

Belize Telecommunications Limited

***Consolidated Financial Statements
Years Ended March 31, 2004 and 2003,
and
Independent Auditors' Report***

BELIZE TELECOMMUNICATIONS LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2004 AND 2003**

TABLE OF CONTENTS

| | Page(s) |
|---|---------|
| Independent auditors' report | 1 |
| Consolidated balance sheets | 2 |
| Consolidated statements of operations and retained earnings | 3 |
| Consolidated statements of cash flows | 4 |
| Notes to the consolidated financial statements | 5 - 12 |

**CONSOLIDATED BALANCE SHEETS
MARCH 31, 2004 AND 2003**

| | 2004 | 2003 |
|--|-----------------|-------------|
| | BZ\$'000 | BZ\$'000 |
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note 2) | 14,683 | 11,739 |
| Accounts receivable and prepayments - net (Note 3) | 23,459 | 20,140 |
| Inventories (Notes 2, 4) | 6,249 | 8,429 |
| | <hr/> | <hr/> |
| Total current assets | 44,391 | 40,308 |
| PROPERTY, PLANT AND EQUIPMENT - Net (Notes 2, 5) | 160,913 | 164,204 |
| OTHER LONG-TERM ASSETS (Note 7) | 37,278 | 47,596 |
| | <hr/> | <hr/> |
| TOTAL | 242,582 | 252,108 |
| | <hr/> <hr/> | <hr/> <hr/> |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accruals (Note 8) | 13,796 | 18,203 |
| Short-term debt (Note 9) | - | 10,895 |
| Current portion of long-term debt (Note 10) | 7,145 | 6,468 |
| | <hr/> | <hr/> |
| Total current liabilities | 20,941 | 35,566 |
| LONG-TERM DEBT (Note 10) | 19,121 | 30,354 |
| | <hr/> | <hr/> |
| Total liabilities | 40,062 | 65,920 |
| SHAREHOLDERS' EQUITY: | | |
| Share capital (Note 11) | 36,870 | 33,878 |
| Share premium (Note 11) | 11,695 | 6,459 |
| Treasury stock (Note 11) | (9) | (43) |
| Revaluation reserve (Notes 2, 5) | 10,817 | 10,971 |
| Capital redemption reserve fund (Note 12) | 6,000 | 6,000 |
| Retained earnings (Note 13) | 137,147 | 128,923 |
| | <hr/> | <hr/> |
| Total shareholders' equity | 202,520 | 186,188 |
| | <hr/> | <hr/> |
| TOTAL | 242,582 | 252,108 |
| | <hr/> <hr/> | <hr/> <hr/> |

_____ Director

_____ Director

The notes on pages 5 to 12 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
YEARS ENDED MARCH 31, 2004 AND 2003**

| | 2004 | 2003 |
|--|-------------------|------------|
| | BZ\$'000 | BZ\$'000 |
| OPERATING REVENUES | 123,702 | 111,600 |
| OPERATING EXPENSES | (105,174) | (90,544) |
| AMORTIZATION EXPENSE (Note 14) | (318) | (318) |
| Operating income | 18,210 | 20,738 |
| OTHER INCOME (EXPENSES) | | |
| Interest income | 2,865 | 3,023 |
| Interest expense | (3,027) | (2,372) |
| NET EARNINGS | 18,048 | 21,389 |
| RETAINED EARNINGS, BEGINNING OF YEAR | 128,923 | 117,525 |
| NET EARNINGS | 18,048 | 21,389 |
| LESS: DIVIDENDS DECLARED AND PAID | (9,824) | (9,991) |
| RETAINED EARNINGS, END OF YEAR (Note 13) | 137,147 | 128,923 |
| EARNINGS PER ORDINARY SHARE | 51.4 cents | 63.2 cents |

The notes on pages 5 to 12 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2004 AND 2003**

| | 2004 | 2003 |
|---|-----------------|----------|
| | BZ\$'000 | BZ\$'000 |
| OPERATING ACTIVITIES: | | |
| Net earnings | 18,048 | 21,389 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 26,593 | 19,720 |
| Loss on disposal of property, plant and equipment | 7 | - |
| Other non-cash transactions | 2 | - |
| | 44,650 | 41,109 |
| Cash movements in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable and prepayments | (3,319) | 981 |
| Decrease (increase) in inventories | 2,180 | (1,946) |
| (Decrease) in accounts payable and accruals | (4,407) | (3,163) |
| Net cash provided by operating activities | 39,104 | 36,981 |
| INVESTING ACTIVITIES: | | |
| Acquisition of property, plant and equipment | (23,539) | (60,333) |
| Proceeds from disposal of property, plant and equipment | 394 | 111 |
| Long-term note acquired | (30,000) | - |
| Transfers from (to) restricted cash (Note 7) | 40,000 | (30,500) |
| Net cash used in investing activities | (13,145) | (90,722) |
| FINANCING ACTIVITIES: | | |
| Repayment of loans to related parties | (6,800) | - |
| Loan proceeds from non-related parties | 2,711 | 31,232 |
| Repayment of loans to non-related parties | (17,362) | (2,400) |
| Sale of treasury stock to employees (Note 11) | 34 | - |
| Cash dividends paid to related parties | - | (5,162) |
| Cash dividends paid to non-related parties | (1,598) | (4,829) |
| Net cash provided by financing activities | (23,015) | 18,841 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,944 | (34,900) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 11,739 | 46,639 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 14,683 | 11,739 |
| SIGNIFICANT NON-CASH ACTIVITIES: | | |
| Issuance of scrip dividends to related parties | 5,074 | - |
| Issuance of scrip dividends to non-related parties | 3,152 | - |
| | 8,226 | - |
| SUPPLEMENTARY INFORMATION: | | |
| Interest paid to related parties | 853 | 820 |
| Interest paid to non-related parties | 2,107 | 1,463 |
| | 2,960 | 2,283 |
| Business tax paid | 17,987 | 16,792 |

The notes on pages 5 to 12 form an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2004 AND 2003**

1. DESCRIPTION OF BUSINESS

Belize Telecommunications Limited ("BTL" or "the Company") is a public company incorporated in Belize on April 3, 1987. The Company, which took over the operations of Belize Telecommunications Authority and Cable and Wireless on January 1, 1988, operated under a 15-year exclusive license, granted in 1987, to provide telecommunications services in Belize. This exclusive license ended on December 29, 2002 and has been replaced by a new fifteen-year non-exclusive license.

Telecommunication services

The Company provides telecommunication services. Belize Telecommunications (Overseas) Limited, a subsidiary of the Company, carries out international relations with other international telecommunication organizations. Belize Telecommunications (Free Zone) Limited, a subsidiary company, was established to undertake the provision of telecommunication services in the Commercial Free Zone at Santa Elena, Corozal. BTL Mobile Services Limited, a BTL subsidiary, is the owner of the GSM cellular network equipment and BTL Digicell Limited, another BTL subsidiary, is the operator of the GSM cellular network

Product sales and services

The Company undertakes the sale of products, rental of equipment, and the provision of non-telecommunications services through its subsidiary Business Enterprise Systems Limited ("BESL").

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements have been prepared in Belize dollars and include the accounts of BTL and its wholly owned subsidiaries ("the Group"). The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal. All significant inter-company transactions and balances have been eliminated in the consolidation.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (except for the revaluation of freehold land and buildings as described in Note 5).

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits and time deposits with an original maturity of six months or less. As a result of the short-term maturity of these financial instruments their carrying value is approximately equal to their fair market value.

Inventories - Inventories are valued at the lower of cost and net realizable value, cost being determined on the "first-in, first-out" (FIFO) method.

Property, Plant and Equipment - Property, plant and equipment are carried at cost except for freehold land and buildings which are carried at valuation (Note 5). All assets, other than freehold land and special projects (capital works in progress), are depreciated over their estimated useful lives using the straight-line method over the following periods:

| | |
|--------------------------------|---------------|
| Buildings | 40 years |
| Transmission equipment | 10 - 15 years |
| Switching equipment | 10 - 20 years |
| Other plant and equipment | 3 - 40 years |
| Motor vehicles | 4 years |
| Furniture and office equipment | 4 - 8 years |

Additions, major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are charged against revenue in the year incurred.

When property, plant and equipment are disposed of, the cost and related accumulated depreciation are removed from the accounting records and the gain or loss is reflected in earnings.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets - In keeping with the provisions of Statements of Financial Accounting Standards No. 144 ("SFAS 144" of 2001), the Group performs a review for impairment whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable. In performing the review for recoverability, the Group estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for long-lived assets that the Group expects to hold and use would be based on the fair value of the asset. In addition the Group performs a preventive maintenance program for all major assets. This program includes regular inspection and maintenance of assets under custody and control of each department. These inspections would help to determine the future life of the assets and impairment loss if any.

Operating Leases - Rental charges under an operating lease are charged to the statement of operations on a straight-line basis over the term of the lease.

Operating Revenues - Operating revenues represent the invoiced value of services provided and goods supplied to outside customers net of sales-related taxes. Revenue from services or products is recognized in the consolidated statements of operations as services are rendered or product delivered to the customer. Revenue derived from advance invoicing or prepayment of services is deferred until the service is rendered. Revenues derived from telecommunication services, comprising telephone rental, network access and airtime usage, are recognized in the consolidated financial statements in the month in which the services are provided.

Foreign Currency Translations - Foreign currency balances at March 31, 2004 and 2003 are translated into Belize dollars at the rates of exchange ruling on those dates. Differences arising on the conversion of ordinary foreign currency transactions during the year are dealt with as part of the results of ordinary activities.

Business Tax - Business Tax is applied on gross telecommunication revenues at a rate of 19% and at varied rates on the other gross revenues. This law became effective July 1, 1998 and no deferred tax will arise from this business tax.

Pension Costs - Pension costs are determined based on defined contributions to plans that are funded.

Estimates - The presentation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

| | 2004 | 2003 |
|---|-----------------|----------|
| | BZ\$'000 | BZ\$'000 |
| 3. ACCOUNTS RECEIVABLE AND PREPAYMENTS - NET | | |
| Trade receivables | 14,794 | 15,340 |
| Less: allowance for doubtful accounts | (1,223) | (1,338) |
| Net trade receivables | 13,571 | 14,002 |
| Foreign telephone administrations receivable | 4,133 | 2,938 |
| Insurance receivable | - | 13 |
| Other receivables | 2,925 | 1,265 |
| Prepayments | 2,830 | 1,922 |
| | 23,459 | 20,140 |
| The allowance for doubtful accounts comprises: | | |
| Beginning balance | 1,338 | 682 |
| Additional provision | 801 | 1,600 |
| Amounts written off against the provision | (916) | (944) |
| Ending balance | 1,223 | 1,338 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003**

| | 2004 | 2003 |
|--|-----------------|----------|
| | BZ\$'000 | BZ\$'000 |
| 4. INVENTORIES | | |
| Spares and other supplies | 6,931 | 8,366 |
| Tools | 637 | 686 |
| Inventory in transit | 31 | 1,047 |
| | 7,599 | 10,099 |
| Less: provision for obsolete inventories | (1,350) | (1,670) |
| | 6,249 | 8,429 |

5. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Plant, furniture and equipment | Vehicles | Computer equipment | Special projects | Total |
|-----------------------------------|-----------------------|-----------------------------------|-------------------|-----------------------|---------------------|-----------------------|
| | BZ\$'000 | BZ\$'000 | BZ\$'000 | BZ\$'000 | BZ\$'000 | BZ\$'000 |
| Cost: | | | | | | |
| Brought forward at April 1, 2003 | 32,681 | 227,538 | 2,436 | 11,354 | 5,913 | 279,922 |
| Additions | 118 | 5,139 | 153 | (183) | 18,312 | 23,539 |
| Transfers | 310 | 17,423 | - | 3,300 | (21,033) | - |
| Revaluation | (154) | - | - | - | - | (154) |
| Disposals | (472) | (1,182) | (348) | (23) | - | (2,025) |
| Carried forward at March 31, 2004 | <u>32,483</u> | <u>248,918</u> | <u>2,241</u> | <u>14,448</u> | <u>3,192</u> | <u>301,282</u> |
| Accumulated Depreciation: | | | | | | |
| Brought forward at April 1, 2003 | 3,667 | 102,176 | 2,005 | 7,870 | - | 115,718 |
| Charge for the year | 461 | 23,293 | 230 | 2,291 | - | 26,275 |
| Disposals for the year | (99) | (1,172) | (342) | (11) | - | (1,624) |
| Carried forward at March 31, 2004 | <u>4,029</u> | <u>124,297</u> | <u>1,893</u> | <u>10,150</u> | <u>-</u> | <u>140,369</u> |
| Net Book Value | | | | | | |
| March 31, 2004 | <u>28,454</u> | <u>124,621</u> | <u>348</u> | <u>4,298</u> | <u>3,192</u> | <u>160,913</u> |
| March 31, 2003 | <u>29,014</u> | <u>125,362</u> | <u>431</u> | <u>3,484</u> | <u>5,913</u> | <u>164,204</u> |

At March 31, 2001, Gutierrez & Associates, independent qualified appraisers, performed a revaluation of the Group's freehold land and buildings. The Group recorded the unrealized revaluation gain of \$10,971,000 in land and buildings and as a revaluation reserve under shareholders' equity at March 31, 2001.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003**

6. OPERATING LEASE

During the year 2002/2003, the Company entered into a non-cancelable operating lease agreement to rent a minimum of seventy vehicles over a period of three years. At March 31, 2003, the Company had received forty two of the vehicles and by March 31, 2004, this had increased to fifty one vehicles. Under the terms of the lease agreement, there is no bargain purchase option and the Company can extend the period of hire over the three years stated in the contract. The lease agreement also calls for a contingent rental charge of \$0.25 per mile in excess of the allowable 12,000 miles per vehicle per annum. Lease rental charges totaled \$705,242 for the year ended March 31, 2004 (\$350,010 for 2002/2003).

The following is a schedule by year of future minimum rental payments required under the operating lease described above:

| Year ending March 31, | Amount BZ\$'000 |
|--------------------------|--------------------|
| 2005 | 752 |
| 2006 | 431 |
| 2007 | 85 |

Total minimum lease payments do not include contingent rental charges that may be paid under the terms of the contract in regards to excess mileage.

The Company's leased properties include business premises in the districts and a warehouse in Ladyville. The leases are renewable on an yearly basis and can be terminated with written notice. The Company incurred rental charges totaling \$223,957 for the year ended March 31, 2004 (\$232,000 in 2002/2003).

| | 2004 BZ\$'000 | 2003 BZ\$'000 |
|--------------------------------------|------------------|------------------|
| 7. OTHER LONG-TERM ASSETS | | |
| ARCOS-1 (net of amortization) | 7,278 | 7,596 |

The Company is a party to the Americas Region Caribbean Ring System (ARCOS-1), an optical fiber submarine cable system used to facilitate the provision of international telecommunication services in the region. The project cost approximately \$801.7 million of which BTL originally funded \$1,988,000. In January 2002, the Company acquired additional capacity on the system at a cost of \$5,952,000.

The ARCOS-1 system became operational in March 2002 and the total cost will be amortized over the estimated service life of twenty-five years and commenced in March 2002. Twelve months of amortization expense, totaling \$317,605, was charged for the years ended March 31, 2004 and 2003. The unamortized portion of the ARCOS-1 asset at March 31, 2004, was \$7,278,454.

LONG-TERM NOTE (2003: RESTRICTED CASH)

| | | |
|---|---|-------|
| At March 31, 2003, the Belize Bank held a lien of \$9.5 million over the Company's cash balances to secure US dollar loans from The Belize Bank (Turks and Caicos) Limited (see note 10 for additional details). The loans were for US\$3.4 million but were repaid early, in January 2004, and the restricted cash released. | - | 9,500 |
|---|---|-------|

| | | |
|--|--------|--------|
| The Belize Bank Limited has guaranteed the ING Bank loan facility for US\$11,524,545 (see note 10 for additional details) on behalf of the Company. This guarantee is secured by a lien on a \$30 million long-term note issued by the bank (2003: lien on \$30.5 million in cash balances). | 30,000 | 30,500 |
|--|--------|--------|

| | |
|----------------------|----------------------|
| <u><u>37,278</u></u> | <u><u>47,596</u></u> |
|----------------------|----------------------|

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003

| | 2004 | 2003 |
|--|----------------------|---------------|
| | BZ\$'000 | BZ\$'000 |
| 8. ACCOUNTS PAYABLE AND ACCRUALS | | |
| Accounts payable | 8,805 | 13,798 |
| Customers' deposits | 3,271 | 2,958 |
| Business tax payable | 1,720 | 1,447 |
| | <u>13,796</u> | <u>18,203</u> |
| 9. SHORT TERM DEBT | | |
| The First Caribbean International Bank of Belize City, Belize \$12,000,000 overdraft facility, of which BZ\$10,895,000 was drawn down at March 31, 2003, is secured by an equitable mortgage over the Company's freehold property at St. Thomas Street, Belize City, Belize and bears interest at 13% per annum. During 2003/2004 the facility was reduced to BZ\$3,000,000. | | |
| | 2004 | 2003 |
| | BZ\$'000 | BZ\$'000 |
| 10. LONG-TERM DEBT | | |
| US\$9,611,636 Bank of Nova Scotia loan at LIBOR (London Inter Bank Offered Rate) plus 2.5% per annum repayable by monthly payments of US\$100,000 plus monthly interest. The loan is secured by a letter of commitment supported by a corporate resolution and the assignment of American Telephone & Telegraph ("AT&T") receivables. AT&T will remit directly to the bank the monthly payments plus interest, provided sufficient unrestricted funds are available, if the Company defaults in payment. The final payment on the loan is scheduled for April 15, 2007. | 7,284 | 9,685 |
| US\$2,400,000 The Belize Bank (Turks & Caicos) Limited loan at 12% per annum repayable by twelve equal monthly installments of US\$213,237 commencing April 1, 2004. However, in January 2004, the loan was paid in full and, consequently, the lien over cash balances totaling BZ\$6,500,000 held at the Belize Bank, Belize, was released. (Note 7) | - | 4,800 |
| US\$1,000,000 The Belize Bank (Turks & Caicos) Limited loan at 12% per annum repayable by twelve equal monthly installments of US\$88,849 commencing April 1, 2004. However, in January 2004, the loan was paid in full and, consequently, the lien over cash balances totaling BZ\$3,000,000 held at the Belize Bank, was released. (Note 7) | - | 2,000 |
| US\$11,524,545 ING Bank loan facility at LIBOR (London Inter Bank Offered Rate) plus 0.5% per annum repayable in ten equal semi-annual installments. The loan was fully drawn down early in this year and two principal repayments, totaling US\$2,033,743, have been made. At March 31, 2004, the loan balance is US\$9,490,801, repayable in eight equal semi-annual installments of US\$1,186,350. The loan is guaranteed by the Belize Bank, Belize, and they have secured the guarantee by a lien over a 9% long-term note for BZ\$30 million issued by the bank. The maturity date for the note is November 18, 2008. However, the Belize Bank has the option to redeem the note at any time on or after November 18, 2005 and BTL has the option to redeem the note at any time on or after November 18, 2006. (Note 7) | 18,982 | 20,337 |
| | <u>26,266</u> | <u>36,822</u> |
| Total loans | 26,266 | 36,822 |
| Less current portion | (7,145) | (6,468) |
| Long-term portion | <u>19,121</u> | <u>30,354</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003

10. LONG-TERM DEBT (continued)

The aforementioned loans are repayable as follows:

| | BZ\$'000 |
|-------------|----------------------|
| 2004 - 2005 | 7,145 |
| 2005 - 2006 | 7,146 |
| 2006 - 2007 | 7,145 |
| 2007 - 2008 | <u>4,830</u> |
| | <u><u>26,266</u></u> |

11. SHARE CAPITAL

Authorized:

| | 2004 BZ\$'000 | 2003 BZ\$'000 |
|---|-----------------------|-----------------------|
| 94,000,000 ordinary shares of \$1 par value | 94,000 | 94,000 |
| 3,000,000 preference shares of \$2 par value | 6,000 | 6,000 |
| 1 Special rights redeemable preference share of \$1 | <u>-</u> | <u>-</u> |
| | <u><u>100,000</u></u> | <u><u>100,000</u></u> |

Issued and fully paid:

| | | |
|--|----------------------|----------------------|
| 8,000,000 "B" ordinary shares | 8,000 | 8,000 |
| 28,869,720 "C" ordinary shares (2003: 25,878,137 shares) | 28,870 | 25,878 |
| 1 Special rights redeemable preference share of \$1 | <u>-</u> | <u>-</u> |
| | <u><u>36,870</u></u> | <u><u>33,878</u></u> |

"B" and "C" ordinary shares rank equally as regards voting rights and dividends. The holder of the "B" ordinary shares is entitled to appoint two directors to the Board of Directors. The special rights redeemable preference share is held by the Government of Belize on which it confers special powers that can be used in cases of national emergency.

In November 2001, the Company offered a scrip dividend to shareholders, with a cash option. Those accepting the scrip dividend received additional shares, of par value of \$1 per share, at a price of \$4.44 per share. An additional 1,878,153 ordinary shares were issued in this manner, which resulted in a share premium of \$6,460,846.

In July 2001, Belize Telecommunications (Overseas) Limited purchased ten thousand (10,000) of BTL's "C" ordinary shares from a shareholder at a price of \$4.25 per share. These shares are held in trust as "treasury stock" and were purchased as part of a management compensation scheme. In November 2001, an additional 698 shares were received as part of the scrip dividend offered at that time by BTL. In November 2003, 8,467 shares were transferred to management personnel as part of the Company's employee compensation scheme, leaving 2,231 shares held as "treasury stock".

In November 2003, another scrip dividend was offered to shareholders at \$2.75 per share. As a result of this offer an additional 2,991,586 shares were issued, with a share premium of \$5,235,275 being earned.

| | 2004 BZ\$'000 | 2003 BZ\$'000 |
|---|----------------------|---------------------|
| Share premium comprises, therefore: - | | |
| Premium earned on July 2001 scrip issue | 6,461 | 6,461 |
| Premium earned on November 2003 scrip issue | 5,235 | - |
| Less premium on scrip shares held by subsidiary | <u>(1)</u> | <u>(2)</u> |
| | <u><u>11,695</u></u> | <u><u>6,459</u></u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003**

12. CAPITAL REDEMPTION RESERVE FUND

A capital redemption reserve fund of \$6.0 million was set up out of retained earnings upon the redemption of preference shares in accordance with Section 47 (1)(d) of the Companies Act of the laws of Belize (Revised Edition 2000).

13. RETAINED EARNINGS

Article 126 of the Articles of Association of Belize Telecommunications Limited provides for the setting aside of certain monies for future contingencies and investments. At March 31, 2004, the amount of retained earnings set aside under Article 126 totaled \$120.9 million.

14. AMORTIZATION EXPENSE

In March 2002, the Americas Region Caribbean Ring System (ARCOS-1) became operational and will be amortized over its estimated useful life of 25 years. Amortization expense of \$317,605 was charged for each of the years ended March 31, 2004 and March 31, 2003.

15. COMMITMENTS AND CONTINGENCIES

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | BZ\$'000 | BZ\$'000 |

Capital commitments

| | | |
|--|---------------|--------|
| Capital expenditure authorized and contracted | 9,684 | 7,876 |
| Capital expenditure planned but not contracted | 29,213 | 23,123 |

The Group is a defendant and plaintiff in certain legal proceedings but does not expect the outcome of these legal actions, either individually or in aggregate, to have a material adverse effect on the consolidated results of operations and cash flows or the consolidated financial position of the Group.

16. PENSION SCHEME

Separate defined contribution plans are in effect for management and non-management staff. These schemes are administered by separate Boards of Trustees and the funds are held separately from those of the Group. Pension expense for both schemes amounted to \$689,416 in the year ended March 31, 2004 (\$639,997 in 2002/2003).

17. RELATED PARTY BALANCES/TRANSACTIONS

In its normal course of business, the Group conducts transactions with related parties. Below is a summary of the significant transactions and balances with related parties that have been incorporated in the consolidated financial statements for the years ended March 31, 2004 and March 31, 2003:

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | BZ\$'000 | BZ\$'000 |
| <u>The Belize Bank Limited:</u> | | |
| Bank account balances at year-end | 36,805 | 44,495 |
| Accounts receivable for telephone service | 83 | 86 |
| Accounts receivable - accrued interest income | 999 | 264 |
| Revenues earned from providing telecommunication services | 1,076 | 1,081 |
| Interest income on bank accounts | 2,818 | 2,977 |
| Bank charges and guarantee fees | 1,159 | 1,272 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2004 AND 2003

| | 2004 | 2003 |
|--|-----------------|----------|
| | BZ\$'000 | BZ\$'000 |
| 17. RELATED PARTY BALANCES/TRANSACTIONS (continued) | | |
| <u>The Belize Bank (Turks & Caicos) Limited:</u> | | |
| Bank account balances (net overdraft) at year-end | - | 4,622 |
| Interest payable on loans | - | 69 |
| Long-term loans at year-end (see below) | - | 6,800 |
| Interest expense on loans | 853 | 821 |
| Bank charges | 13 | 137 |
| <u>Carlisle Holdings Limited (CHL):</u> | | |
| Accounts receivable for telephone service | 9 | 7 |
| Dividends paid | - | 5,162 |
| Scrip dividends issued | 5,074 | - |
| Revenues earned from providing telecommunication services | 117 | 115 |
| Management fees | 2,400 | 2,400 |
| Penalty for early termination of management contract | 2,400 | - |
| Advisory expenses | 433 | - |
| <u>Westminster Business Limited</u> | | |
| Advisory expenses | 1,687 | 120 |
| <u>Lois Young Barrow, Company Secretary</u> | | |
| Secretarial fees | 26 | 26 |
| Legal fees | 686 | 409 |
| Price of land and building purchased from the Company | 45 | - |

Prior to February 17, 2004, Carlisle Holdings Limited (CHL) held 52.5% interest in BTL (51.7% at March 31, 2003) and was BTL's parent company. Wholly owned subsidiaries of CHL included The Belize Bank Limited, The Belize Bank (Turks and Caicos) Limited, and Westminster Business Limited.

On February 17, 2004, Carlisle Holdings Limited sold all of its shares to the Government of Belize, but, under an agreement with the Government, continued to manage the affairs of the Company until March 31, 2004.

On March 31, 2004, the Government of Belize sold the shares acquired from Carlisle Holdings Limited, together with other shares held by the Government and by the Belize Social Security Board to Belize Telecom Limited, a company incorporated in Belize, with operational control transferring on April 1, 2004. Belize Telecom Limited, which now owns 83% of the issued share capital of BTL, is a subsidiary of Innovative Communications Company LLC ("ICC"), whose main office is located in the U.S. Virgin Islands, and ICC is now the ultimate parent company of the BTL Group.

As part of the deal which resulted in this change in ownership, the loans from The Belize Bank (Turks & Caicos) Limited were paid off, in full, before their due date (see note 10) and Carlisle Holdings Limited was paid \$2,400,000 for early termination of their management services contract.

During the year ended March 31, 2003, the Company incurred \$1,409,000 in bank charges from The Belize Bank Limited and The Belize Bank (Turks and Caicos) Limited. Of this, approximately \$1,180,000 was capitalized to property, plant, and equipment with the remaining \$229,000 reflected in the profit and loss. No such bank charges were capitalized for the year ended March 31, 2004.