45,342

	Rooms	Food & Beverage	Communication	Other	Total
	2006	**2006**	**2006**	**2006**	**2006**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	388,843	240,550	12,583	16,457	658,433
Segment result	313,712	72,016	4,573	14,521	404,822
Unallocated costs					389,631
Operating profit					15,191

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.

6. Other Operating Income

	2007 $'000	2006 $'000
Net foreign exchange gains	2,454	2,440
Other	3,243	3,383
	5,697	5,823

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

7. Expenses by Nature

Total direct, administration and other operating expenses:

	2007 $'000	2006 $'000
Advertising and promotion	23,595	21,488
Auditors' remuneration	1,800	1,500
Cost of inventories recognised as an expense	139,915	132,885
Depreciation	64,600	53,754
Directors' emoluments	935	935
Equipment rental	8,030	11,608
Insurance	32,115	26,883
Repairs, maintenance and renewals	55,341	56,287
Replacement of soft furnishings	34,335	31,108
Security	12,897	12,117
Staff costs (Note 8)	192,921	172,413
Utilities	89,824	87,485
Other	40,886	39,177
	697,194	647,640

8. Staff Costs

	2007 $'000	2006 $'000
Wages and salaries	158,255	135,705
Statutory contributions	9,579	8,955
Pension contribution	4,897	4,582
Other	20,190	23,171
	192,921	172,413

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

	2007	2006
Full-time	215	215
Part-time	41	45
	256	260

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9. Interest Expense

	2007 $'000	2006 $'000
Long term loans	6,210	3,834

10. Taxation Expense

(a) Taxation is based on the profit for the year adjusted for taxation purposes and comprises income tax at 33⅓%:

	2007 $'000	2006 $'000
Current taxation	29,850	19,211
Adjustment to prior year provision	(5,496)	624
	24,354	19,835
Deferred taxation (Note 22)	(12,116)	(10,019)
	12,238	9,816

(b) The tax on the company's profit differs from the theoretical amount that would arise using the applicable tax rate of 33⅓%, as follows:

	2007 $'000	2006 $'000
Profit before taxation	53,318	27,218
Tax calculated at a tax rate of 33⅓%	17,773	9,073
Adjusted for the effect of:		
Adjustment to prior year provision	(5,496)	624
Other charges and allowances	(39)	119
	12,238	9,816

(c) The current tax on the company's profit differs from the theoretical amount that would arise using the applicable tax rate of 33⅓%, as follows:

	2007 $'000	2006 $'000
Profit before taxation	53,318	27,218
Depreciation	64,600	53,754
Other expenses not deductible for current tax purposes	1,755	2,387
Income not subject to tax in current period	(3,316)	(2,080)
Capital allowances	(26,809)	(23,646)
Statutory profit	89,548	57,633
Current tax calculated at a tax rate of 33⅓%	29,850	19,211

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11. 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.

	2007	2006
Net profit attributable to stockholders ($'000)	41,080	17,402
Number of ordinary stock units ('000)	120,166	120,166
Earnings per stock unit ($)	0.34	0.14

The company has no dilutive potential ordinary shares.

12. Dividends

	2007 $'000	2006 $'000
Interim dividends –		
25 cents per stock unit	30,041	-
15 cents per stock unit	18,025	-
30 cents per stock unit	-	36,050
	48,066	36,050

The Board of Directors declared a second interim dividend of 15 cents per share on the 26 March 2007. Payment of that dividend was made on 4 April 2007 (Note 19).

13. Fixed Assets

	Land $'000	Buildings $'000	Fixtures & Furnishings $'000	Motor Vehicles $'000	Total $'000
			2007		
Cost or Valuation -					
At 1 April 2006	721,702	2,358,297	430,412	3,397	3,513,808
Additions	-	597	13,637	990	15,224
Disposals	-	-	-	(699)	(699)
Revaluation	180,426	238,978	-	-	419,404
At 31 March 2007	902,128	2,597,872	444,049	3,688	3,947,737
Depreciation -					
At 1 April 2006	-	-	296,194	2,064	298,258
Charge for the year	-	33,690	30,380	530	64,600
Disposals	-	-	-	(116)	(116)
Revaluation	-	(33,690)	-	-	(33,690)
At 31 March 2007	-	-	326,574	2,478	329,052
Net Book Value -					
At 31 March 2007	902,128	2,597,872	117,475	1,210	3,618,685

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13. Fixed Assets (Continued)

	Land	Buildings	Fixtures & Furnishings	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000
			2006		
Cost or Valuation -					
At 1 April 2005	583,167	2,249,583	343,924	4,003	3,180,677
Additions	-	-	86,488	804	87,292
Disposals	-	-	-	(1,410)	(1,410)
Revaluation	138,535	108,714	-	-	247,249
At 31 March 2006	721,702	2,358,297	430,412	3,397	3,513,808
Depreciation -					
At 1 April 2005	-	-	275,131	2,464	277,595
Charge for the year	-	32,138	21,063	553	53,754
Disposals	-	-	-	(953)	(953)
Revaluation	-	(32,138)	-	-	(32,138)
At 31 March 2006	-	-	296,194	2,064	298,258
Net Book Value -					
At 31 March 2006	721,702	2,358,297	134,218	1,333	3,215,550

Land and buildings were revalued as at 31 March 2007 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 21).

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 $5,845,000 (2006 – $5,678,000).

14. Investments

	2007	2006
	$'000	$'000
Available for sale –		
Government of Jamaica securities maturing within 12 months	123,063	74,256

The weighted average effective interest rate on the Government of Jamaica securities is 11.75%. Included in investments is interest receivable of $3,199,000 (2006 - $1,775,000).

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15. Inventories

	2007 $'000	2006 $'000
Food and beverage	14,496	12,078
China and glassware	1,642	1,672
Other	16,357	12,153
	32,495	25,903

16. Trade and Other Receivables

	2007 $'000	2006 $'000
Trade receivables	54,906	45,967
Less: Provision for impairment	(2,037)	(735)
	52,869	45,232
Credit card receivables	2,465	1,230
Prepayments	24,089	23,624
Other	1,775	3,071
	81,198	73,157

17. Cash and Bank Balances

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2007 $'000	2006 $'000
Cash at bank and in hand	22,432	52,864

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18. Long Term Liabilities

	2007 $'000	2006 $'000
Development Bank of Jamaica Limited	38,011	54,461
Less: Current portion	(18,016)	(16,500)
	19,995	37,961

This represents the balance owing on long term loan facilities which were obtained for certain specified refurbishment projects. The loans attract interest at a fixed rate of 13% and are secured on:

- Promissory notes to the value of the loans;
- 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
2008	18,016
2009	11,429
2010	8,566

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21. Capital Reserves

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

22. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33⅓%.

The movement in deferred taxation is as follows:

	2007 $'000	2006 $'000
Balance at start of year	791,200	754,268
Credit to the profit and loss account (Note 10)	(12,116)	(10,019)
Charge to equity	90,891	46,951
Balance at end of year	869,975	791,200

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	Interest receivable $'000	Total $'000
At 1 April 2006	841,045	585	841,630
Charge to the profit and loss account	-	481	481
Charge to equity	90,891	-	90,891
At 31 March 2007	931,936	1,066	933,002

Deferred tax assets

	Excess of depreciation over capital allowances $'000
At 1 April 2006	50,430
Credit to the profit and loss account	12,597
At 31 March 2007	63,027

These balances include the following:

	2007 $'000	2006 $'000
Deferred tax liabilities to be recovered after more than 12 months	931,936	841,045
Deferred tax assets to be settled after more than 12 months	63,027	50,430

23. Related Party Transactions

During the year, the company provided services valuing $20,503,000 (2006 – $47,841,000) to fellow government-owned institutions. The year end balance arising from the provision of services was $2,918,000 (2006 – $18,774,000). These services were provided on similar terms and conditions as those provided to unconnected parties.

Key management compensation was as follows:

	2007 $'000	2006 $'000
Wages and salaries	21,503	18,220
Statutory contributions	1,265	1,193
Pension contributions	844	782
Other	480	480
	24,092	20,675
Directors' emoluments –		
Fees	935	935

24. Retirement Benefit Plans

As of 1 January 2005, the company operates a defined contribution pension plan which is administered by Life of Jamaica Limited and in which all permanent employees must participate. The assets of the plan are held seperately from the company's assets. At the inception of the plan, existing employees were credited with their share of the previously existing defined benefit plan, based on years of service and amounts contributed to that plan, as calculated by an independent actuary.

Retirement benefits are calculated on amounts accrued to each employee's account, which is based on their share of the terminated defined benefit plan, their and the company's contributions, and earnings of the current plan. Employees contribute to the plan at a mandatory rate of 5%, and may make voluntary contributions not exceeding 5%. The company makes contributions to the plan at a rate recommended by independent actuaries and approved by the Taxpayer Audit and Assessment Department. Actuarial valuations to determine the adequacy of funding of the plan are required on a triennial basis, the first being due on 31 December 2007.

The company currently contributes at a rate of 5% of pensionable salaries and has no legal or constructive obligation to make further contributions in the event that plan assets are not sufficient to pay retirement benefits. On this basis, the company has recognised $4,897,000 as an expense for the year ended 31 March 2007 (2006 - $4,582,000), being its contribution to the plan in respect of the year.