

Montego Freeport Limited

**Financial Statements
31 March 2007**

Montego Freeport Limited

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31 March 2007

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Montego Freeport Limited

Consolidated Profit and Loss Account

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Revenue		-	323
Other operating income	5	31,158	27,380
Fair value gains on investment property	13	107,168	59,425
Gain/(loss) on sale of investment property	12	6,860	(16,115)
Administrative expenses		(10,510)	(9,489)
Other operating expenses		(20,432)	(19,943)
Operating Profit		114,244	41,581
Finance income	8	4,007	7,523
Profit before Taxation		118,251	49,104
Taxation	9	(182)	1,758
Net Profit	10	118,069	50,862
EARNINGS PER STOCK UNIT	11	\$0.21	\$0.09

Independent Auditors' Report

To the Members of
Montego Freeport Limited

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Montego Freeport Limited and its subsidiaries, and the accompanying financial statements of Montego Freeport Limited standing alone set out on pages 1 to 26 , which comprise the consolidated and company balance sheets as of 31 March 2007 and the consolidated and company profit and loss accounts, statements of changes in equity and cash flow statements 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.

Members of Montego Freeport Limited
Independent Auditors' Report
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Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as of 31 March 2007, and of the financial performance and cash flows of the group and the company for the year then ended, so far as concerns the members of the company, 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.



Chartered Accountants

2 May 2007
Montego Bay, Jamaica

Montego Freeport Limited

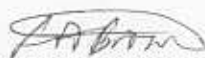
Consolidated Balance Sheet

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Non-Current Assets			
Investment property	13	1,593,439	1,557,441
Property, plant and equipment	14	3,072	5,190
Current Assets			
Receivables	15	300,153	6,657
Taxation recoverable		20,575	13,864
Cash and short term deposits	16	334,815	256,993
		655,543	277,514
Current Liabilities			
Payables	17	304,786	10,059
Taxation payable		6,185	6,675
		310,971	16,734
Net Current Assets		344,572	260,780
		1,941,083	1,823,411
Shareholders' Equity			
Share capital	19	281,533	281,533
Capital reserve	20	1,655,262	1,548,094
Retained earnings/(accumulated losses)		3,420	(7,481)
		1,940,215	1,822,146
Non-Current Liability			
Deferred tax liabilities	21	868	1,265
		1,941,083	1,823,411

Approved for issue by the Board of Directors on 2 May 2007 and signed on its behalf by:



Lambert Brown

Chairman



Faith Thomas

Director

Montego Freeport Limited

Consolidated Statement of Changes in Equity

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital \$'000	Capital Reserve \$'000	Retained Earnings/ (Accumulated Losses) \$'000	Total \$'000
Balance at 1 April 2005		281,533	1,488,669	1,082	1,771,284
Net profit	10	-	-	50,862	50,862
Total recognised income for 2006		-	-	50,862	50,862
Transfer to capital reserve		-	59,425	(59,425)	-
Balance at 31 March 2006		281,533	1,548,094	(7,481)	1,822,146
Net profit	10	-	-	118,069	118,069
Total recognised income for 2007		-	-	118,069	118,069
Transfer to capital reserve		-	107,168	(107,168)	-
Balance at 31 March 2007		281,533	1,655,262	3,420	1,940,215

Montego Freeport Limited

Consolidated Statement of Cash Flows

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Cash Flows From Operating Activities			
Net profit		118,069	50,862
Items not affecting cash:			
Depreciation	14	473	636
(Gain)/loss on sale of investment property		(6,860)	16,115
(Gain)/loss on disposal of property, plant and equipment		(2,032)	348
Adjustment to depreciation		-	(533)
Increase in fair value of investment property		(107,168)	(59,425)
Exchange gain on foreign balances		(5,292)	(5,508)
Interest income	5	(27,053)	(26,732)
Taxation	9	182	(1,758)
		<u>(29,681)</u>	<u>(25,995)</u>
Changes in operating assets and liabilities			
Receivables		(293,496)	17,923
Payables		294,727	(18,753)
Cash used in operating activities		<u>(28,450)</u>	<u>(26,825)</u>
Interest received		26,993	25,805
Tax paid		<u>(7,780)</u>	<u>(12,443)</u>
Net cash used in operating activities		<u>(9,237)</u>	<u>(13,463)</u>
Cash Flows From Investing Activities			
Proceeds from sale of investment property		78,030	112,601
Proceeds from sale of property, plant and equipment		3,772	-
Purchase of property, plant and equipment		<u>(95)</u>	<u>(186)</u>
Net cash provided by investing activities		<u>81,707</u>	<u>112,415</u>
Exchange and translation gains on net foreign cash balances		<u>5,292</u>	<u>5,508</u>
Net increase in cash and cash equivalents		77,762	104,460
Cash and cash equivalents at beginning of year		<u>254,895</u>	<u>150,435</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	<u><u>332,657</u></u>	<u><u>254,895</u></u>

Montego Freeport Limited

Company Profit and Loss Account

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Revenue		-	-
Other operating income	5	29,264	25,566
Fair value gains on investment property	13	107,168	59,425
Gain/(loss) on sale of investment property	12	6,858	(14,614)
Administrative expenses		(10,109)	(8,989)
Other operating expenses		(20,562)	(20,112)
Operating Profit		112,619	41,276
Finance income	8	4,007	7,523
Profit before Taxation		116,626	48,799
Taxation	9	359	2,410
Net Profit	10	116,985	51,209

Montego Freeport Limited

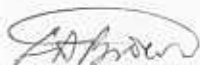
Company Balance Sheet

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Non-Current Assets			
Investment property	13	1,593,439	1,557,441
Property, plant and equipment	14	1,889	3,982
Investment in subsidiaries		7	7
Current Assets			
Receivables	15	299,864	6,246
Taxation recoverable		20,575	13,864
Cash and short term deposits	16	320,052	242,209
		640,491	262,319
Current Liabilities			
Payables	17	304,437	9,738
Taxation payable		6,105	6,105
		310,542	15,843
Net Current Assets			
		329,949	246,476
		<u>1,925,284</u>	<u>1,807,906</u>
Shareholders' Equity			
Share capital	19	281,533	281,533
Capital reserve	20	1,637,704	1,530,536
Retained earnings/(accumulated losses)		173	(9,644)
		<u>1,919,410</u>	<u>1,802,425</u>
Non-Current Liabilities			
Subsidiaries	18	5,219	4,438
Deferred tax liabilities	21	655	1,043
		5,874	5,481
		<u>1,925,284</u>	<u>1,807,906</u>

Approved for issue by the Board of Directors on 2 May 2007 and signed on its behalf by:



Lambert Brown

Chairman



Faith Thomas

Director

Montego Freeport Limited

Company Statement of Changes in Equity

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital \$'000	Capital Reserve \$'000	Retained Earnings (Accumulated Losses) \$'000	Total \$'000
Balance at 1 April 2005		281,533	1,471,111	(1,428)	1,751,216
Net profit	10	-	-	51,209	51,209
Total recognised income for 2006		-	-	51,209	51,209
Transfer to capital reserve		-	59,425	(59,425)	-
Balance at 31 March 2006		281,533	1,530,536	(9,644)	1,802,425
Net profit	10	-	-	116,985	116,985
Total recognised income for 2007		-	-	116,985	116,985
Transfer to capital reserve		-	107,168	(107,168)	-
Balance at 31 March 2007		281,533	1,637,704	173	1,919,410

Montego Freeport Limited

Company Statement of Cash Flows

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Cash Flows From Operating Activities			
Net profit		116,985	51,209
Items not affecting cash:			
Depreciation	14	420	542
Gain on sale of investment property		(6,860)	(14,615)
Gain/(Loss) on disposal of property, plant and equipment		(2,032)	191
Adjustment to depreciation		-	(578)
Increase in fair value of investment property		(107,168)	(59,425)
Exchange gain on foreign balances		(5,292)	(5,508)
Interest income	5	(27,041)	(24,950)
Taxation	9	(359)	(2,410)
		<u>(31,347)</u>	<u>(55,544)</u>
Changes in operating assets and liabilities			
Receivables		(293,618)	16,545
Payables		294,699	(17,605)
Cash used in operating activities		<u>(30,266)</u>	<u>(56,604)</u>
Interest received		26,978	24,071
Tax paid		(6,740)	(11,472)
Net cash used in operating activities		<u>(10,028)</u>	<u>(44,005)</u>
Cash Flows From Investing Activities			
Proceeds from sale of investment property		78,030	134,900
Proceeds from sale of property, plant and equipment		3,774	-
Purchase of property, plant and equipment		(69)	(186)
Net cash provided by investing activities		<u>81,735</u>	<u>134,714</u>
Cash Flows From Financing Activities			
Subsidiary		781	4,066
Net cash provided by financing activities		<u>781</u>	<u>4,066</u>
Exchange and translation gains on net foreign cash balances		<u>5,292</u>	<u>5,508</u>
Net increase in cash and cash equivalents		77,780	100,283
Cash and cash equivalents at beginning of year		240,433	140,150
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	<u>318,213</u>	<u>240,433</u>

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

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.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated 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 (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of current events and conditions, actual results could differ from those estimates. The areas involving a higher degree of judgement and 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 Group has assessed the relevance of all such new interpretations and amendments, and has adopted the following IFRS, which is relevant to its operations.

IAS 39 (Amendment) The Fair Value Option

The adoption of IAS 39 did not result in the substantial changes to the company's accounting policies. In summary:

- **IAS 39 (Amendment) - The Fair Value Option**, following amendments to IAS 39 Financial Instruments: Recognition and Measurement in June 2005, the ability of entities to designate any financial instrument as fair value through the profit and loss has been limited.

Financial assets that can no longer be so designated are now 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.

The company believes that this amendment should not have a significant impact on the classification of financial instruments, as it currently does not classify any of its instruments at fair value through income and expenditure, and if it intends to do so in the future, should be able to comply with the amended criteria for such designations.

There was no impact on opening retained earnings at 1 April 2005 from the adoption of the above-mentioned standard.

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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 are not yet effective, and which the Group has not early adopted. The Group 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. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group 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 Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 April 2007.

The Group has concluded that the following interpretations to existing standards, which are published but not yet effective, are not relevant to the entity's operations:

- **IFRIC 8 - Scope of IFRS 2** (effective for annual periods beginning on or after 1 May 2006).
- **IFRS 8 - Operating Segments** (effective for annual periods beginning on or after 1 January 2009).
- **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)

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The consolidated financial statements include the assets, liabilities and results of operations of the company and its subsidiaries presented as a single economic entity. Intra-group transactions, balances and unrealised gains and losses are eliminated in preparing the consolidated financial statements.

The subsidiaries consolidated and their percentage ownership are as follows:

Trading:

Montego Shopping Centre Limited	100%
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Non-Trading:

Montego Wharves Limited	100%
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(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 comprises the fair value of consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax. Revenue is recognised as follows:

Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised on a time-proportionate basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions and balances are recognised and disclosed for the following:

- (i) Enterprises and individuals owning directly or indirectly an interest in the voting power of the company that gives them significant influence over the Group's affairs and close members of the families of these individuals.

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Related party transactions and balances (Continued)

- (ii) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers and close members of the families of these individuals.

(f) 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 to allocate the cost to their residual values over the period of their expected useful lives. The rates used are:

Buildings	2½ %
Furniture, fixtures and equipment	10 %
Motor vehicles	20 %
Jetty	2½%

Land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of the asset is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to carrying amounts and are taken into account in determining net 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 entity. Major renovations are depreciated over the remaining useful life of the related asset.

(g) 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.

(h) Investment property

Investment property not occupied by the Group, is 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 2007. 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.

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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 for similar borrowings.

(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 deposits with original maturities of three months or less.

(l) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Dividends on ordinary shares are recognised in shareholders' equity in the period in which they are approved.

(n) Income taxes

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.

(o) 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.

(p) Financial instruments

Financial instruments carried on the balance sheet include receivables, cash and short term deposits, 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 3 (b).

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(q) 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 adjusted or extended to reflect the requirements of new IFRS, as well as amendments to and interpretations of existing IFRS (Note 2 (a)).

3. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk) interest rate risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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.

(i) Market risk

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in the 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 2007 includes aggregate net foreign assets of approximately US\$1,697,000 (2006-US\$998,000) in respect of transactions arising in the ordinary course of business.

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. The Group has no significant concentrations of price risk.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause another party to incur a financial loss. There is no significant credit risk attached to receivables as these amounts are not concentrated with any individual or institution and are shown net of provisions for doubtful debts. Cash and short term deposits are placed with substantial financial institutions.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will have difficulty raising funds to meet commitments associated with the 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 Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Montego Freeport Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (Continued)

(iv) Cash flow risk 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 Group's revenue and operating cash flows are subject to variations in market interest rates. The Group's exposure to interest rate risk on its financial assets is disclosed in Note 16.

Cash flow risk is the risk that future cash flows associated with the financial instruments will fluctuate in amount. The Group manages this risk by ensuring, that, as far as possible, financial assets and liabilities are matched to mitigate against any adverse significant cash flows.

(b) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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 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 cash and short term deposits, receivables and payables.

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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 company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 discussed below.

Fair values of investment property

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information the Group determines the amount for certain properties within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- ii) Current prices of properties of different nature, condition or location, adjusted to reflect those differences.
- iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

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4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Income Taxes

Significant judgement is required in the calculation of the Group's provisions for income tax and deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets which relate to tax losses, depends on management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their utilisation may be different.

5. Other Income

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Interest income	28,922	26,732	27,041	24,950
Miscellaneous	2,236	648	2,223	616
	<u>31,158</u>	<u>27,380</u>	<u>29,264</u>	<u>25,566</u>

6. Expenses by Nature

Total direct, administration and other operating expenses:

	The Group		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Depreciation	473	636	421	541
Property expenses	1,709	2,954	1,155	2,820
Directors' expenses	709	849	709	849
Managers' expenses	137	203	137	203
Auditors' remuneration -				
Current year	1,760	1,600	1,430	1,300
Prior year	366	569	325	407
Legal and professional fees	3,581	1,484	3,574	1,478
Staff costs (Note 7)	15,777	14,689	15,777	14,689
Office	634	813	634	813
Utilities	1,339	1,738	1,339	1,738
Insurance	919	638	919	638
Motor vehicle	923	946	923	946
Write off of property, plant and equipment	-	348	-	145
Travel and entertainment	360	561	360	561
GCT	842	499	842	499
Other	1,413	905	2,126	1,474
	<u>30,942</u>	<u>29,432</u>	<u>30,671</u>	<u>29,101</u>

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7. Staff Costs

	The Group and The Company	
	2007 \$'000	2006 \$'000
Salaries and wages	11,498	10,568
Statutory contributions	1,263	1,053
Other	3,016	3,068
	<u>15,777</u>	<u>14,689</u>

The number of persons employed full-time by the Group at year end was 19 (2006 -19).

8. Finance Income

	The Group and The Company	
	2007 \$'000	2006 \$'000
Net foreign exchange gains	<u>4,007</u>	<u>7,523</u>

9. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes for the Group and comprises income tax at 33 $\frac{1}{3}$ %:

	The Group		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Current taxation	579	1,004	29	-
Deferred taxation (Note 21)	(397)	(2,762)	(388)	(2,410)
	<u>182</u>	<u>(1,758)</u>	<u>(359)</u>	<u>(2,410)</u>

Reconciliation of applicable tax charge to effective tax charge:

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Profit before tax	<u>118,251</u>	<u>49,104</u>	<u>116,627</u>	<u>48,799</u>
Tax calculated at 33 $\frac{1}{3}$ %	39,417	16,368	38,875	16,266
Adjusted for the effects of:				
Income not subject to tax	(40,742)	(23,015)	(40,635)	(22,908)
Expenses not deductible for tax purposes	864	6,066	740	5,376
Tax loss for year	285	1,386	285	1,386
Other charges and allowances	358	(2,563)	376	(2,530)
Tax charge/(credit)	<u>182</u>	<u>(1,758)</u>	<u>(359)</u>	<u>(2,410)</u>

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9. Taxation (Continued)

Subject to agreement with the Taxpayer Audit and Assessment Department, certain subsidiaries have tax losses amounting to approximately \$2,674,000 (2006 - \$5,577,000) available for offset against future taxable profits, which may be carried forward indefinitely.

10. Profit Attributable to Stockholders

	2007 \$'000	2006 \$'000
(a) Net profit is dealt with as follows in the financial statements of:		
The company	116,985	51,209
Subsidiaries	1,084	(347)
	<u>118,069</u>	<u>50,862</u>
	2007 \$'000	2006 \$'000
(b) Retained earnings/(accumulated losses) are dealt with as follows in the financial statements of:		
The company	173	(9,644)
Subsidiaries	3,247	2,163
	<u>3,420</u>	<u>(7,481)</u>

11. 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.

	2007 \$'000	2006 \$'000
Net profit attributable to stockholders (\$'000)	<u>118,069</u>	<u>50,862</u>
Weighted average number of stock units in issue ('000)	<u>563,065</u>	<u>563,065</u>
Earnings per stock unit (\$)	<u>0.21</u>	<u>0.09</u>

12. Gain/(Loss) on Sale of Investment Property

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

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13. Investment Property

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
At beginning of year	1,557,441	1,626,732	1,557,441	1,618,301
Disposed during the year	(71,170)	(128,716)	(71,170)	(120,285)
Fair value gains	<u>107,168</u>	<u>59,425</u>	<u>107,168</u>	<u>59,425</u>
At end of year	<u>1,593,439</u>	<u>1,557,441</u>	<u>1,593,439</u>	<u>1,557,441</u>

No rental income was earned on investment property for the Group during 2007 (2006 - \$225,000). Repairs and maintenance expenditure in relation to investment property amounted to \$57,000 (2006 - \$947,500).

Land and building included in investment property were valued on the basis of current market values by independent valuers, Chang, Rattray and Company at 31 March 2007.

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14. Property, Plant and Equipment

The Group

	Freehold Land \$'000	Buildings \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Jetty \$'000	Total \$'000
2007						
At Cost -						
1 April 2006	319	3,780	2,937	996	1,005	9,037
Additions	-	-	95	-	-	95
Disposal	(176)	(1,708)	(871)	-	-	(2,755)
31 March 2007	143	2,072	2,161	996	1,005	6,377
Depreciation -						
1 April 2006	-	1,520	1,290	836	201	3,847
Charge for the year	-	62	228	158	25	473
Disposal	-	(655)	(360)	-	-	(1,015)
31 March 2007	-	927	1,158	994	226	3,305
Net Book Value -						
31 March 2007	143	1,145	1,003	2	779	3,072
2006						
At Cost -						
1 April 2005	319	3,780	3,590	1,178	1,005	9,872
Additions	-	-	186	-	-	186
Write-off	-	-	(794)	(182)	-	(976)
Adjustment	-	-	(45)	-	-	(45)
31 March 2006	319	3,780	2,937	996	1,005	9,037
Depreciation -						
1 April 2005	-	1,425	1,953	864	175	4,417
Charge for the year	-	95	361	154	26	636
Write-off	-	-	(446)	(182)	-	(628)
Adjustment	-	-	(578)	-	-	(578)
31 March 2006	-	1,520	1,290	836	201	3,847
Net Book Value -						
31 March 2006	319	2,260	1,647	160	804	5,190

Included in the table above are amounts totaling \$2,006,000 (2006 - \$3,888,000) for the Group, representing previous Jamaican GAAP revalued amounts of land and buildings which have been used as the deemed cost of the assets under the provisions of IFRS 1 (Note 2(f)).

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14. Property, Plant and Equipment (Continued)

The Company

	Land \$'000	Buildings \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Jetty \$'000	Total \$'000
2007						
At Cost -						
1 April 2006	176	2,172	2,840	995	1,005	7,188
Additions	-	-	69	-	-	69
Disposals	(176)	(1,708)	(871)	-	-	(2,755)
31 March 2007	-	464	2,038	995	1,005	4,502
Depreciation -						
1 April 2006	-	922	1,247	836	201	3,206
Charge for the year	-	22	216	157	25	420
Disposal	-	(655)	(358)	-	-	(1,013)
31 March 2007	-	289	1,105	993	226	2,613
Net Book Value -						
31 March 2007	-	175	933	2	779	1,889
2006						
At Cost -						
1 April 2005	176	2,172	3,039	1,178	1,005	7,570
Additions	-	-	186	-	-	186
Disposals	-	-	(385)	(183)	-	(568)
31 March 2006	176	2,172	2,840	995	1,005	7,188
Depreciation -						
1 April 2005	-	868	1,712	864	175	3,619
Charge for the year	-	54	308	154	26	542
Write-off	-	-	(195)	(182)	-	(377)
Adjustments	-	-	(578)	-	-	(578)
31 March 2006	-	922	1,247	836	201	3,206
Net Book Value -						
31 March 2006	176	1,250	1,593	159	804	3,982

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15. Receivables

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade	53	53	53	53
Deposits	297,938	4,631	297,938	4,458
Other	2,162	1,973	1,873	1,735
	<u>300,153</u>	<u>6,657</u>	<u>299,864</u>	<u>6,246</u>

16. Cash and Short Term Deposits

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash at bank and in hand	79,872	1,600	79,596	1,305
Short term deposits	<u>252,785</u>	<u>253,295</u>	<u>238,617</u>	<u>239,128</u>
Cash and cash equivalents	332,657	254,895	318,213	240,433
Interest receivable on short term deposits	<u>2,158</u>	<u>2,098</u>	<u>1,839</u>	<u>1,776</u>
	<u>334,815</u>	<u>256,993</u>	<u>320,052</u>	<u>242,209</u>

The weighted average effective interest rate on cash and short term deposits was 9.87% (2006 - 10.5%) and these deposits have an average maturity of under 90 days.

17. Payables

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade	812	812	812	812
Deposits on sale of investment property	300,609	6,799	300,610	6,798
Accruals	3,361	2,438	3,010	2,118
Other	<u>4</u>	<u>10</u>	<u>5</u>	<u>10</u>
	<u>304,786</u>	<u>10,059</u>	<u>304,437</u>	<u>9,738</u>

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18. Related Party Transactions and Balances

The following transactions were carried out with related parties:

(i) Transactions in the normal course of business

	2007 \$'000	2006 \$'000
Rental and maintenance paid to subsidiary	<u>939</u>	<u>835</u>

(ii) Key management compensation

	2007 \$	2006 \$
Salaries and other short-term employee benefits	3,947	3,245
Statutory contributions	1,202	794
Other	<u>2,098</u>	<u>2,129</u>
	<u>7,247</u>	<u>6,168</u>
Directors' emoluments -		
Fees	447	420
Management remuneration (included above)	<u>800</u>	<u>800</u>
	<u>1,247</u>	<u>1,220</u>

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

	2007 \$	2006 \$
At beginning of year	4,438	372
Additions	781	4,066
At end of year	<u>5,219</u>	<u>4,438</u>

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

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19. Share Capital

	2007 \$	2006 \$
Authorised –	<u>282,000</u>	<u>282,000</u>
564,000,000 ordinary shares		
Issued and fully paid –		
563,065,000 ordinary shares	<u>281,533</u>	<u>281,533</u>

Pursuant to the Jamaican Companies Act 2004, the ordinary shares of the company are deemed to have been converted from \$0.50 par value shares to no par value shares. The shares are stated in these financial statements without a nominal or par value.

20. Capital Reserve

	The Group		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Unrealised surplus on investment property	1,337,777	1,337,777	1,330,358	1,330,358
Unrealised surplus on property, plant and equipment	4,142	4,142	-	-
Fair value gains on investment property	176,267	187,640	176,267	187,640
Realised surplus on investment property	<u>137,076</u>	<u>18,535</u>	<u>131,079</u>	<u>12,538</u>
	<u>1,655,262</u>	<u>1,548,094</u>	<u>1,637,704</u>	<u>1,530,536</u>

21. Deferred Taxation

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

The movement on the deferred income tax account is as follows:

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Net liability at beginning of year	1,265	4,027	1,043	3,453
Credited to profit and loss account (Note 9)	<u>(397)</u>	<u>(2,762)</u>	<u>(388)</u>	<u>(2,410)</u>
Net liability at end of year	<u>868</u>	<u>1,265</u>	<u>655</u>	<u>1,043</u>

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21. Deferred Taxation (Continued)

Deferred income tax assets and liabilities are due to the following items:

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Deferred income tax assets -				
Tax losses	<u>(1,722)</u>	<u>(1,386)</u>	<u>(1,722)</u>	<u>(1,386)</u>
Deferred income tax liabilities -				
Unrealised foreign exchange gains	1,541	1,117	1,541	1,117
Interest receivable	719	699	612	592
Investment properties	-	112	-	-
Accelerated tax depreciation	<u>330</u>	<u>723</u>	<u>224</u>	<u>720</u>
	<u>2,590</u>	<u>2,651</u>	<u>2,377</u>	<u>2,429</u>
Net liability	<u>868</u>	<u>1,265</u>	<u>655</u>	<u>1,043</u>

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

	The Group		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Tax losses carried forward	336	(1,386)	336	(1,386)
Accelerated tax depreciation	497	127	496	170
Investment properties	-	(2,279)	-	(1,954)
Unrealised exchange gain	(424)	467	(423)	467
Interest receivable	<u>(12)</u>	<u>309</u>	<u>(21)</u>	<u>293</u>
	<u>(397)</u>	<u>(2,762)</u>	<u>(388)</u>	<u>(2,410)</u>

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21. Deferred Taxation (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts shown in the balance sheet include the following:

	The Group		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Deferred tax assets to be recovered -				
After more than 12 months	<u>1,722</u>	<u>1,386</u>	<u>1,722</u>	<u>1,386</u>
Deferred tax liabilities to be extinguished -				
After more than 12 months	<u>1,871</u>	<u>1,952</u>	<u>1,765</u>	<u>1,837</u>
Within 12 months	<u>719</u>	<u>699</u>	<u>612</u>	<u>592</u>
	<u>2,590</u>	<u>2,651</u>	<u>2,377</u>	<u>2,429</u>
	<u>868</u>	<u>1,265</u>	<u>655</u>	<u>1,043</u>

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 \$2,163,000 (2006 - \$2,510,000).