

**National Road Operating and
Constructing Company Limited**

**Financial Statements
31 March 2006**

National Road Operating and Constructing Company Limited

Index

31 March 2006

	Page
Auditors' Report to the Members	
Financial Statements	
Balance sheet	1
Profit and loss account	2
Statement of changes in shareholders' equity	3
Statement of cash flows	4
Notes to the financial statements	5 – 35

17 November 2006

To the Members of
National Road Operating and Constructing
Company Limited

Auditors' Report

We have audited the accompanying balance sheet of National Road Operating and Constructing Company Limited as at 31 March 2006 and the related profit and loss account, statements of changes in shareholders' equity and cash flows for the year then ended, and have received all the information and explanations which we considered necessary. These financial statements set out on pages 1 to 35 are the responsibility of the company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the accompanying financial statements, which are in agreement therewith, give a true and fair view of the financial position of the company as at 31 March 2006 and of the results of operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.



Chartered Accountants
Kingston, Jamaica

National Road Operating and Constructing Company Limited

Profit and Loss Account

Year ended 31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	Restated 2005 \$'000
Revenue		-	1,205
Administration expenses		(389,845)	(206,871)
Operating Loss		(389,845)	(205,666)
Finance income	8	1,012,179	570,059
Finance costs	9	(1,301,727)	(637,763)
Inflation compensation on Real Return Convertible Bonds	23(a)	(569,802)	(582,136)
Loss before Taxation		(1,249,195)	(855,506)
Taxation	10	98,284	(129,578)
NET LOSS		(1,150,911)	(985,084)

National Road Operating and Constructing Company Limited


Balance Sheet

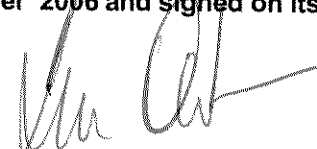
31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	Restated 2005 \$'000
Non-Current Assets			
Fixed assets	11	2,264,448	2,039,856
Deferred tax assets	12	299,635	32,240
Loans receivable	13	6,907,634	5,943,198
Investment securities	14	1,142,907	1,532,393
		<u>10,614,624</u>	<u>9,547,687</u>
Current Assets			
Reverse repurchase agreements	15	27,628	137,383
Receivables	16	15,768	91,161
Cash and short term deposits	17	539,112	488,601
		<u>582,508</u>	<u>717,145</u>
Current Liabilities			
Payables	18	522,904	727,057
Taxation payable		126,551	133,809
Short term loans	19	2,583,973	1,287,177
		<u>3,233,428</u>	<u>2,148,043</u>
Net Current Liabilities		<u>(2,650,920)</u>	<u>(1,430,898)</u>
		<u>7,831,704</u>	<u>8,116,789</u>
Shareholders' Equity			
Share capital	20	1,000	1,000
Inflation reserve	21	152,066	152,066
Fair value reserve	22	(147,463)	(73,243)
Accumulated deficit		(2,796,317)	(1,645,406)
		<u>(2,790,714)</u>	<u>(1,565,583)</u>
Non-Current Liabilities			
Long term loans	23	10,622,418	9,682,372
		<u>7,831,704</u>	<u>8,116,789</u>

Approved for issue by the Board of Directors on 17 November 2006 and signed on its behalf by:


Kingsley Thomas Director


Ivan Anderson Director

National Road Operating and Constructing Company Limited

Statement of Changes in Shareholders' Equity

Year ended 31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital \$'000	Inflation Reserve \$'000	Fair Value Reserves \$'000	Accumulated Deficit \$'000	Total \$'000
Balance at 1 April 2004, restated	26	1,000	152,066	21,169	(660,322)	(486,087)
Unrealised loss on fair value adjustment, net of deferred taxation		-	-	(94,412)	-	(94,412)
Net loss recognised directly in shareholders' equity		-	-	(94,412)	-	(94,412)
Net loss, restated	26	-	-	-	(985,084)	(985,084)
Total expense recognised in current year		-	-	(94,412)	(985,084)	(1,079,496)
Balance at 31 March 2005, restated	26	1,000	152,066	(73,243)	(1,645,406)	(1,565,583)
Unrealised loss on fair value adjustment, net of deferred taxation		-	-	(74,220)	-	(74,220)
Net loss recognised directly in shareholders' equity		-	-	(74,220)	-	(74,220)
Net loss		-	-	-	(1,150,911)	(1,150,911)
Total expense recognised in current year		-	-	(74,220)	(1,150,911)	(1,225,131)
Balance at 31 March 2006		1,000	152,066	(147,463)	(2,796,317)	(2,790,714)

National Road Operating and Constructing Company Limited

Statement of Cash Flows

Year ended 31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

	2006	Restated
	\$'000	2005
		\$'000
Cash Flows from Operating Activities		
Cash (used in)/provided by operating activities (Note 25)	(503,203)	425,589
Cash Flows from Investing Activities		
Road construction and acquisition of land	(274,488)	(1,154,257)
Loans granted to concessionaire	(236,713)	(1,352,302)
Purchase of investment securities	(761,233)	(248,887)
Proceeds from sale of investment securities	1,100,920	479,967
Reverse repurchase agreements, net	109,174	581,230
Short term deposits	(47,977)	678,272
Interest received	190,259	211,059
Cash provided by/(used in) investing activities	<u>79,942</u>	<u>(804,918)</u>
Cash Flows from Financing Activities		
Short term loans received	893,792	696,584
Long term loan received	194,021	153,407
Interest paid	(664,040)	(489,337)
Cash provided by financing activities	<u>423,773</u>	<u>360,654</u>
Effect of exchange rate on cash and cash equivalent	2,245	1,551
Increase/(decrease) in cash and cash equivalents	<u>2,757</u>	<u>(17,124)</u>
Cash and cash equivalents at beginning of year	<u>3,655</u>	<u>20,779</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>6,412</u></u>	<u><u>3,655</u></u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

- (a) National Road Operating and Constructing Company Limited (the company or NROCC), which was incorporated on 2 February 1995 under the name of National Road Conservation Company Limited, is a private limited liability company domiciled in Jamaica. The company changed its name to NROCC on 22 May 2000, and commenced operations in February 2002. Its registered office is located at 11A Oxford Road, Kingston 5, Jamaica. All of the shares in NROCC are beneficially owned by the Government of Jamaica.
- (b) The company was granted a 70-year concession by the Minister of Transport and Works under the Toll Roads Act, 2002, for the establishment, development, financing, operation and maintenance of a tolled highway. The principal business of the company, as holder of the concession, is the arrangement of the construction, operation, maintenance, management and financing of Phase 1 of Highway 2000, Jamaica's first tolled highway, through Transjamaican Highway Limited.
- (c) The company has entered into a 35-year Concession Agreement with Transjamaican Highway Limited (the concessionaire), a limited liability company registered under the Jamaican Companies Act which is wholly owned by Bouygues Travaux Publics of France.
- (d) The company has also entered into an agreement dated 12 March 2002, to lease to the concessionaire for a period of 35 years, certain lands upon which Phase 1 of Highway 2000 will be constructed. Lands required for the project include lands leased by the Commissioner of Lands to the company for a period of 99 years.

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 available-for-sale investment securities.

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 managements' 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 3.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in 2005

Certain new accounting standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following IFRSs, which are relevant to its operations. The 2005 comparative figures have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 24 (revised 2003)	Related Party Disclosures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 36 (revised 2004)	Impairment of Assets
IAS 39 (revised 2003/2004)	Financial Instruments: Recognition and Measurement

The adoption of IAS 1, 8, 10, 16, 24, 32 (all revised 2003) and 36 (revised 2004) did not result in substantial changes to the company's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation of certain disclosures.
- IAS 8, 10, 16, 32 (all revised 2003) and IAS 36 (revised 2004) had no material effect on the company's policies.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards.

The adoption of the following amendment has resulted in a change in the company's accounting policy and has impacted the amounts reported for current and prior year as described below:

- The adoption of the revised IAS 39 has resulted in the fair value changes arising from the re-measurement of available-for-sale securities being recognised in shareholders' equity.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(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 were not yet effective at the balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The company believes that this amendment should not have a significant impact on the classification of financial instruments, as the company should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The company will apply this amendment from annual periods beginning 1 April 2006.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 April 2008.

(b) Revenue recognition

(i) Interest and fees

Fees and commission income are recognised on the accrual basis. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield on the loan. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price of the instrument. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bill and other discounted instruments.

When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Revenue recognition (continued)

(ii) Toll revenues

Subject to Clause 24 (Developer Payments) of the Concession Agreement (the Agreement), the concessionaire has sole rights to revenues arising out of the collection of tolls during the concession period. Under Clause 24, on the completion of certain prescribed sections of the Toll Road, and to the extent that the actual annual traffic revenues exceed those forecasted in the financial model as prepared by the concessionaire and agreed by the company from time to time, those excess revenues will be shared with the company in accordance with the Upside Formula as prescribed by Schedule 18 of the Agreement. Such revenues, if any, are recognised in the profit and loss account on an accrual basis.

(c) Foreign currency translation

Foreign currency transactions during the year are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities in foreign currencies are translated using the closing exchange rate. These rates represent the weighted average rates at which the company trades in foreign currencies.

Exchange differences resulting from the settlement of transaction 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) 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 balance sheet date.

Deferred tax is the tax 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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates are as follows:

Roads and leasehold improvements	2½%
Office furniture, fixtures and equipment	10%
Computer equipment	25%
Motor vehicles	20%

Land is not depreciated.

Grantor variations as determined in the Concession Agreement dated 21 November 2001 are capitalised and recorded at cost, less any reimbursements received.

Fixed assets are periodically reviewed for impairment. 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 arising on the disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. Repair and maintenance expenditure is charged to the profit and loss account when the expenditure is incurred. Improvement expenditure is included in the cost of the related asset or in leasehold improvement as is appropriate.

(f) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life of two years. Costs associating with developing or maintaining computer software programs are recognised as an expense as incurred.

(g) Loans receivable and provisions for credit losses

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due will not be collected according to the original contractual terms. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amount recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

Loans that are secured by a guarantee or irrevocable undertaking of the Government of Jamaica are classified as sovereign risk and are not considered to be impaired if they are contractually in arrears.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(g) Loans receivable and provisions for credit losses (continued)

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The increase in the present value of impaired loans due to the passage of time is reported as interest income.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries, in part or in full, of amounts previously written-off, are credited to credit loss expense in the profit and loss account.

(h) 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.

The company classifies its financial assets in the following categories: loans and receivables, held to maturity, 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'loans receivable and receivables' in the balance sheet (Note 13 and 16).

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Were the company required to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale. These assets are classified as non-current assets on the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Purchases and sales of investments are recognised on the settlement date - the date on which an asset is delivered to or by the company. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial instruments (continued)

Available-for-sale financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the profit and loss account, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in shareholders' equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in shareholders' equity are included in the profit and loss account as 'gains and losses on investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the profit and loss account, and other changes in carrying amount are recognised in shareholders' equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in shareholders' equity.

When securities 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 on investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from shareholders' equity and recognised in the profit and loss account.

Financial liabilities

The company's financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. These liabilities are classified as 'short term and long term loans and are included in current liabilities and non-current liabilities on the balance sheet

(i) Reverse repurchase transactions

Reverse repurchase agreements (securities purchased under agreements to resell) are treated as collateralised financing transactions. The difference between the purchase and resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances which mature within 90 days of the date of acquisition including cash balances and short term investment.

(k) Payables

Payables are stated at cost.

(l) Borrowings

Borrowings are recognised initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Where convertible bonds are issued, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a non-current liability on the amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' equity. The value of the conversion option is not changed in subsequent periods. Where the fair value of the liability portion cannot be reliably determined and separated from the value of the conversion component, the full amount of the bond is recorded as a non-current liability.

(m) Share capital

Ordinary shares are classified as equity.

(n) Provisions

Provisions are recognised where the company 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 of the obligation can be made.

(o) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to take into account the adoption of the revised IFRSs (Note 26).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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.

(a) Critical judgements in applying the Group's accounting policies

In the process of applying the company's accounting policies, management has made the following significant judgements on the amounts recognised in the financial statements.

Income taxes

Judgement is required in determining the provision for income taxes. Income tax in these financial statements is determined by treating the company as an Investor for tax purposes. Management has determined that the company is not in the business of raising funds but to construct the building of a tolled highway. Incidental to this mandate is arranging the financing of the construction. If the tax returns were to be filed on the Trader basis for tax purposes then this would result in a reduction in the tax losses available to be carried in current year of \$57,886,000 and \$102,611,000 on deferred tax provision.

(b) Key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made no significant estimates on the amounts recognised in the financial statements.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

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 and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Management seeks to minimise potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(i) Market risk

Currency risk

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

The following table summarises the exposure of the company to currency risk. Included in the table are the company's assets and liabilities at carrying amounts categorised by currency.

	2006			Total J\$'000
	Jamaican J\$'000	US\$ J\$'000	GBP J\$'000	
Assets				
Loans receivable	2,388,708	4,518,926	-	6,907,634
Investment securities	-	1,142,907	-	1,142,907
Reverse repurchase agreements	27,628	-	-	27,628
Receivables	9,292	6,476	-	15,768
Cash and short term deposits	1,170	537,942	-	539,112
Other	2,432,083	-	-	2,432,083
Total assets	4,858,881	6,206,251	-	11,065,132
Liabilities				
Payables	177,099	345,805	-	522,904
Short term loans	708,395	1,875,578	-	2,583,973
Long term loans	5,535,560	5,086,858	-	10,622,418
Other	126,551	-	-	126,551
Total liabilities	6,547,605	7,308,241	-	13,855,846
Net position	(1,688,724)	(1,101,990)	-	(2,790,714)
	2005			
Total assets	4,339,807	5,925,025	-	10,264,832
Total liabilities	5,527,444	6,297,634	5,337	11,830,415
Net position	(1,187,637)	(372,609)	(5337)	(1,565,583)

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(i) Market risk (continued)

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 the issuer or factors affecting all instruments traded in the market. The company is exposed to securities price risk because of investments held by the company and classified on the balance sheet as available-for-sale. Price risks arise from open positions in interest earning products which are exposed to general and specific market movements.

The company reduces this risk through diversification of investments.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Due to the specificity of the company's operating objectives, most of its interest earning investments is placed with a few financial institutions in fulfillment of conditions associated with credit arrangements extended by those institutions. The company's other main exposure to credit risk lies in its lending activities to the concessionaire. Exposure to this credit risk is managed through regular analysis of the concessionaire's ability to meet interest and principal repayments in accordance with the terms and conditions of the various loan agreements. Other interest earnings assets such as reverse repurchase agreements, cash and short term deposits are placed with substantial financial institutions. The company's investments are either held in government instruments or placed with substantial financial institutions.

(iii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

The following table analyses assets and liabilities of the company into relevant maturity groupings based on the remaining period, at balance sheet date, to the contractual maturity date.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(iii) Liquidity risk (continued)

	2006					
	On demand or Subject to Notice	Less than 1 Year	1 to 5 Years	Over 5 Years	No Maturity Date	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets						
Loans receivable	-	-	-	6,907,634	-	6,907,634
Investment securities	-	471,547	671,360	-	-	1,142,907
Reverse repurchase agreements	-	27,628	-	-	-	27,628
Receivables	-	15,768	-	-	-	15,768
Cash and short term deposits	6,412	532,700	-	-	-	539,112
Other	-	-	-	-	2,432,083	2,432,083
Total assets	6,412	1,047,643	671,360	6,907,634	2,432,083	11,065,132
Liabilities						
Payables	-	522,904	-	-	-	522,904
Short term loans	2,416,199	167,774	-	-	-	2,583,973
Long term loans	-	-	10,425,933	-	196,485	10,622,418
Other	-	126,551	-	-	-	126,551
Total liabilities	2,416,199	817,229	10,425,933	-	196,485	13,855,846
Net Liquidity Gap	(2,409,787)	230,414	(9,754,573)	6,907,634	2,235,598	(2,790,714)
Cumulative Liquidity Gap	(2,409,787)	(2,179,373)	(11,933,946)	(5,026,312)	(2,790,714)	
2005						
Total assets	3,655	1,027,415	1,341,791	5,819,875	2,072,096	10,264,832
Total liabilities	1,182,617	1,065,841	153,860	9,428,097	-	11,830,415
Net Liquidity Gap	(1,178,962)	(38,426)	1,187,931	(3,608,222)	2,072,096	(1,565,583)
Cumulative Liquidity Gap	(1,178,962)	(1,217,388)	(29,457)	(3,637,679)	(1,565,583)	

(iv) Cash flow interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The company's interest bearing financial instruments include short term deposits, reverse repurchase agreements, investment securities, loans receivable, short term and long term loans. The effective rates of interest impacting these instruments are disclosed in the individual notes to the financial statements associated with each item.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(iv) Cash flow interest rate risk (continued)

The company manages its interest rate risk by constantly reviewing rates and borrowing in foreign currency rather than local currency.

The table below summarises the company's exposure to interest rate risk. Included in the tables are the carrying amounts of the company's balance sheet assets, categorised by the earlier of contractual repricing or maturity dates.

	2006				
	Up to One Year	One to Five Years	Over 5 Years	Non- Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Assets					
Loans receivable	-	-	6,907,634	-	6,907,634
Investment securities	471,547	671,360	-	-	1,142,907
Reverse repurchase agreements	27,628	-	-	-	27,628
Receivables	-	-	-	15,768	15,768
Cash and short term deposits	538,182	-	-	930	539,112
Other	-	-	-	2,432,083	2,432,083
Total assets	1,037,357	671,360	6,907,634	2,448,781	11,065,132
Liabilities					
Payables	-	-	-	522,904	522,904
Short term loans	2,583,973	-	-	-	2,583,973
Long term loans	-	-	10,425,933	196,485	10,622,418
Other	-	-	-	126,551	126,551
Total liabilities	2,583,973	-	10,425,933	845,940	13,855,846
On balance sheet interest sensitivity gap	(1,546,616)	671,360	(3,518,299)	1,602,841	(2,790,714)
Cumulative interest sensitivity gap	(1,546,616)	(875,256)	(4,393,555)	(2,790,714)	
2005					
Total assets	792,137	1,341,791	5,819,875	2,311,029	10,264,832
Total liabilities	1,182,617	153,860	9,428,097	1,065,841	11,830,415
On balance sheet interest sensitivity gap	(390,480)	1,187,931	(3,608,222)	1,245,188	(1,565,583)
Cumulative interest sensitivity gap	(390,480)	797,451	(2,810,771)	(1,565,583)	

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

5. Fair Value Estimation

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

- (a) The amounts included in the financial statements for cash and bank balances, short term investments, reverse repurchase agreements, receivables, payables and short term loans reflect their approximate fair value because of the short term maturity of these instruments;
- (b) The carrying value of loans denominated in United States dollars approximates fair value because these loans are contracted at variable market rates. The fair value of the Jamaican dollar portion of loans receivable cannot be reliably determined because there are no similar instruments in the market from which a market rate of interest can be derived for use in the pricing model;
- (c) The fair value of investment securities is determined by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques using estimated current market rates of interest.;
- (d) As explained in Note 23(a), the fair value of the convertible bond cannot be reliably determined. Other long term loans reflect the company's contractual obligations and are carried at amortised cost, which is deemed to approximate the fair value of these loans because these loans are subject to such terms and conditions as are available in the market for similar transactions..

The following table presents the estimated fair value of financial instruments which are not reflected in the financial statements at fair value:

	2006		2005	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Financial Assets				
Held-to-maturity investment securities	188,719	186,162	177,520	175,578

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

6. Expenses by Nature

	2006	2005
	\$'000	\$'000
Accommodation, travel and entertainment	16,548	2,936
Advertising and public relations	1,909	3,095
Auditors' remuneration -		
Current year	1,500	1,400
Prior year	300	-
Depreciation	49,896	25,656
Development costs	-	86,262
Donations	4,415	8,976
Legal and professional fees	66,467	28,066
Penalty incurred (Note 18)	198,000	-
Relocation expenses	540	-
Repairs and maintenance	230	-
Staff costs (Note 7)	14,338	16,317
Technical fees	28,003	22,835
Utilities	4,477	4,603
Other operating expenses	3,222	6,725
	<u>389,845</u>	<u>206,871</u>

Included in accommodation expense, are expenses amounting to \$13,000,000 relating to the negotiation of a new loan from the Government of Venezuela.

7. Staff Costs

	2006	2005
	\$'000	\$'000
Salaries and wages	13,260	15,031
Statutory contributions	798	964
Other	280	322
	<u>14,338</u>	<u>16,317</u>

The number of persons employed by the company on a full - time basis at the end of the year was 8 (2005 – 7).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

8. Finance Income

	2006	2005
	\$'000	\$'000
Foreign exchange gains	350,350	124,088
Interest income -		
Investment securities	158,327	73,600
Loans receivable	470,541	328,140
Reverse repurchase agreements	11,086	31,763
Short term deposits	21,875	12,468
	<u>661,829</u>	<u>445,971</u>
	<u>1,012,179</u>	<u>570,059</u>

9. Finance Costs

	2006	2005
	\$'000	\$'000
Foreign exchange losses	395,140	61,812
Interest on loans	878,096	575,951
Other	28,491	-
	<u>1,301,727</u>	<u>637,763</u>

10. Taxation

(a) Taxation is based on profit for the year adjusted for tax purposes and represents income tax at 33½%:

	2006	2005
	\$'000	\$'000
Current tax	-	129,344
Deferred tax (Note 12)	(98,284)	234
	<u>(98,284)</u>	<u>129,578</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

10. Taxation (Continued)

(b) The tax on profit as reported differs from the theoretical amount that would arise using the basic statutory rate of 33 $\frac{1}{3}$ % as follows:

	2006 \$'000	2005 \$'000
Loss before taxation	(1,249,195)	(855,509)
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	(416,398)	(285,169)
Adjusted for the effect of:		
Expenses not deductible for tax purposes	129,116	220,029
Inflation compensation on Real Return Convertible Bonds	189,934	194,045
Other net adjustments and allowances	(936)	673
Tax (credit)/expense	(98,284)	129,578

11. Fixed Assets

	Land, Road Construction and Leasehold Property & Improvements \$'000	Office Furniture, Fixtures & Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Total \$'000
	2006				
Cost -					
1 April 2005	2,064,634	4,231	5,097	8,082	2,082,044
Additions	274,009	105	374	-	274,488
31 March 2006	2,338,643	4,336	5,471	8,082	2,356,532
Depreciation -					
1 April 2005	31,951	1,335	4,412	4,490	42,188
Charge for the year	47,153	423	705	1,615	49,896
31 March 2006	79,104	1,758	5,117	6,105	92,084
Net Book Value -					
31 March 2006	2,259,539	2,578	354	1,977	2,264,448

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

11. Fixed Assets (Continued)

	Land, Road Construction and Leasehold Property & Improvements \$'000	Office Furniture, Fixtures & Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Total \$'000
2005					
Cost -					
1 April 2004	910,377	4,231	5,097	8,082	927,787
Additions	1,154,257	-	-	-	1,154,257
31 March 2005	2,064,634	4,231	5,097	8,082	2,082,044
Depreciation -					
1 April 2004	9,123	912	3,612	2,885	16,532
Charge for the year	22,828	423	800	1,605	25,656
31 March 2005	31,951	1,335	4,412	4,490	42,188
Net Book Value -					
31 March 2005	2,032,682	2,896	685	3,592	2,039,856

12. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33½%.

The movement in the deferred tax balance is as follows:

	2006 \$'000	2005 \$'000
At 1 April	32,240	(14,732)
Credited/(charged) to the profit and loss (Note 10)	98,284	(234)
Charged to shareholders' equity	37,111	47,206
At 31 March	167,635	32,240

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

12. Deferred Income Taxes (Continued)

Deferred income tax assets are due to the following items:

	2006 \$'000	2005 \$'000
Deferred income tax assets -		
Available-for-sale investment securities	73,731	36,621
Interest payable	141,031	68,439
Tax losses carried forward	2,321	-
Unrealised foreign exchange losses	16,631	-
	<u>233,714</u>	<u>105,060</u>
Deferred income tax liabilities -		
Accelerated tax depreciation	(704)	(1,195)
Interest receivable	(65,375)	(48,641)
Unrealised foreign exchange gains	-	(22,984)
	<u>(66,079)</u>	<u>(72,820)</u>
	<u>167,635</u>	<u>79,446</u>

The deferred tax credited/(charged) to the profit and loss account comprises the following temporary differences:

	2006 \$'000	2005 \$'000
Interest payable	72,591	(38,634)
Tax losses carried forward	2,321	
Unrealised foreign exchange movement	39,615	22,984
Accelerated tax depreciation	491	(2,900)
Interest receivable	(16,734)	18,784
	<u>98,284</u>	<u>(234)</u>

These balances include the following:

	2006 \$'000	2005 \$'000
Deferred tax assets to be settle after more than 12 months	73,731	36,621
Deferred tax liabilities to be recovered after more than 12 months	704	1,195

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

13. Loans Receivable

These are due from Transjamaican Highway Limited and include:

	2006 \$'000	2005 \$'000
Loans -		
(a) Subordinated Loan	1,661,120	1,448,331
(b) Grantor Procured Debt	5,067,601	4,371,544
	6,728,721	5,819,875
Interest receivable -		
(c) Subordinated Loan	50,679	34,718
(d) Grantor Procured Debt	128,234	88,605
	178,913	123,323
	<u>6,907,634</u>	<u>5,943,198</u>

- (a) Development costs were incurred by the company with respect to the Highway 2000 project including amounts paid for the preliminary design and development work during the tender process, as well as costs associated with the company's consultants on the project. These amounts were converted to a loan facility of US\$20 million under the terms and conditions of a Subordinated Loan Agreement (SLA) between the company and the concessionaire dated 21 November 2001.
- (b) US\$1,867,000 and J\$118,667,000 was drawn down by the concessionaire as at 31 March 2006 (2005 – US\$11,052,000 and J\$672,570,000) under the terms and conditions of a US\$87.5 million Grantor Procured Debt (GPD) loan agreement dated 21 November 2001. Drawdowns are made by the concessionaire via a letter of credit facility held with the Bank of Nova Scotia Jamaica Limited.

The duration of both loans is dependent on the expected cash flows of the concessionaire, however, full repayment of the loans as well as accrued interest is due by 21 November 2036, the end of the concession period. Interest has been accrued as of the drawdown dates of the loans and is calculated as follows:

- (c) On the SLA loan at LIBOR plus 4.5% per annum;
- (d) On the GPD loan at LIBOR plus 4% per annum on the US dollar drawdown portion and at 5% per annum on the Jamaican dollar drawdown, adjusted for inflation.

Pursuant to the SLA and GPD loan agreements, interest accrued on both loans is payable on 30 May and 30 November each year until maturity of the loans. However, to the extent that any interest payable is not paid on the due date, due to there being insufficient cash available for debt servicing on that date, such interest is capitalised and attracts interest at the rates set out above. Interest capitalised during the year with respect to the SLA was \$120,718,000 (2005 - \$82,704,000), while that for the GPD loan amounted to \$310,542,000 (2005 – 178,558,000).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

13. Loans Receivable (Continued)

Under the terms of a Working Capital Reserve Agreement between the company and the concessionaire dated 22 February 2002, US\$3.5 million has been made available for on-lending to the concessionaire. The facility is held with the National Commercial Bank Jamaica Limited (Note 17). No drawdowns on this facility had been made at 31 March 2006. Arrangements also need to be made to make a further US\$6.5 million available for on-lending to the concessionaire under the same Working Capital Reserve Agreement. This amount has been guaranteed by the Development Bank of Jamaica Limited in the event that the amount cannot be paid by the company.

14. Investment Securities

	2006 \$'000	2005 \$'000
Held-to-maturity securities -		
Wachovia Bank -		
Debt Service Reserve Account (1.057% - 1.138%)	97,403	91,318
Offshore Escrow Reserve Account (1.045% - 2.881%)	91,316	86,202
	<u>188,719</u>	<u>177,520</u>
Available-for-sale securities -		
Wachovia Bank -		
Offshore Escrow Reserve Account (2.375% - 3.785%)	937,751	1,333,952
	<u>1,126,470</u>	<u>1,511,472</u>
Interest receivable	16,437	20,921
	<u>1,142,907</u>	<u>1,532,393</u>

Investment securities comprise US\$ denominated securities held in a Debt Service Reserve Account (DSRA) and an Offshore Escrow Reserve Account (Escrow Reserve), which have been pledged to secure the company's obligation for a loan under the terms of the Credit Agreement with Wachovia Bank, National Association, (Wachovia Bank). In accordance with the terms of a Debt Service Reserve Account and Control Agreement, and an Offshore Escrow Reserve and Control Agreement, with Wachovia Bank, the company is required to maintain the DSRA and the Escrow Reserve until the loan with Wachovia Bank is repaid. The accounts were funded by a portion of the loan proceeds and will be used to make the first ten scheduled payments required under the Credit Agreement (Note 23(b)).

15. Reverse Repurchase Agreements

The company has entered into collateralised resale agreements which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included in reverse repurchase agreements are amounts valued at \$27,331,000 (2005 - \$136,505,000), which have been pledged to a financial institution for letter of credit facilities.

Reverse repurchase agreements include interest receivable of \$297,000 (2005 - \$878,000).

The weighted effective interest rate on reverse repurchase agreements during the year was 12.56% (2005 - 14.17%).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

16. Receivables

	2006	2005
	\$'000	\$'000
Deposit on land acquisitions	7,155	2,700
Receivable from Port Authority Jamaica Limited	6,476	86,461
Other	2,137	2,000
	<u>15,768</u>	<u>91,161</u>

17. Cash and Short Term Deposits

	2006	2005
	\$'000	\$'000
Cash at bank and in hand	6,412	3,655
Short term deposits	532,220	484,243
	<u>538,632</u>	<u>487,898</u>
Interest receivable	480	703
	<u>539,112</u>	<u>488,601</u>

Included in short term deposits are:

- (a) Amounts valued at \$6,030,000 (2005 - \$118,122,000), which have been pledged to the Bank of Nova Scotia Jamaica Limited for letter of credit facilities in relation to the GPD loan (Note 13(b)).
- (b) A restricted deposit of US\$3.5million, representing an amount made available for on-lending to the concessionaire under the terms of a Working Capital Reserve Agreement. An amount of \$276,474,000 (2005 - \$249,045,000) is being held in escrow with National Commercial Bank Jamaica Limited under the terms of an Escrow Agreement (Note 13).
- (c) A restricted deposit of \$249,717,000 (2005 - \$117,096,000) which represents a portion of the funds deposited in the Escrow Reserve (Note 13(b)).

The weighted effective interest rate on short term deposits during the year was 5.73% (2005 – 6%). These investments have an average maturity of 31 days (2005 -31 days).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

18. Payables

	2006	2005
	\$'000	\$'000
Accrued expenses	366,892	646,669
Due to Development Bank of Jamaica Limited	155,626	79,421
Other	386	967
	<u>522,904</u>	<u>727,057</u>

Included in accrued expenses is an amount of \$198,000,000 due to Transjamaican Highway Limited in respect of penalty arising from the delay in the opening of the Portmore Causeway section of the highway.

19. Short Term Loans

	2006	2005
	\$'000	\$'000
(a) Development Bank of Jamaica Limited -		
US\$26,075,000 (2005 - \$13,210,000) loan at 7.5%/9.5%	1,707,803	808,619
J\$ denominated loan at 15%	425,087	373,998
	2,132,890	1,182,617
Interest payable -		
US\$ denominated loans	181,366	54,342
J\$ denominated loan	101,942	50,218
	<u>283,308</u>	<u>104,560</u>
	<u>2,416,198</u>	<u>1,287,177</u>
(b) Barita Investments Limited (Note 23) -		
US\$2,500,000 due 30 June 2006	163,738	-
Interest payable	4,037	-
	<u>167,775</u>	<u>-</u>
	<u>2,583,973</u>	<u>1,287,177</u>

- (a) The loans with Development Bank of Jamaica Limited are secured by promissory notes issued by the company.
- (b) This loan was reclassified from long term loans during the year (Note 23). The loan was secured by promissory notes issued by the company at 10% per annum.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

20. Share Capital

	2006	2005
	\$'000	\$'000
Authorised and issued -		
1,000,000 ordinary shares of \$1 each	<u>1,000</u>	<u>1,000</u>

The company has elected under the Companies Act, 2004 to maintain par value status for its ordinary share capital.

21. Inflation Reserve

The company transfers a minimum of 40% of net profit at the end of each year to this reserve, which has been established to ensure that payments to bondholders are made in accordance with the terms of the bond issue (Note 23(a)). No transfer has been made in the current year due to the loss incurred.

22. Fair Value Reserve

This represents the unrealised gains or losses on the revaluation of available-for-sale investments.

23. Long Term Loans

	2006	2005
	\$'000	\$'000
(a) Real Return Convertible Bonds -		
J\$3,552,000,000 due 6 February 2032	5,499,286	4,927,308
Interest payable	36,274	32,236
	5,535,560	4,959,544
(b) Wachovia Bank, National Association -		
US\$75,000,000, due 23 January 2019	4,805,352	4,500,789
Interest payable	85,021	64,343
	4,890,373	4,565,132
(c) Barita Investments Limited -		
US\$2,500,000, due 30 June 2006	163,738	153,860
Interest payable	4,037	3,836
	167,775	157,696
Less: Amounts payable within one year (Note 19)	(167,775)	-
	-	157,696
(d) Ministry of Finance and Planning -		
US\$3,000,000	196,485	-
	<u>10,622,418</u>	<u>9,682,372</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

23. Long Term Loans (Continued)

- (a) This represents 4.5% convertible bonds issued by the company on 7 February 2002. The aggregate proceeds received from subscribers totaled \$3,552,000,000.

The bonds were issued at par and will be redeemed at the greater of par or par as adjusted for inflation or deflation based on changes in the all Jamaica "All Group" Consumer Price Index. However, bondholders have been given the option to convert some or all of the redemption monies for the bonds at redemption date into the company's ordinary shares, at a share price of 80% of the value of the shares at that date.

Coupon interest on the bonds will accrue at the rate of 4.5% per annum, adjusted for inflation or deflation, and is payable semi-annually in arrears on 7 February and 7 August of each year until maturity. Interest and inflation compensation are exempt from income tax.

The payment of principal and interest on the bonds is guaranteed by the Government of Jamaica and the bonds will rank pari passu with all similar future unsecured indebtedness of the company.

The net proceeds of the bond issue have been on-lent to the concessionaire to provide part financing of the construction costs of Phase 1 of Highway 2000, in accordance with the terms of the GPD Loan Agreement between the company and the concessionaire (Note 13).

The fair value of the liability component of the bonds cannot be reliably determined because the bonds are not being traded and there are no similar instruments in the market. However, there is no evidence to suggest that the liability component is less than proceeds. Also, given that the conversion option is so far into the future, no value has been assigned to the equity conversion component of the bond.

The convertible bonds are recognised in the balance sheet as follows:

	2006	2005
	\$'000	\$'000
Face value of bonds	3,552,000	3,552,000
Inflation compensation	2,003,569	1,433,768
Less: Transaction costs	<u>(56,283)</u>	<u>(58,460)</u>
	5,499,286	4,927,308
Interest payable	<u>36,274</u>	<u>32,236</u>
	<u>5,535,560</u>	<u>4,959,544</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

23. Long Term Loans (Continued)

- (b) This represents the aggregate proceeds of a loan, net of transaction costs, obtained by the company to provide additional financing for Phase 1 of Highway 2000, pursuant to the terms of a Credit Agreement with Wachovia Bank dated 15 January 2004. The loan is supported by a promissory note and is guaranteed by the Government of Jamaica. Additionally, Wachovia Bank has entered into a contract of insurance with the Overseas Private Investment Corporation (OPIC), insuring against the risk of non-payment by the government with respect to certain of its obligations under the Guarantee.

Principal repayments on the loan will occur semi-annually and commence on 23 July 2009 with scheduled installments accelerating during the four remaining years to maturity. Coupon interest on the loan is calculated at a rate per annum equal to Adjusted LIBOR plus 1% and includes the OPIC premium rate of 3.57%. Interest is payable semi-annually in arrears on 23 January and 23 July of each year until maturity. The coupon interest rate applied during the year was 5.73%.

In the event of certain circumstances, the loan will be converted into a Base Rate Loan and remain as such while those circumstances exist. During that period, interest on the Base Rate Loan will accrue at base rate plus 1%.

Of the aggregate loan proceeds obtained, US\$31,255,000 was used to fund the Offshore Escrow Account and the DSRA (Note 14(b)).

- (c) This was loan reclassified to short term loans during the year (Note 9).
- (d) An amount of US\$3,000,000 was received from the Ministry of Finance and Planning during the year to assist in the financing of the Portmore Causeway.

Currently, there are no interest rate or repayment terms.

24. Related Party Balances and Transactions

Related companies include Government related entities and ministries.

- (a) Year end balances with related parties are as follows:

	2006	2005
	\$'000	\$'000
Receivable from related party -		
Port Authority of Jamaica	6,476	86,461
Payable to related parties -		
Development Bank of Jamaica Limited -		
(i) Payables	2,416,199	1,287,177
(ii) Short term loans	153,470	79,421
Ministry of Finance and Planning -		
(ii) Long term loans	196,485	-

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

24. Related Party Balances and Transactions (Continued)

(b) Year end transactions with related parties are as follows:

	2006 \$'000	2005 \$'000
Development Bank of Jamaica Limited -		
Interest expense	197,738	65,348
Professional fees	12,000	12,000
	<u>12,000</u>	<u>12,000</u>

(e) Key management compensation

	2006 \$'000	2005 \$'000
Salaries and other short-term employee benefits	5,600	5,600
Statutory contributions	321	321
Pension benefits	1,288	1,288
	<u>7,209</u>	<u>7,209</u>
Directors' emoluments -		
Fees	-	32
Management remuneration	7,209	7,209
	<u>7,209</u>	<u>7,209</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

25. Cash Flows from Operating Activities

	2006	Restated 2005
	\$'000	\$'000
Net loss	(1,150,911)	(985,084)
Adjustments for:		
Depreciation	49,896	25,656
Interest income	(661,829)	(445,971)
Interest expense	878,096	575,951
Tax (credit)/expense	(98,284)	129,578
Effect of exchange rate on foreign balances	46,046	51,903
Inflation compensation on Real Return Convertible Bonds	569,802	582,136
	<u>(763,184)</u>	<u>(65,831)</u>
Changes in operating assets and liabilities:		
Receivables	75,393	(75,149)
Taxation recoverable	-	(17,613)
Payables	(211,412)	584,182
Cash (used in)/provided by operating activities	<u>(503,203)</u>	<u>425,589</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

26. Effects of Adoption of Revised IFRSs

The financial statements for the year ended 31 March 2006 have been prepared in accordance with revised International Financial Reporting Standards (IFRSs) which became effective 1 January 2005. Prior to that date, the financial statements were prepared in accordance with IFRSs which were effective on or before 1 January 2003. The financial statements for the year ended 31 March 2005 (the immediately preceding comparative period) have been restated to reflect the financial position and results under IFRSs. The financial effects of adoption of the revised IFRSs were as follows:

(a) Effect on shareholders' equity as at 31 March 2004:

	Previously stated 2004 \$'000	Effect of Adoption and Reclassifications \$'000	Restated 2004 \$'000
Non-Current assets (i)	7,082,366	85,132	7,167,498
Current assets (i)	2,006,265	(85,132)	1,921,133
Current liabilities (i)	(764,771)	(47,975)	(716,796)
Net current assets	1,241,494	(37,157)	1,204,337
	<u>8,323,860</u>	<u>47,975</u>	<u>8,371,835</u>
Shareholders' Equity			
Share capital	1,000	-	1,000
Inflation reserve	152,066	-	152,066
Fair value reserve (iii)	-	21,169	21,169
Accumulated deficit (iii)	(628,568)	(31,754)	(660,322)
	<u>(475,502)</u>	<u>(10,585)</u>	<u>(486,097)</u>
Non-Current liabilities (i), (iii)	8,799,362	58,560	8,857,922
	<u>8,323,860</u>	<u>47,975</u>	<u>8,371,835</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

26. Effects of Adoption of Revised IFRSs (Continued)

(b) Effect on shareholders' equity as at 31 March 2005:

	Previously stated 2005 \$'000	Effect of Adoption and Reclassifications \$'000	Restated 2005 \$'000
Non-Current assets (i,iii)	9,414,028	133,659	9,547,687
Current assets (i)	861,389	(144,244)	717,145
Current liabilities (i)	(2,248,458)	100,415	(2,148,043)
Net current assets	(1,387,069)	(43,829)	(1,430,898)
	<u>8,026,959</u>	<u>89,830</u>	<u>8,116,789</u>
Shareholders' Equity			
Share capital	1,000	-	1,000
Inflation reserve	152,066	-	152,066
Fair value reserve (iii)	-	(73,243)	(73,243)
Accumulated deficit (iii)	(1,708,064)	62,658	(1,645,406)
	<u>(1,554,998)</u>	<u>10,585</u>	<u>(1,565,583)</u>
Non-Current liabilities (i)	9,581,957	100,415	9,682,372
	<u>8,026,959</u>	<u>89,830</u>	<u>8,116,789</u>

(c) Reconciliation of net profit at 31 March 2005:

	Previously stated 2005 \$'000	Effect of Adoption and Reclassification \$'000	Restated 2005 \$'000
Revenue	1,205	-	1,205
Administration expenses	(206,871)	-	(206,871)
Operating Loss	<u>(205,666)</u>	<u>-</u>	<u>(205,666)</u>
Finance income (ii)	-	570,059	570,059
Finance costs (ii), (iii)	(209,322)	(428,441)	(637,763)
Inflation compensation on Real Return Convertible Bonds	(582,136)	-	(582,136)
Loss before Taxation	<u>(997,124)</u>	<u>141,618</u>	<u>(855,506)</u>
Taxation (iii)	(82,372)	(47,206)	(129,578)
NET LOSS	<u>(1,079,496)</u>	<u>94,412</u>	<u>(985,084)</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2006

(expressed in Jamaican dollars unless otherwise indicated)

26. Effects of Adoption of IFRSs (Continued)

Reclassifications

- (i) Interest receivable and payable previously included in receivables and payables are now included as part of the financial instruments to which they relate.
- (ii) Finance income and expenses are shown separately as netting off is prohibited under IFRS.

Amendment to published standards effective in 2005

- (iii) Unrealised gains or losses on available-for-sale investment securities previously included in the profit and loss account has been reclassified and included in shareholders' equity, net of deferred taxation.