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#13/08

**MINISTRY PAPER**

**CAYMANAS TRACK LIMITED**  
**ANNUAL REPORTS FOR FINANCIAL YEARS 2003/04 to 2005/06**

**INTRODUCTION**

1. The matter for tabling in the Houses of Parliament is the Annual Reports for Caymanas Track Limited (CTL) for the financial years 2003/04 to 2005/06. The Company is incorporated in Jamaica, wholly owned by the Government of Jamaica through the Accountant General and the Commissioner of Lands and is limited by shares. CTL's principal activities comprise the promotion of horseracing at Caymanas Park under licence, as well as simulcast horseracing, the running of pari-mutuel pools (both on and off the track). The Racing Pools game was also conducted during 2003/04 but activities were suspended in June 2003, as the product was deemed unprofitable.

**DISCLOSURES**

**Auditors' Report**

2. PriceWaterhouseCoopers, indicated that their audits of the Company's financial statements for the 3 financial years were prepared in accordance with International Standards on Auditing. The auditors gave their qualified opinion (for each financial year) but indicated that proper accounting records were kept and that the financial statements prepared gave a true and fair view of the affairs of the Company as at March 31, 2004, 2005 and 2006. It was also noted that the financial statements were prepared in accordance with International Financial Reporting Standards and complied with the provisions of the Jamaican Companies Act.

3. The reports were qualified on the basis that the auditors were unable to determine whether statutory arrangements required to formalise reduced rates used by CTL to calculate pool duty (payable to the government), were completed. Effective July 1, 2003, pool duty (under the old Levy Scheme) was calculated by CTL at 2% gross sales instead of 7%, upon formal directive from the former Minister of State (Finance and Planning). The Company in turn, became solely responsible for the payment of purses.

**Emoluments of Senior Executives**

4. Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act, (2001), details of emoluments for the senior executives are included in the Annual Report. The compensation package paid to the executive management team amounted to \$17.94 million, \$18.87 million and \$22.31 million for 2003/04, 2004/05 and 2005/06 respectively. These accounted for an average of 13% of staff cost for each year.

**OPERATING OVERVIEW**

5. CTL's management objectives over the 3-year period included improving the quality of the racing product at the Track. In addition, strategies were implemented in 2004/05 to increase the Company's revenue/cash base.



6. Notwithstanding efforts to at least maintain the number of off-track betting (OTB) parlours operating, the number was reduced from an average of approximately 69 throughout 2003/04 to 65 by the end of 2005/06. The decline occurred since parlours were closed (some permanently and others temporarily), due chiefly to inefficient operations or funds owed to CTL for extended periods.

## Racing Activities

7. Table 1 shows that local race-days fluctuated over the 3-year period moving from 87 in 2003/04 to 79 and 81 in 2004/05 and 2005/06 respectively. Specifically with regards to 2004/05, there were 83 scheduled racedays for 2004/05, but these did not materialise in view of unfavourable weather conditions and a strike by trainers. It is also noted that during 2003/04, CTL reduced the number of racedays held on Wednesdays and suspended Friday races since these were deemed to be unprofitable.

**Table 1: Racing Activities/Betting Income**

Particulars	# of Race-days/meets FY 2005/06	# of Race-days/meets FY 2004/05	# of Race-days/meets FY 2003/04	Income (\$million) FY 2005/06	Income (\$million) FY 2004/05	Income (\$million) FY 2003/04
Local Racing	81	79	87	1,857.27	1,650.28	1,577.73
Simulcast (overseas) Betting	307	305	311	1,500.24	1,372.07	1,267.97
Racing Pool	NA	NA	13	NA	NA	2.28
<b>TOTAL</b>				<b>3,357.51</b>	<b>3,022.35</b>	<b>2,847.98</b>

8. Notwithstanding a decline in the number of racedays during 2004/05, the Company was able to grow its betting revenue by \$174.37 million (6%) over the \$2,847.98 million earned during 2003/04, due to income growing strategies implemented. These strategies included:

- 100% increase in the cost of minimum bets to \$20 and
- Punters given the opportunity to bet on simulcast races during local races.

The impact of the aforementioned continued throughout 2005/06, during which, betting income rose by over \$335 million (11%) to \$3,357.51 million.

9. Racing pool activities and related income had been declining for some time and a decision was made to discontinue the bets in 2003/04.

## Capital Expenditure

10. Notwithstanding the company's desire to upgrade the facilities at the Track in line with international standards, the level of capital expenditure was somewhat curtailed over the review period, due to divestment activities which commenced in 2003/04. Consequently, capital expenditure totalled only \$13.15 million, \$11.11 million and \$25.31 million in 2003/04, 2004/05 and 2005/06 respectively, of which, significant amounts were expended on machinery and equipment. In particular, \$18.07 million was spent in this regard during 2005/06.

## Purses

11. Prior to July 1, 2003, CTL paid purses (monies paid to stakeholders - trainers, jockeys, grooms, owners etc) from its local and simulcast sales, and also received a contribution from the Bookmakers under the Government Levy Scheme. However, changes in Government policies,



effective at that date, resulted in CTL becoming fully responsible for the payment of purses from its own resources. Simultaneously, there was an increase of \$100 million (to \$360 million) in the maximum which could be used to fund purses. In order to facilitate payment by CTL, the pool duty (tax) payable by the Company was reduced to 2% from 7% of sales. Contribution to purses over the three-year period is shown in Table 2 below:

Table 2 : Contribution to Purses			
J\$m			
PARTICULARS	2005/06	2004/05	2003/04
Caymanas Track Limited (CTL)	311.85	293.16	239.08
Betting Gaming and Lotteries Commission	-	12.50	37.50
Government Levy Scheme	NA	NA	15.92
<b>PURSES PAID</b>	<b>311.85</b>	<b>305.66</b>	<b>292.50</b>

## FINANCIAL HIGHLIGHTS

Table 3: Income and Expenditure Indicators

J\$m							
PARTICULARS	2005/06 [a]	2004/05 [b]	2003/04 [c]	CHANGE		CHANGE	
				[a-b] \$	[a-b] (%)	[b-c] \$	[b-c] (%)
Race Day Sales (Turnover)	3,357.51	3,022.35	2,847.99	335.16	11	174.36	6
Cost of Sales	-2,677.33	-2,383.22	-2,294.64	-294.11	-12	-88.58	-4
<b>Contribution</b>	<b>680.18</b>	<b>639.13</b>	<b>553.35</b>	<b>41.05</b>	<b>6</b>	<b>85.78</b>	<b>16</b>
Other Operating Income	85.25	96.93	124.55	-11.68	-12	-27.62	-22
Administrative Expenses *	-130.82	-124.71	-134.64	-6.11	-5	9.93	7
Other Operating Expenses*	-591.31	-540.00	-518.65	-51.31	-10	-21.35	-4
<b>Operating Profit/(Loss)</b>	<b>43.30</b>	<b>71.35</b>	<b>24.61</b>	<b>-28.05</b>	<b>-39</b>	<b>46.74</b>	<b>190</b>
Finance Costs (net)	-1.24	-5.92	-15.52	4.68	79	9.60	62
<b>Profit/(Loss) Before Tax</b>	<b>42.06</b>	<b>65.43</b>	<b>9.09</b>	<b>-23.37</b>	<b>-36</b>	<b>56.34</b>	<b>620</b>
Taxation**	11.48	0.60	7.47	-10.88	-1,813	6.87	92
<b>Net Profit/(Loss) after tax</b>	<b>30.58</b>	<b>64.83</b>	<b>1.62</b>	<b>-34.25</b>	<b>-53</b>	<b>63.21</b>	<b>3,902</b>
<b>Total Revenue</b>	<b>3,442.76</b>	<b>3,119.28</b>	<b>2,972.54</b>	<b>323.48</b>	<b>10</b>	<b>146.74</b>	<b>5</b>
<b>Total Expenses</b>	<b>-3,400.70</b>	<b>-3,053.85</b>	<b>-2,963.45</b>	<b>-346.85</b>	<b>-11</b>	<b>-90.40</b>	<b>-3</b>
Net Profit Margin (%)	0.01	0.02	0.003				
Interest Cover (times)	35	12	1				

\* For 2003/04, revised balances subsequent to the audit period are shown. Of note, reallocations were done between these two cost items.

\*\* For 2004/05, tax calculated amounted to \$21.81 million, while tax credit totalled \$21.21 million. Hence tax obligation for the period was \$0.60 million.

## Income and Expenditure

12. The income and expenditure report for the Company, which is summarised in Table 3 indicates that although CTL's expenses grew at a faster pace compared to income, the Company's operations were profitable. Net surplus (before tax) showed fluctuations over the period, amounting to \$30.58 million, \$64.83 million and \$1.62 million in 2005/06, 2004/05 and 2003/04 respectively. However, these results represented notable improvements on deficits incurred in prior years (\$93.22 million in 2002/03 and \$8.45 million in 2001/02).

13. While revenue for each of the 3 years was in excess of \$2,900 million, CTL's net profit margin results (although positive – see Table 3) were minimal since expenses were significant



relative to the levels of income.

14. For 2005/06, expenses rose by \$346.85 million (11%) over that for the prior period, in comparison to the rise of \$90.40 million between 2003/04 and 2004/05. The increase in cost for 2004/05 occurred in view of significant expenses which were incurred in relation to regulators' fees (3% of gross sales) under the Gross Profit Tax (GPT) system implemented in November 2005. This impacted directly on cost of sales, which also included dividends (approximately 68% of sales).

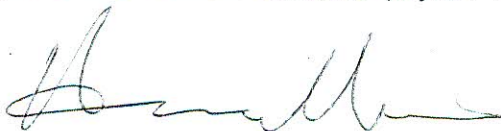
15. It should also be noted that the aforementioned GPT system was revised recently and new tax rates gazetted on August 29, 2007. This is expected to be beneficial to the Company since GPT/ regulators' fee requirement should be reduced.

### **Balance Sheet**

16. Increased income over the 3-year period facilitated enhanced cash/short term deposit portfolio, which moved to \$172.67 million in 2005/06 from \$29.89 million. Consequently, the Company was able to reduce its net current liability from \$166.64 million at March 31, 2004 to \$50.02 million at the end of 2005/06. The increased cash flow also enabled the Company to accelerate US\$ payments to United Tote Limited from which tote equipment were leased. The obligation, which at April 1, 2003 amounted to \$23.67 million, was fully honoured by June 2005. This impacted positively on the Company's ability to cover its interest cost as shown in Table 3 (35 times in 2005/6 from 1 time in 2003/04).

### **CONCLUSION**

17. During the review period, efforts were made by CTL to grow its revenue and cash bases. It is expected that the new tax rates applicable to the Company will complement these efforts and result in cash available to improve the current dividend payout ratio of 68% and for capital development of the Track.



Audley Shaw M.P.  
Minister of Finance and the Public Service  
November 27, 2007