Ciboney Group Limited 1996

Notes to the Financial Statements

1. Identification

(a) Ciboney Group Limited ("the company") is incorporated in Jamaica. Its primary activities are in the hospitality industry.

(b) "Group" refers to the company and its wholly-owned subsidiaries, namely:

- Ciboney Hotels Limited, owner of the land and buildings comprising the Ciboney Radisson Resort, except for nineteen villas and the common land and facilities, and its 84.2% subsidiary, Ciboney Proprietors Limited, which owns and is responsible for the management and maintenance of the resort's common land and facilities.
- Leisure Operators Limited, lessee of the Ciboney Radisson Resort.
- Flexnon Limited, which is the holder of an option to purchase certain Seawind Towers apartments (See note 25).
- Luxury Resorts Enterprises Limited and its wholly owned subsidiary, Number Sixty Limited, which are engaged in the business of acquiring, developing and letting resort properties.
- Luxury Resorts International Ltd. and its wholly owned subsidiaries:

  - Radisson Ciboney All-Inclusive Resorts Ltd.
  - Country Inns By Luxury Resorts Ltd.
  - Club Ciboney Ltd.
  - L.R.I. Management Ltd.

  Luxury Resorts International Ltd. and its subsidiaries are incorporated in the Cayman Islands and are in the business of developing, owning,

leasing, franchising and managing resort properties.

Flexon Resorts International Ltd. and its subsidiaries are incorporated in the Cayman Islands and are in the business of developing, owning, leasing, franchising and managing resort properties.

(c) The Group has an interest in two associated companies, Ciboney Hotel Developers Limited, which is engaged principally in hotel development and leasing, and owns the Sandals Ocho Rios Hotel; and Hospitality Inns of Jamaica Limited, lessee of the Sandals Ocho Rios Hotel.

(d) An associated company is one, other than a subsidiary, over which the group exercises significant influence, including representation on the Board of Directors, and in which it owns 20% or more of the issued equity capital.

(e) A related party is one which controls or exercises significant influence over or is controlled or significantly influenced by the company in making financial and operating decisions, or, along with the company, is subject to common control or significant influence.

(f) These financial statements are presented in Jamaican dollars.

2. Significant accounting policies

(a) Accounting convention:

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets and investments at valuation.

(b) Consolidation:

The consolidated financial statements combine the financial position and results of operations of the company and its subsidiaries (note 1) made up to May 31, 1996, after eliminating intra-group balances, and the group's share of the net assets and results of operations of associated companies (note 1), also based on financial statements made up to May 31, 1996 and accounted for by the equity method.

(c) Depreciation:

Fixed assets, except for land, on which no depreciation is provided, and leasehold improvements, which are amortized over the lower of the useful life and the term of the lease, are depreciated by the straight line method, at annual rates estimated to

write off the assets over their expected useful lives. The depreciation rates are as follows:

Buildings	2 1/2%
Leasehold improvements	4%
Furniture, fixtures and equipment	10%
Motor vehicles	20%

(d) Foreign currencies:

(i) Foreign currency balances outstanding at the balance sheet date are translated at the rate of exchange ruling on that date. The exchange rate for the United States dollar at the balance sheet date was J$38.30 (1995:J$33.30). Subsequent to the balance sheet date, the Jamaican dollar has appreciated against other major currencies; at November 29, 1996, the exchange rate of the Jamaican dollar for the United States dollar was J$35.11.

(ii) Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions.

(iii) Gains and losses arising from fluctuations in exchange rates are included in the profit and loss account, except that exchange losses resulting from severe depreciation in the currency and relating to liabilities arising directly on the recent acquisition of fixed assets are included in the carrying value of the assets.

(e) Surplus on revaluation of fixed assets:

To the extent that there is an unutilised balance of any surplus on revaluation of depreciable fixed assets, an annual transfer of an amount equal to the increased depreciation arising from such revaluation is made from capital reserves to the profit and loss account.

(f) Franchising rights:

The franchising rights (see note 9) are to be amortised over the expected twenty year term of each subfranchise to be granted.

(g) Project expenditure:

Project expenditure is accumulated during development. Upon completion or commissioning

of each project, the expenditure is appropriately allocated among the relevant classifications of fixed assets.

Accumulated expenditure is kept under constant review by the directors. Should it become reasonably certain that a project will not come to fruition, the expenditure will be written off in the period in which such a determination is made.

(h) Goodwill

Goodwill on consolidation is charged to reserves.

3. Accounts receivable

Accounts receivable is stated after a provision for doubtful debts of J$Nil (1995:J$Nil) for the company and J$2,676,341 (1995: J$2,676,341) for the group.

4. Demand loan

This represents the Jamaican dollar equivalent of a short-term loan of US$1,000,000 at 14.5% per annum, repayable May 1997 and secured on specified villas of the group.

5. Notes receivable

These are zero coupon, unsecured promisory notes representing the balance of the proceeds of sale of eight (8) villas, and mature as follows:

June 1996 - May 1997 in twelve equal monthly instalments totalling	100,161,020
June 1997 - May 1998 in twelve equal monthly instalments totalling	104,784,780
June 1998 - May 1999 in twelve equal monthly instalments totalling	109,340,640
June 1999 - May 2000 in twelve equal monthly instalments totalling	52,923,907
	367,210,347
Current portion (1996-1997)	100,161,020
Non-current portion of notes receivable	$267,049,327

6. Other long-term receivable

This represents funds and interest thereon, advanced by the group on behalf of other villa owners on the operations of the Ciboney Radisson Resort.

7. Interest in associated companies

	Company	Group

	1996	1995	1996	1995
Ordinary shares - at Cost	1,047,000	1,047,000	1,047,000	1,047,000
- at valuation	18,020,405	18,020,405	18,020,405	18,020,405
Group's share of associated companies' - retained earnings	-	-	178,142	33,824,212
- replacement reserve	-	-	13,216,090	5,923,204
- capital reserve	-	-	147,821,442	152,904,335
Current accounts	39,673,210	19,001,572	39,673,210	19,001,572
	J$58,740,615	**38,068,977**	**219,956,289**	**230,720,728**

Shares in one of the associated companies were revalued by the directors in September 1992. The surplus of $15,319,736 is included in capital reserves.

8. Interest in subsidiaries

	Company	
	1996	1995
Ordinary shares, at cost	120,823,564	5,023,300
Loans	11,845,000	11,845,000
Current accounts	376,599,134	375,758,622
	J$509,267,698	392,626,922

The loans are unsecured and non-interest bearing and repayable only upon the winding up of the subsidiary.

9. Franchising rights

The amount shown is the cost of acquiring the exclusive rights to develop and franchise luxury resort properties as Radisson Ciboney All-Inclusive Resorts over a twenty year period and other properties as Country Inns By Luxury Resorts over a six year period (see note 11).

10. Fixed assets

Company:

	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Total

Cost:				
May 31, 1995	575,408	3,214,983	266,105	4,056,496
Additions	475,031	226,940	-	701,971
May 31, 1996	1,050,439	3,441,923	266,105	4,758,467
Depreciation:				
May 31,1995	217,749	473,940	55,622	747,311
Charge for the year	115,082	332,266	26,610	473,958
May 31, 1996	332,831	806,206	82,232	1,221,269
Net book values:				
May 31, 1996	J$ **717,608**	**2,635,717**	**183,873**	**3,537,198**
May 31, 1995	J$ **357,659**	**2,741,043**	**210,483**	**3,309,185**

Group:

	Land, buildings and infra-structure	Motor vehicles	Furniture, fixtures and equipment	Leasehold improve-ments	Construc-tion in progress	Total
Cost/valuation:						
May 31,1995	683,221,625	11,591,144	178,145,717	5,629,269	710,168	879,297,923
Additions	-	477,079	8,722,560	920,673	-	10,120,312
Disposals	(45,059,237)	(228,668)	(8,810,293)	-	-	(54,098,198)
Transfers	710,168	-	-	-	(710,168)	-
May 31,1996	638,872,556	11,839,555	178,057,984	6,549,942	-	835,320,037
At cost	105,375,221	11,839,555	59,405,286	6,549,942	-	183,170,004
At valuation	533,497,335	-	118,652,698	-	-	652,150,033
	638,872,556	11,839,555	178,057,984	6,549,942	-	835,320,037
Depreciation						
May 31,1995	35,570,977	5,341,921	60,441,379	568,201	-	101,922,478
Charge for the year	10,899,465	2,320,687	19,110,875	280,365	-	32,611,392
Eliminated on disposals	(2,444,663)	(228,667)	(3,821,530)	-	-	(6,494,860)
May 31, 1996	44,025,779	7,433,941	75,730,724	848,566	-	128,039,010
Net book values:						
May 31,1996	**J$594,846,777**	**4,405,614**	**102,327,260**	**5,701,376**	**-**	**707,281,027**

May 31,1995	**J$647,650,648**	**6,249,223**	**117,704,338**	**5,061,068**	**710,168**	**777,375,445**

Certain of the group's fixed assets were appraised on the fair market value basis by The C D Alexander Company Realty Limited, Real Estate Brokers and Appraisers, in May 1991. The surplus arising on revaluation is included in capital reserves (see note 13). The carrying value of fixed assets includes:

- currency exchange losses capitalised in accordance with the policy described in note 2(d) amounting to J$190,805,486 (1995:J$215,480,223);

- an amount of J$ 227,315,301 (1995:J$258,052,040) attributable to land.

There was a subsequent appraisal on the fair market value basis of the land, buildings, fixtures, fittings, plant, machinery and equipment by David de Lisser and Associates Limited, real estate dealers and appraisers, as at January 21, 1992 at the amount of J$2,198,377,000 (US$66,617,500). The surplus on revaluation has not been brought to account in these financial statements; if it had been brought to account, fixed assets and capital reserves of the group would have increased by J$ 1,489,220,000 at that time.

As more fully described in note 15, the fixed assets of the group are among assets charged to secure the group's borrowings.

11. Project expenditure

This is the cost to date of work-in-progress on projects, including acquisitions, options, feasibility and other research and planning activities in connection with proposed developments (see note 9). Included in project expenditure is J$3,630,000 representing deposit on land.

12. Share capital

	1996	1995
Authorized, issued and fully paid		
546,000,000 ordinary shares, par value $0.10	J$54,600,000	J$54,600,000

13. Reserves

Company:

	Capital		Revenue	
	Share	Revaluation	Replacement	Retained

	premium	surplus	Other	reserve	earnings	Total
Net loss for year	-	-	-	-	(14,971,087)	(14,971,087)
Movement for year	-	-	-	-	(14,971,087)	(14,971,087)
At beginning of year	274,836,230	-	4,239,145	-	42,281,739	321,357,114
At end of year	J$**274,836,230**	**-**	**4,239,145**	**-**	**27,310,652**	**306,386,027**

Group:

	Share premium	Capital Revaluation surplus	Other	Replacement reserve	Retained earnings	Total
Currency retranslation reserve	-	-	9,998,701	-	-	9,998,701
Goodwill on consolidation	-	-	(115,799,993)	-	-	(115,799,993)
Increase in replacement reserve	-	-	-	7,527,393	-	7,527,393
Transfer to profit and loss account of depreciation attributable to revaluation surplus	-	(7,528,551)	-	-	7,528,551	-
Net profit for year	-	-	-	-	114,739,702	114,739,702
Movement for year	-	(7,528,551)	(105,801,292)	7,527,393	122,268,253	16,465,803
At beginning of year	274,836,230	214,788,015	279,372,951	5,923,177	70,415,151	845,335,524
At end of year	J$**274,836,230**	**207,259,464**	**173,571,659**	**13,450,600**	**192,683,404**	**861,801,327**

14. Obligations under finance leases

	1996	1995
1997	367,444	-
1998	367,444	-
1999	367,444	-
Total minimum future lease payments	1,102,332	
Less: Future interest charges	(627,301)	-
Present value of minimum lease payments	475,031	-
Current portion	72,801	-

J$402,230	-	

15. Long-term loans

		Company		Group	
		1996	1995	1996	1995
Loan No. 1	[TDB]	-	-	2,696,482	3,416,757
Loan No. 2	[TDB]	57,456,879	33,817,700	57,456,879	33,817,700
Loan No. 3	[NDB]	-	-	14,177,659	17,681,041
Loan No. 4	[CDC]	-	-	210,162,854	215,775,749
Loan No. 5	[NCB]	142,275,714	-	142,275,714	-
Loan No. 6	[RADISSON]	-	-	5,731,438	11,247,297
Loan No. 7	[ECB]	18,000,000	-	18,000,000	-
Loan No. 8	[BAANQ]	-	-	159,175,010	-
		217,732,593	33,817,700	609,676,036	281,938,544
Current portion		(33,380,071)	(6,763,540)	(108,223,970)	(70,615,062)
		J$184,352,522	**27,054,160**	**501,452,066**	**211,323,482**

Note: TDB = Trafalgar Development Bank Limited; NDB = National Development Bank of Jamaica Limited; NCB = National Commercial Bank Jamaica Limited; CDC = Commonwealth Development Corporation; RADISSON = Radisson Hotels International; ECB = Eagle Commercial Bank Limited; BAANQ = BAANQ Ltd.

Loan No. 1 is repayable by 16 equal consecutive semi-annual instalments which commenced June 1992. Interest rate is variable; at May 31, 1996 it was 34% per annum.

Loan No. 2, approximately the equivalent of US$1,500,000, is repayable in 10 semi-annual instalments of US$150,000 commencing September 30, 1996. The loan attracts interest at 12.5% per annum and is secured by a charge over certain villas with a minimum value of J$65,000,000 stamped to cover US$1,500,000 plus interest thereon.

Loan No. 3 has a local currency portion and a foreign currency portion and is repayable by 28 equal quarterly instalments which commenced June 1993. Of the local funds, J$2,500,000 bears interest at 33% per annum and the balance bears interest at 15% per annum, while the rate on the foreign currency portion is 16% per annum. The loan was disbursed and is repayable through "approved financial institutions". The amount repayable is the Jamaican dollar equivalent of the US$ borrowed at the rate fixed at the dates of the disbursements.

Loan No. 4 is repayable by 17 equal consecutive semi-annual instalments which commenced December 1993. Interest rate is fixed at 11.5% per annum. The loan is repayable in Pounds

Sterling, and the above balance represents the equivalent of £3,645,686 (1995:£4,127,191). It is secured by:

(i) the unlimited guarantee of the company and a debenture over six lots, including all buildings (i.e., the hotel/greathouse and villa units) thereon, and including all plant, machinery and furniture and fixtures therein.

(ii) a bill of sale supplemental to the debenture in the amount of £4,200,000 over furniture, fixtures and equipment contained in the said buildings; and

(iii) a mortgage supplemental to the debenture.

Loan No. 5, approximately the equivalent of US$4,000,000, is repayable by quarterly instalments of US$142,857, which commenced January 1996, with final payment due on June 30, 2000. It attracts interest at 13% per annum and is secured by a charge over specified villas.

Loan No. 6, approximately the equivalent of US$335,626, is unsecured and is repayable from July 1, 1995 in 24 monthly instalments of US$15,500 each, including interest at 10% per annum.

Loan No. 7 is repayable on June 30, 1998. Interest is payable quarterly at National Commercial Bank prime lending rate and payments commenced on September 30, 1995. It is secured by a charge on specified villas.

Loan No. 8 is a mix of foreign and local currency loans, repayable on different dates during 1997/98 at rates of interest ranging from 20% to 50% per annum, and secured by a charge on specified villas.

Loan Nos. 1, 2 and 3 are secured by:

(i) debentures creating a specific charge over specified villa units together with the shares in the common property attaching to them;

(ii) legal assignment of all rentals receivable under leases of the specified villa units owned by Ciboney Hotels Limited (CHL) to Leisure Operators Limited;

(iii) a specific charge by way of supplemental mortgage over specified villas retained by CHL; and

(iv) the guarantee of the company.

The several securities are the subject of a security sharing agreement among the consortia of lenders.

16. Operating revenue

The revenue of the group comprises mainly revenue from all-inclusive packages.

17. Exceptional items

Exceptional items comprise of the following:

	1996	1995
Gain on sale of 8 villas, part of the Ciboney Raddison Resort	235,462,794	-
Write-off of expenditure on projects no longer being pursued	(50,761,250)	-
Loss on translation of notes receivable denominated in foreign currency	(41,017,933)	-
Other loss on exchange	(30,010,713)	-
	113,672,898	**-**

18. Profit before income tax

The following are among the items which have been charged in arriving at the profit before income tax:

		Group	
		1996	1995
		J$	J$
Depreciation		32,611,392	31,297,880
Auditors' remuneration	- current year	1,966,914	1,595,445
	- prior year	258,000	-
Directors' remuneration	- fees	24,000	129,000
Interest expense	- overdraft	22,617,713	55,843,007
	- loan	66,811,578	-
Licence fees		3,650,752	14,942,292

19. Income tax

(a) The underlying hotel properties have each been declared an "Approved Hotel Enterprise" under the Hotels (Incentives) Act by virtue of which profits derived

from their operations are relieved of income tax. In the case of the Sandals Ocho Rios property, the relief is for ten years, commencing with year of assessment 1989, and in the case of the Ciboney Radisson property, the relief is for fifteen years, commencing with year of assessment 1991.

(b) The charge for income tax is computed at 33 1/3% of the profit for the year, other than profits relieved as described in the preceding paragraph, adjusted for income tax purposes, and comprises the group's share of associated company's tax charge.

20. Profit after income tax

	1996	1995
Dealt with in the financial statements of the:		
parent	(69,586,209)	(7,744,741)
subsidiaries	158,066,372	(13,954,232)
associated companies	26,047,392	24,233,125
	J$114,527,555	**2,534,152**

21. Earnings per stock unit

Earnings per stock unit is calculated by dividing net profit of $114,527,556 (1995: $2,534,152), for the year, by 546,000,000 (1995: 537,666,666), the weighted average number of stock units issued and outstanding during the year.

22. Related parties

Services and advice for which remuneration has been paid by the group have been provided to the group by certain related parties, as follows:

(a) REC Resort Management Limited (REC), a director of which is also a director of the company, provides services to the company.

(b) Ciboney Ocho Rios Limited (COR), which is owned by two directors of the company, has been engaged as manager of the Ciboney Radisson Resort.

(c) The company has issued an indemnity to an associated company [Hospitality Inns of Jamaica Limited ("HIJ") (note 1)] and HIJ's parent, Sandals Ocho Rios Limited ("Sandals"), such that where the annual lease rental payable by HIJ for the hotel, which it has leased from Ciboney Hotel Developers Limited and which is managed by Sandals, is less than the guaranteed minimum rental, the company will make good the deficiency. There is no indemnity expense in the financial year under review.

(d) Ciboney Investments Limited, a licensee under an agreement with Radisson Hotels International Inc., licensed a member of the Group, Leisure Operators Limited to use the Ciboney Radisson name in Jamaica under terms requiring the payment of sub royalty and other fees calculated in the manner stipulated in the sub-licence agreement.

During the year the following costs were incurred and income earned in transactions with related parties:

	Company		Group	
	1996	1995	1996	1995
	J$	J$	J$	J$
Interest income	-	(13,085,417)	-	(25,502,559)

The Management fees payable to COR [note 22(b)] and sub-licence and sub-royalty fees for 1996 and 1995 [note 22(d)] were waived.

23. Employee retirement benefits

The group provides for retirement benefits for employees by its participation in a contribution-based pension scheme operated for all employees of Ciboney Ocho Rios Limited and affiliated companies who have satisfied minimum service requirements.

The scheme, which is subject to triennial actuarial valuations, is administered by a life assurance company which also manages all its funds.

Benefits are determined by reference to employees' and employers' contribution plus accumulated earnings.

The contributions were as follows:

	1996	1995
Company	J$ **319,626**	**172,274**
Group	J$ **1,439,880**	**955,274**

24. Contingency

The company is contingently liable on claims filed by resort guests. Should such claims

succeed, the maximum liability, after taking account of payments by insurers, is approximately J$3,800,000.

25. Subsequent event

Subsequent to the balance sheet date, the option to purchase certain Seawind Towers apartments, referred to in note l(b), was exercised.