Pegasus Hotels of Jamaica Limited

Financial Statements
31 March 2008

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 12 to 41, which comprise the balance sheet as of 31 March 2008 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 2008, 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.

Chartered Accountants

30 April 2008
Kingston, Jamaica

Pegasus Hotels of Jamaica Limited

Profit and Loss Account

Year ended 31 March 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Revenue		676,291	738,015
Direct expenses		(268,780)	(275,050)
Gross Profit		407,511	462,965
Administration expenses		(204,019)	(188,158)
Other operating expenses		(347,636)	(235,162)
Other operating income	6	205,940	5,697
Operating Profit		61,796	45,342
Interest income		8,455	14,186
Interest expense	9	(7,073)	(6,210)
Profit before Taxation		63,178	53,318
Taxation	10	(24,163)	(12,238)
NET PROFIT		39,015	41,080
EARNINGS PER STOCK UNIT	11	$0.32	$0.34

Pegasus Hotels of Jamaica Limited

Balance Sheet

31 March 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 $'000	2007 $'000
Non-Current Asset			
Fixed assets	13	4,314,431	3,618,685
Current Assets			
Inventories	15	30,874	32,495
Trade and other receivables	16	98,908	81,198
Investments	14	36,239	123,063
Cash and bank balances	17	76,383	22,432
		242,404	259,188
Current Liabilities			
Trade and other payables	19	86,003	90,288
Bank overdraft	17/18	2,269	-
Taxation payable		15,664	22,086
Current portion of long term liabilities	18	31,921	18,016
		135,857	130,390
Net Current Assets		106,547	128,798
		4,420,978	3,747,483
Stockholders' Equity			
Share capital	20	120,166	120,166
Capital reserve	21	3,206,394	2,721,511
Retained earnings		24,810	15,836
		3,351,370	2,857,513
Non-Current Liabilities			
Long term liabilities	18	45,056	19,995
Deferred tax liabilities	22	1,024,552	869,975
		4,420,978	3,747,483

Approved for issue on behalf of Board of Directors on 30 April 2008 and signed on its behalf by:

John Issa	Director	Louis Williams	Director

Pegasus Hotels of Jamaica Limited

Statement of Changes in Stockholders' Equity

Year ended 31 March 2008

(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 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 paid (Note 12)	-	-	-	(48,066)	(48,066)
Balance at 31 March 2007	120,166	120,166	2,721,511	15,836	2,857,513
Net profit	-	-	-	39,015	39,015
Fair value adjustments to land and buildings, net of taxation	-	-	484,883	-	484,883
Total recognised income for 2008	-	-	484,883	39,015	523,898
Dividends paid (Note 12)	-	-	-	(30,041)	(30,041)
Balance at 31 March 2008	120,166	120,166	3,206,394	24,810	3,351,370

Stockholders' Equity per Stock Unit-

2007	$23.78
2008	$27.89

Pegasus Hotels of Jamaica Limited

Statement of Cash Flows

Year ended 31 March 2008

(expressed in Jamaican dollars unless otherwise indicated)

	2008 $'000	2007 $'000
Cash Flows from Operating Activities		
Net profit	39,015	41,080
Adjusted for:		
Depreciation	63,836	64,600
Gain on disposal of fixed assets	(106)	(116)
Exchange gain on foreign balances	(461)	(1,201)
Impairment of assets arising from hurricane/fire	10,816	-
Interest income	(8,455)	(14,186)
Interest expense	7,073	6,210
Taxation expense	24,163	12,238
	135,881	108,625
Changes in operating assets and liabilities:		
Inventories	1,621	(6,592)
Receivables	(17,710)	(8,041)
Payables	(4,285)	(4,699)
	115,507	89,293
Interest received	10,415	12,762
Taxation paid	(28,236)	(19,079)
Net cash provided by operating activities	97,686	82,976
Cash Flows from Financing Activities		
Dividends paid	(30,041)	(30,041)
Long term loan received	60,000	-
Long term loan repaid	(21,034)	(16,450)
Interest paid	(7,073)	(6,210)
Net cash provided by/(used in) financing activities	1,852	(52,701)
Cash Flows from Investing Activities		
Investments	84,864	(47,383)
Purchase of fixed assets	(133,287)	(15,224)
Proceeds on disposal of fixed assets	106	699
Net cash used in investing activities	(48,317)	(61,908)
	51,221	(31,633)
Exchange gain on net foreign cash balances	461	1,201
Increase/(decrease) in cash and cash equivalents	51,682	(30,432)
Cash and cash equivalents at beginning of year	22,432	52,864
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 17)	74,114	22,432

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements

31 March 2008

(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.

Standards, interpretations and amendments to published standards effective in 2007

Certain standards, 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 pronouncements, and has determined that the following are immediately relevant to its operations:

- **IFRS 7 Financial Instruments: Disclosures, and complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments, but has no impact on the classification or valuation of those instruments. IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32. The impact of the adoption has been to expand the disclosure provided in these financial statements regarding the company's financial instruments and management of capital (Note 3).

There was no impact on the opening accumulated surplus at 1 April 2006 from the adoption of the above mentioned standards.

There are no other standards, interpretations or amendments that became effective during the year that have resulted in any change to the company's accounting policies.

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
31 March 2008
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standard that are not yet effective
At the date of authorisation of these financial statements, certain new standards and amendments 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 immediately relevant to its operations, and has concluded as follows:

- **IAS 1 Presentation of Financial Statements (Revised)** (effective for annual periods beginning on or after 1 January 2009). The main objective in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. IAS 1 will affect the presentation of owner changes in equity and of comprehensive income. It will not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. IAS 1 will require an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) will be required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income will not be permitted to be presented in the statement of changes in equity. Management is currently assessing the impact of these changes.

- **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.

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 and will therefore have no material impact on adoption.

- **IAS 23 (Amendment) Borrowing Costs** (effective for annuals periods beginning on or after 1 January 2009).
- **IAS 27 (Revised) Consolidated and Separate Financial Statements** (effective for annuals periods beginning on or after 1 January 2009).
- **IAS 32 Financial Instruments: Presentation/ IAS 1 Presentation of Financial Statements (Amendments) - Puttable Financial Instruments and Obligations Arising on Liquidation** (effective for annuals periods beginning on or after 1 January 2009).
- **IFRS 2 (Amendment) Share-based Payment - Vesting Conditions and Cancellations** (effective for annuals periods beginning on or after 1 January 2009).
- **IFRS 3 (Revised) Business Combinations** (effective for annuals periods beginning on or after 1 January 2009).

2. Significant Accounting Policies (Continued)
(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

- **IFRIC 12 - Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008).
- **IFRIC 13 – Customer Loyalty Programmes** (effective for annual periods beginning on or after 1 July 2008).
- **IFRIC 14, IAS 19 –** The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2009).

(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.

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

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.

2. Significant Accounting Policies (Continued)

(l) Income taxes

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

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

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

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

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

(m) Employee benefit costs

The company 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.

(n) 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.

(o) Segment reporting

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

(p) 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.

(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 extended to reflect the requirements of amendments to existing IFRSs.

3. Financial Risk Management

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

The company’s risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company’s risk management framework. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Board has established an Audit Committee to assist in managing and monitoring risks. The Audit Committee oversees how management monitors compliance with the company’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

The most important types of risk to the company are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3. Financial Risk Management (Continued)

(a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is the most important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the company's hotel receivables from guests and, and to a lesser extent, from investment activities.

Credit review process

The company has established procedures that involve regular analysis of the ability of guests/customers and other counterparties to meet payment obligations.

(i) Trade (hotel) and other receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Customers are assessed based on the company's credit policy, and credit limits established are assigned to each customer, which represents the maximum credit allowable without approval from the General Manager or Financial Controller. These limits are reviewed frequently. The company has procedures in place to restrict extension of credit if the services will exceed their credit limits.

Customer credit risks are monitored according to their credit characteristics such as whether it is an individual or company, industry, ageing profile, and previous financial difficulties.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of hotel trade and other receivables.

The company's average credit period for services provided is 15 - 30 days. The company has provided fully for all receivables over 90 days based on historical experience which indicates that amounts past due beyond 90 days are generally not recoverable.

(ii) Investments

The company limits its exposure to credit risk by investing mainly in Government of Jamaica securities, placed through reputable financial institutions. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
31 March 2008
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

Credit risk exposures are as follows:

	2008	2007
	$'000	$'000
Investment securities	36,239	123,063
Trade and other receivables	98,908	81,198
Cash and bank balances	76,383	22,432
	211,530	226,693

The above table represents a worst case scenario of credit risk exposure to the company as at balance sheet date.

Ageing analysis of trade receivables that are past due but not impaired

Trade receivables that are past due but for which no provision has been made amount to $2,413,000 (2007 - $2,405,000). These relate to government entities which are traditionally slow-paying. The ageing analysis of these trade receivables is as follows:

	2008	2007
	$'000	$'000
3 to 6 months	2,413	2,405

Ageing analysis of trade receivables that are past due and impaired

At year end, trade receivables of $2,036,000 (2007 - $2,037,000) were impaired and fully provided for. The individually impaired receivables mainly relate to customers who are in unexpected difficult economic situations.

The ageing of these receivables is as follows:

	2008	2007
	$'000	$'000
3 to 6 months	-	834
Over 6 months	2,036	1,203
	2,036	2,037

Pegasus Hotels of Jamaica Limited
Notes to the Financial Statements
31 March 2008
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Movement on the provision for impairment of trade receivables

	2008 $'000	2007 $'000
At 1 January	2,037	735
Provision for receivables impairment	-	1,302
Receivables written off during the year as uncollectible	(1)	-
At 31 December	2,036	2,037

The creation and release of provision for impaired receivables have been included in expenses in the profit and loss account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Trade receivables by sector

The following table summarises the company's credit exposure for trade receivables at their carrying amounts, as categorised by the customer sector:

	2008 $'000	2007 $'000
Government	3,604	2,918
Non-Government	55,089	51,988
	58,693	54,906
Less: Provision for credit losses	(2,036)	(2,037)
	56,657	52,869

The majority of trade receivables are receivable from customers in Jamaica.

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
31 March 2008
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due. 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.

The company's liquidity management process includes:

(i) Monitoring future cash flows and liquidity on a daily basis;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit; and

(iv) Optimising cash returns on investments.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The tables below summarises the maturity profile of the company's financial liabilities at 31 March 2008 based on contractual undiscounted payments.

	2008				
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Total $'000**
Borrowings	5,288	8,412	31,787	45,346	90,833
Trade payables	-	45,138	-	-	45,138
Other	-	40,865	-	-	40,865
Total financial liabilities	5,288	94,415	31,787	45,346	176,836

	2007				
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Total $'000**
Borrowings	1,861	6,114	20,031	19,188	47,194
Trade payables	-	35,840	-	-	35,840
Other	-	54,448	-	-	54,448
Total financial liabilities	1,861	96,402	20,031	19,188	137,482

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
31 March 2008
(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the company which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign exchange risk arising mainly from its investments, primarily with respect to the US dollar.

The company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The company further manages this risk by maximising foreign currency earnings whenever possible, and holding foreign currency balances.

The table below summarises the company's exposure to foreign currency exchange rate risk at the balance sheet date.

	Jamaican$ J$'000	US$ J$'000	Total J$'000
		2008	
Financial Assets			
Investment securities	-	36,239	36,239
Trade and other receivables	98,908	-	98,908
Cash and bank balances	2,685	73,698	76,383
Total financial assets	101,593	109,937	211,530
Financial Liabilities			
Borrowings	78,656	590	79,246
Trade payables	45,138	-	45,138
Other	40,865	-	40,865
Total financial liabilities	164,659	590	165,249
Net financial position	(63,066)	109,347	46,281

Pegasus Hotels of Jamaica Limited

Notes to the Financial Statements
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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

	Jamaican$ J$'000	US$ J$'000	Total J$'000
		2007	
Financial Assets			
Investment securities	96,095	26,968	123,063
Trade receivables	81,198	-	81,198
Cash and bank	14,274	8,158	22,432
Total financial assets	191,567	35,126	226,693
Financial Liabilities			
Borrowings	38,011	-	38,011
Trade payables	35,840	-	35,840
	54,448	-	54,448
Total financial liabilities	128,299	-	128,299
Net financial position	63,268	35,126	98,334

The following tables indicate the currencies to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates, which represents management's assessment of the possible change in foreign exchange rates. The sensitivity was primarily as a result of foreign exchange gains and losses on translation of US dollar-denominated trade receivables, investment securities classified as available-for-sale and borrowings. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	2008 $'000	2007 $'000
Effect on net profit	5,460	1,724
Effect on equity	5,460	1,724

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The company's policy requires it to manage the maturity of interest bearing financial assets and interest bearing financial bearing liabilities.

The following tables summarise the company's exposure to interest rate risk. It includes the company financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Total $'000
			2008		
Assets					
Investment securities	1,239	35,000	-	-	36,239
Trade and other receivables	98,908	-	-	-	98,908
Cash and bank balances	76,383	-	-	-	76,383
Total financial assets	176,530	35,000	-	-	211,530
Liabilities					
Borrowings	5,288	8,412	31,787	45,346	90,833
Trade payables	45,138	-	-	-	45,138
Other	33,814	-	-	-	33,814
Total financial liabilities	84,240	8,412	31,787	45,346	169,785
Total interest repricing gap	92,290	26,588	(31,787)	(45,346)	41,745

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Total $'000
			2007		
Assets					
Investment securities	-	-	123,063	-	123,063
Trade and other receivables	81,198	-	-	-	81,198
Cash and bank balances	76,383	-	-	-	76,383
Total financial assets	157,581	-	123,063	-	280,644
Liabilities					
Borrowings	1,861	6,114	20,031	19,188	47,194
Trade payables	35,840	-	-	-	35,840
Other	41,256	-	-	-	41,256
Total financial liabilities	78,957	6,114	20,031	19,188	124,290
Total interest repricing gap	78,624	(6,114)	103,032	(19,188)	156,354

The company has little exposure to interest rate risk as its investments and borrowings attract fixed rates of interest. The company has no other financial instruments at year end that are subject to interest fluctuation in the next 12 months.

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3. Financial Risk Management (Continued)

(d) Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the company defines as net operating income, excluding non-recurring items, divided by total stockholders' equity. The Board of Directors determines the level of dividends to be paid to stockholders, based on the returns achieved.

The company also monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Debt comprises total long term liabilities. Total capital is calculated as 'equity' as shown in the balance sheet plus long term liabilities. The gearing ratio at year end, based on these calculations, was as follows:

	2008	2007
	$'000	$'000
Debt	76,977	38,011
Equity	3,347,354	2,857,513
Total capital	3,424,331	2,895,524
Gearing ratio	2.25%	1.31%

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.

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Notes to the Financial Statements
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5. Segment Reporting

(a) Primary reporting format – business segments

	2008				
	Rooms	Food & Beverage	Communication	Other	Total
	$'000	$'000	$'000	$'000	$'000
Revenue	383,794	269,260	5,130	18,107	676,291
Segment result	321,026	69,248	93	17,144	407,511
Unallocated costs					345,715
Operating profit					61,796

	2007				
	Rooms	Food & Beverage	Communication	Other	Total
	$'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

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

	2008 $'000	2007 $'000
Net foreign exchange gains	1,558	2,454
Gain on sale of fixed assets	106	116
Insurance proceeds received	201,684	-
Other	2,592	3,127
	205,940	5,697

Insurance proceeds received includes $25,766,000 in respect of fixed assets written off as fully impaired (Note 13), resulting from hurricane or fire damage.

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Notes to the Financial Statements
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7. Expenses by Nature

Total direct, administration and other operating expenses:

	2008 $'000	2007 $'000
Advertising and promotion	23,426	23,595
Auditors' remuneration -		
Current year	1,870	1,800
Prior year	(100)	-
Cost of inventories recognised as an expense	135,091	139,915
Depreciation (Note 13)	63,836	64,600
Directors' emoluments	900	935
Equipment rental	7,657	8,030
Insurance	36,117	32,115
Impairment of assets arising from hurricane /fire damage	10,816	-
Repairs, maintenance and renewals	76,307	55,341
Replacement of soft furnishings	43,535	34,335
Replacement of soft furnishings arising from hurricane/fire damage	66,806	-
Security	20,210	12,897
Staff costs (Note 8)	200,132	192,921
Utilities	89,694	89,824
Other	44,138	42,062
	820,435	698,370

8. Staff Costs

	2008 $'000	2007 $'000
Wages and salaries	158,788	158,255
Statutory contributions	10,062	9,579
Pension contribution	5,478	4,897
Other	25,804	20,190
	200,132	192,921

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

	2008	2007
Full-time	217	215
Part-time	43	41
	260	256

Pegasus Hotels of Jamaica Limited

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9. Interest Expense

	2008 $'000	2007 $'000
Long term loans	7,073	6,210

10. Taxation Expense

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

	2008 $'000	2007 $'000
Current taxation	21,723	29,850
Adjustment to prior year provision	91	(5,496)
	21,814	24,354
Deferred taxation (Note 22)	2,349	(12,116)
	24,163	12,238

(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:

	2008 $'000	2007 $'000
Profit before taxation	63,178	53,318
Tax calculated at a tax rate of 33⅓%	21,059	17,773
Adjusted for the effect of:		
Adjustment to prior year provision	91	(5,496)
Other charges and allowances	3,013	(39)
	24,163	12,238

(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:

	2008 $'000	2007 $'000
Profit before taxation	63,178	53,318
Depreciation	63,836	64,600
Other expenses not deductible for current tax purposes	13,755	1,755
Income not subject to tax in current period	(26,650)	(3,316)
Capital allowances	(48,950)	(26,809)
Statutory profit	65,169	89,548
Current tax calculated at a tax rate of 33⅓%	21,723	29,850

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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.

	2008	2007
Net profit attributable to stockholders ($'000)	39,015	41,080
Number of ordinary stock units ('000)	120,166	120,166
Earnings per stock unit ($)	0.32	0.34

The company has no dilutive potential ordinary shares.

12. Dividends

	2008 $'000	2007 $'000
Interim dividends –		
25 cents per stock unit	30,041	-
15 cents per stock unit	-	18,025
25 cents per stock unit	-	30,041
	30,041	48,066

The Board of Directors declared and paid interim dividend of 25 cents per share on the 24 September 2007 and 1 November 2007, respectively.

13. Fixed Assets

	Land $'000	Buildings $'000	Fixtures & Furnishings $'000	Motor Vehicles $'000	Work in Progress $'000	Total $'000
			2008			
Cost or Valuation -						
At 1 April 2007	902,128	2,597,872	444,049	3,688	-	3,947,737
Additions	-	-	125,446	-	7,841	133,287
Disposals	-	-	(6,868)	-	-	(6,868)
Impairment	-	-	(17,880)	-	-	(17,880)
Revaluation	180,427	419,573	-	-	-	600,000
At 31 March 2008	1,082,555	3,017,445	544,747	3,688	7,841	4,656,276
Depreciation -						
At 1 April 2007	-	-	326,574	2,478	-	329,052
Charge for the year	-	37,111	26,168	557	-	63,836
Disposals	-	-	(6,868)	-	-	(6,868)
Impairment	-	-	(7,064)	-	-	(7,064)
Revaluation	-	(37,111)	-	-	-	(37,111)
At 31 March 2008	-	-	338,810	3,035	-	341,845
Net Book Value -						
At 31 March 2008	1,082,555	3,017,445	205,937	653	7,841	4,314,431

13. Fixed Assets (Continued)

	Land	Buildings	Fixtures & Furnishings	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'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

Land and buildings were revalued as at 31 March 2008 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 $6,012,000 (2007 – $5,845,000).

14. Investments

	2008	2007
	$'000	$'000
Available for sale –		
Certificate of deposit	36,239	-
Government of Jamaica securities	-	123,063

These investments mature within 12 months. The US$ denominated certificate of deposit currently attracts interest at a rate of 6.85% (GOJ securities 2007 - 11.75%). Included in investments is interest receivable of US$17,500 ($1,239,000; 2007 - $3,199,000)).

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15. Inventories

	2008 $'000	2007 $'000
Food and beverage	15,038	14,496
China and glassware	2,495	1,642
Other	13,341	16,357
	30,874	32,495

16. Trade and Other Receivables

	2008 $'000	2007 $'000
Trade receivables	58,693	54,906
Less: Provision for impairment	(2,036)	(2,037)
	56,657	52,869
Credit card receivables	1,596	2,465
Insurance proceeds receivable	3,315	-
Barter recoverable	6,748	-
Prepaid insurance	30,226	22,476
Other	366	3,388
	98,908	81,198

17. Cash and Bank Balances

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

	2008 $'000	2007 $'000
Cash at bank and in hand	76,383	22,432
Bank overdraft (Note 18)	(2,269)	-
	74,114	22,432

18. Borrowings

	2008 $'000	2007 $'000
Bank overdraft	2,269	-
Long term liabilities	76,977	38,011
	79,246	38,011

(a) Bank overdraft

The company has a bank overdraft facility of up to $12,000,000, which attracts interest at 20.5% and which is immediately rate sensitive. The overdraft facility is unsecured.

(b) Long term liabilities

	2008 $'000	2007 $'000
Development Bank of Jamaica Limited	76,977	38,011
Less: Current portion	(31,921)	(18,016)
	45,056	19,995

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
2009	31,429
2010	39,994
2011	5,554
	76,977

19. Trade and Other Payables

	2008 $'000	2007 $'000
Trade payables	45,138	35,840
Accruals	11,102	9,205
Advanced bookings	-	14,026
Dividend payable	-	18,025
Staff related costs	11,890	6,918
GCT payable	7,051	-
Other	10,822	6,274
	86,003	90,288

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20. Share Capital

	2008 $'000	2007 $'000
Authorised -		
121,000,000 ordinary stock units		
Issued and fully paid -		
120,165,973 ordinary stock units	120,166	120,166

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:

	2008 $'000	2007 $'000
Balance at start of year	869,975	791,200
Charge/(credit) to the profit and loss account (Note 10)	2,349	(12,116)
Charge to equity	152,228	90,891
Balance at end of year	1,024,552	869,975

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 2007	931,936	1,066	933,002
Credit to the profit and loss account	-	(654)	(654)
Charge to equity	152,228	-	152,228
At 31 March 2008	1,084,164	412	1,084,576

22. Deferred Income Taxes (Continued)

Deferred tax assets

	Excess of depreciation over capital allowances $'000
At 1 April 2007	63,027
Charge to the profit and loss account	(3,003)
At 31 March 2008	60,024

These balances include the following:

	2008 $'000	2007 $'000
Deferred tax liabilities to be recovered after more than 12 months	1,084,164	931,936
Deferred tax assets to be settled after more than 12 months	60,024	63,027

23. Related Party Transactions

During the year, the company provided services valuing $14,214,000 (2007– $20,503,000) to fellow government-owned institutions. The year end balance arising from the provision of services was $3,604,490 (2007 – $2,918,000). These services were provided on similar terms and conditions as those provided to unconnected parties.

Key management compensation was as follows:

	2008 $'000	2007 $'000
Wages and salaries	23,545	21,503
Statutory contributions	1,427	1,265
Pension contributions	1,200	844
Other	720	480
	26,892	24,092
Directors' emoluments –		
Fees	900	935

24. Retirement Benefit Plans

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 separately 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 was due for the year ended 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 $5,468,000 as an expense for the year ended 31 March 2008 (2007 - $4,897,000), being its contribution to the plan in respect of the year.