Ciboney Group Limited 1997

Notes to the Financial Statements

May 31, 1997

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 twenty-three 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 28(c)].
- Luxury Resorts Enterprises Limited and its wholly owned subsidiary, Number Sixty Limited, [see note 28(b)] 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-lnclusive 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.

See also note 28(b) in relation to Caribbean Vacation Club Limited (CVC).

(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 or other member of the group in making financial and operating decisions, or, along with the company or other member of the group, is subject to common control or significant influence.

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

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, 1997, 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, 1997 and accounted for by the equity method. Where the minority interest in the losses of a relevant subsidiary exceed the minority interest in the net assets of the subsidiary, the excess is charged against the majority interest.

The financial statements of Luxury Resorts International Limited and its subsidiaries [see note 1 (b)] are unaudited.

(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 and infrastructure	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 official spot market buying exchange rate for the United States dollar at the balance sheet date was J$35.38 (1996:$38.30).

(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.

(iv) For the purpose of consolidating the financial statements of subsidiaries operating outside of Jamaica, the balance sheets are translated at the closing rates and the income statements at the average rates for the year. Translation differences are

included in the consolidated stockholders' funds.

(e) Surplus on revaluation of fixed assets:

To the extent that there is an unutilized 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 retained earnings.

(f) 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 is written off in the period in which such a determination is made.

(g) Goodwill:

Goodwill on consolidation is charged to reserves.

3. Accounts receivable and prepaid expenses

Accounts receivable is stated after a provision for doubtful debts of $Nil (1996:$Nil) for the company and $2,676,341 (1996: $2,676,341) for the group.

4. Short-term loan

This is a US$ denominated loan repayable in twenty-four equal monthly instalments, which commenced July 1996. The loan attracts interest at 15% per annum and the balance at May 31, 1997 represents the equivalent of US$58,039 (1996:US$Nil). It is secured by a bill of sale over two motor vehicles.

5. Demand loans

The prior year amount 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 owned by a subsidiary. The loan was repaid in 1997.

6. Long-term receivable

	Company and Group	
	1997	1996
Balance receivable	84,788,948	61,712,030
Less: provision for doubtful debts	(84,788,948)	-
	$ -	**61,712,030**

This represents funds advanced by the group on behalf of other villa owners for the operations of the Ciboney Radisson Resort, together with interest thereon, and is stated net of provision for doubtful debts.

7. Interest in associated companies

		Company		Group	
		1997	1996	1997	1996
Ordinary shares	- at cost	1,047,000	1,047,000	1,047,000	1,047,000
	- valuation	18,020,405	18,020,405	18,020,405	18,020,405
Group's share of associated companies'	- retained earnings	-	-	-	178,142
	- replacement reserve	-	-	14,988,578	13,216,090
	- capital reserves	-	-	146,908,131	147,821,442
Current accounts		5,866,827	39,673,210	5,866,827	39,673,210
		$24,934,232	**58,740,615**	**186,830,941**	**219,956,289**

Shares in one of the associated companies were revalued by the directors in September 1992 on the basis of an independent professional valuation of the underlying real estate. The surplus of $15,319,736 is included in capital reserves.

8. Interest in subsidiaries

	Company	
	1997	1996
Ordinary shares, at cost	120,823,564	120,823,564
Loans	11,845,000	11,845,000
Current accounts	347,357,965	376,599,134
	480,026,529	509,267,698
Provision for doubtful debts	(110,865,946)	-
	$369,160,583	**509,267,698**

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

9. Franchising rights

The amount shown for 1996 is part of the total of $153,220,000 which was recorded as paid to Luxury Resorts Marketing Limited to acquire the exclusive rights to develop and franchise: (i) luxury resort properties as Radisson Ciboney All-lnclusive Resorts over a twenty year period, and (ii) other properties as Country Inns By Luxury Resorts (CILR) over a six year period (see note 11).

(i) With respect to Radisson Ciboney All-Inclusive Resorts, the sale of any such rights has been denied by the entity which would have been the one to sell them initially. The amount has been written off with retroactive effect (see note 22).

(ii) With respect to Country Inns By Luxury Resorts, the cost was written off in the current year as the Master Licensee's rights were terminated by the entity which had sold the franchise.

10. Fixed assets

Company:

	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost:				
May 31, 1996	1,050,439	3,441,923	266,105	4,758,467
Additions	-	207,783	67,798	275,581
Disposal	(130,250)	-	-	(130,250)
May 31, 1997	920,189	3,649,706	333,903	4,903,798
Depreciation:				
May 31,1996	332,831	806,206	82,232	1,221,269
Charge for the year	188,375	356,802	28,870	574,047
Eliminated on disposal	(115,025)	-	-	(115,025)
May 31, 1997	406,181	1,163,008	111,102	1,680,291
Net book values:				
May 31, 1997	**$514,008**	**2,486,698**	**222,801**	**3,223,507**
May 31, 1996	**$717,608**	**2,635,717**	**183,873**	**3,537,198**

Group:

	Land, buildings and infra-structure	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost/valuation:					

May 31, 1996					
As previously stated	638,872,556	11,839,555	178,057,984	6,549,942	835,320,037
Adjustments (see note 22)	45,059,236	-	8,810,293	-	53,869,529
As restated	683,931,792	11,839,555	186,868,277	6,549,942	889,189,566
Additions	40,196,086	2,946,500	3,753,863	138,198	47,034,647
Disposals	-	(358,913)	-	-	(358,913)
May 31, 1997	724,127,878	14,427,142	170,622,140	6,688,140	935,865,300
At cost	145,571,307	14,427,142	63,159,149	6,688,140	229,845,738
At valuation	578,556,571	-	127,462,991	-	706,019,562
	724,127,878	14,427,142	190,622,140	6,688,140	935,865,300
Depreciation:					
May 31, 1996					
As previously stated	44,025,779	7,433,941	75,730,724	848,566	128,039,010
Adjustments (see note 22)	2,444,664	-	3,821,530	-	6,266,194
As restated	46,470,443	7,433,941	79,552,254	848,566	134,305,204
Charge for the year	11,174,269	2,814,415	20,176,608	293,631	34,458,923
Eliminated on disposals	-	(278,900)	-	-	(278,900)
May 31, 1997	57,644,712	9,969,456	99,728,862	1,142,197	168,485,227
Net book values					
May 31, 1997	$**666,483,166**	**4,457,686**	**90,893,278**	**5,545,943**	**767,380,073**
May 31, 1996	$**637,461,349**	**4,405,614**	**107,316,023**	**5,701,376**	**754,884,362**

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 $190,805,486 (1996:$190,805,486);

* an amount of $258,052,040 (1996:$ 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 $77,791,328,847(US$2,198,377,000). 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 $1,489,220,000 at that time.

As more fully described in note 16, the fixed assets of the group are among assets charged to secure the group's borrowings.

As explained in note 28(a) certain of the assets of a subsidiary, which were pledged as security for loans, were placed in receivership on October 2, 1997, and the receiver may dispose of them other than in the normal course of business.

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). Project expenditure includes land and infrastructure carried in a subsidiary at $Nil (1996:$106,101,328); this land was valued independently by The C D Alexander Company Realty Limited in May 1994 at US$4,900,000 (J$ 163,954,000). Formal transfer of title to the land has not yet been effected (see comment in note 28(b) on Number Sixty Limited).

12. Share capital

	Company and Group	
	1997	1996
Authorized, issued and fully paid		
546,000,000 ordinary shares. par value $0.10	$**54,600,000**	**54,600,000**

13. (Deficit)/reserves

Company:

	Share premium	Capital Revaluation surplus	Other	Revenue Replacement reserve	Retained earnings	Total
Net loss for year	-	-	-	-	(443,487,282)	(443,487,282)
At beginning of year	274,836,230	-	4,239,145	-	27,310,652	306,386,027
At end of year	$**274,836,230**	**-**	**4,239,145**	**-**	**(416,176,630)**	**(137,101,255)**

Group:

	Share premium	Capital Revaluation surplus	Other	Revenue Replacement reserve	Retained earnings	Total
Currency retranslation	-	-	(13,793,968)	-	-	(13,793,968)
Increase in replacement reserve	-	-	-	17,772,489	-	17,772,489
Transfer to retained earnings of depreciation attributable to revaluation surplus	-	(7,403,903)	-	-	7,403,903	-
Net loss for year	-	-	-	-	(437,991,139)	(437,991,139)
Movement for year	-	(7,403,903)	(13,793,968)	17,772,489	(430,587,236)	450,012,618
At beginning of year						
As previously stated	274,836,230	207,259,464	173,571,659	13,450,570	192,683,404	861,801,327
Prior year adjustment	-	-	(40,544,200)	-	(258,003,002)	(298,547,202)
As restated	274,836,230	207,259,464	133,027,459	13,450,570	(65,319,598)	563,254,125
At end of year	274,836,230	199,855,561	119,233,491	15,223,059	(495,906,834)	113,241,507

14. Deferred income

Deferred income represents monies received on the sale of villas to CVC (see note 22).

15. Obligations under finance leases

Company and Group

	1997	1996
1997	-	367,444
1998	367,444	367,444
1999	367,444	367,444
Total minimum future lease payments	734,888	1,102,332
Less: Future interest charges	(302,739)	(627,301)
Present value of minimum lease payments	432,149	475,031
Current portion	(161,456)	(72,801)
	$270,693	402,230

16. Long-term loans

		Company		Group	
		1997	1996	1997	1996
Loan No. 1	[TDB]	-	-	2,345,230	2,696,482
Loan No. 2	[TDB]	53,078,700	57,456,879	53,078,700	57,456,879
Loan No. 3	[NDB]	-	-	12,427,773	14,177,659
Loan No. 4	[CDC]	-	-	202,838,694	210,162,854
Loan No. 5	[NCB]	126,377,857	142,275,714	126,377,857	142,275,714
Loan No. 6	[RADISSON]	-	-	-	5,731,438
Loan No. 7	[ECB]	18,000,000	18,000,000	18,000,000	18,000,000
Loan No. 8	[NCB]	145,000,000	-	145,000,000	-
Loan No. 9	[CBL]	35,385,800	-	35,385,800	-
Loan No. 10	[NCB]	8,000,000	-	8,000,000	-
Loan No. 11	[CBL]	35,385,800	-	35,385,800	-
		421,228,157	217,732,593	638,839,854	450,501,026
Current portion (Note 2)		(421,228,157)	(33,380,071)	(638,839,854)	(108,223,970)
		$ -	184,352,522	-	342,277,056

Note 1: 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; CBL

= Citizens Bank Limited.

Note 2: Notwithstanding the repayment dates listed below, the loans have been reclassified as current in view of the demand by the lenders for immediate repayment of outstanding balances, as described in note 28.

Loan No. 1 is repayable by 16 equal consecutive semi-annual instalments which commenced June 1992. Interest rate is variable; at May 31, 1997 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 $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, $2,500,000 bears interest at 33% per annum and the balance bears interest at 15% per annum, while the rate on the foreign currency portion is 16% per annum. The loan was disbursed and is repayable through "approved financial institutions". In the case of the foreign currency portion, the amount repayable is the Jamaican dollar equivalent of the US$ borrowed at the exchange 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 £2,230,932 (1996:£3,645,686). 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$3,571,429, 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 were due to commence on September 30, 1995. It is secured by a charge on specified villas.

Loan Nos. 1 and 2 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 and/or CHL.

The several securities are the subject of a security sharing agreement among the consortia of lenders involved in certain of the loans.

Loan No. 8 is payable in twenty-six (26) monthly instalments denominated in Jamaican dollars. Interest rate is fixed at 24% per annum. The loan is secured by guarantees from the company and CHL stamped to cover $143,000,000 and US$600,000. The guarantee by CHL is supported by first legal mortgages over 19 villas at Ciboney Ocho Rios.

Loan No. 9 is to be repaid in May 1997. Interest rate is variable; at May 31, 1997, it was 14.5% per annum. The loan is secured by a mortgage on villas owned by CHL stamped to cover US$1,000,000; guarantee of CHL; and assignment of peril insurance for mortgaged property.

Loan No.10 is repayable in full by June 30, 1998. Interest is payable monthly. The loan

is secured by guarantee from CHL for J$8,000,000 supported by first legal mortgages over nineteen villas at Ciboney Ocho Rios.

Loan No. 11 is payable in four semi-annual instalments and runs for two years, the final payment being due on June 6, 1998. The interest rate is variable; at May 31, 1997, it was 19% per annum. The loan is secured by registered mortgages on villas owned by CHL stamped to cover US$1,000,000; guarantee of CHL; and assignment of peril insurance for the mortgaged property.

17. Operating revenue

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

18. (Loss)/profit before exceptional items

The following are among the items which have been charged in arriving at the (loss)/profit before exceptional items:

	Group	
	1997	1996
	$	$
Depreciation	34,458,923	32,611,392
Auditors' remuneration - current year	1,989,535	1,966,914
- prior year	196,192	258,000
Directors' remuneration - fees	109,500	24,000
Interest expense - overdraft	73,899,374	22,617,713
- loan	127,632,323	66,811,578
Licence fees	29,620,139	3,650,752

19. Exceptional items

	1997	1996

Write-off of franchising rights	(46,001,540)	-
Refund of statutory payroll charges on gratuities (1992-1996)	13,929,683	-
Write-off of expenditure on projects no longer being pursued	(287,085,821)	(162,655,121)
(Gain)/loss on exchange	4,573,617	(50,939,993)
Repudiation of Neuson Limited/BAANQ Limited loans	198,072,900	159,175,010
	$**(116,511,161)**	**(54,420,104)**

20. 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 an associated company's tax charge.

(c) At the balance sheet date, income tax losses, subject to agreement by the Commissioner of Income Tax, available for set-off against future taxable profits, amounted to approximately $171 million for the company and group.

21. Loss after income tax

Dealt with in the financial statements of the:

	1997	1996
parent	(443,487,282)	(14,971,087)
subsidiaries	(9,033,464)	(43,145,396)
associated companies	14,305,409	4,551,036
	$**438,215,337**	**(53,565,447)**

22. Prior Year adjustment

As more fully described in note 28(b), adjustments were made to the carrying amounts of certain assets and obligations of the group. In some cases, the amounts were adjusted with effect from the date when they were first recorded, viz:

	1997	1996
Reversal of transaction with CVC:		
Gain on sale of fixed assets	(235,462,794)	-
Expenses related to sale	(111,893,871)	-
Foreign exchange loss	20,088,653	-
	(327,268,012)	-
Franchising rights not delivered by seller in 1995	(89,910,000)	(89,910,000)
Repudiation of loan recorded in 1996	159,175,010	-
	$(258,003,002)	**(89,910,000)**

The company is involved in a legal dispute with certain of its former directors in respect of the beneficial ownership of CVC, the company which operates the timeshare at the Ciboney Ocho Rios Resort. The successor board [see note 28(b)] is optimistic that ownership of CVC will be restored to the Ciboney Group of Companies.

23. Loss per stock unit

Loss per stock unit is calculated by dividing net loss for year attributable to members of the group of $437,991,139 (1996: $53,353,300), by 546,000,000 (1996:$546,000,000), the number of stock units in issue.

24. 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) 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 (1996:$Nil).

(c) 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/(income earned) in transactions with related parties:

	Company and Group	
	1997	1996
	$	$
Project management fees	573,113	-
Charges to associated company	**(5,149,477)**	**(3,692,975)**

25. 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 Leisure Operators 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 for the year, all of which have been charged in the profit and loss account, are as follows:

	1997	1996
Company	197,254	319,626
Group	$1,628,733	1,439,880

26. Future of the company and group as going concerns

The financial statements have been prepared on the going concern basis, notwithstanding that, as at and for the year ended on the balance sheet date, the following obtained:

	Company		Group	
	1997	1996	1997	1996
Net current liabilities	(486,999,895)	(109,191,360)	(840,314,510)	(290,851,934)
Operating loss	(443,487,282)	(14,971,087)	(336,617,099)	(48,856,181)
(Accumulated deficits) retained earnings	(416,176,630)	27,310,652	(496,514,348)	65,319,598

In addition, the group was unable to pay interest and repay principal in accordance with the terms of the long-term loans, which, along with other events, constituted events of default. These events led, subsequent to the balance sheet date, to demands for immediate settlement of loans as well as other actions by lenders, as more fully described in note 28, but the company and other members of the group have been unable to comply with the demands for repayment.

In light of the matters mentioned in the preceding paragraphs, the ability of the company and the group to continue as going concerns depends upon their success in resolving the demands for immediate repayment of loans and other matters related to the receivership, and on the group obtaining suitable financing and rapidly returning to profitability.

27. Contingent liability

There are claims of approximately $2.5 million for injuries allegedly suffered as employees

of, or guests at, the Ciboney Radisson Resort. The company is entering a defense, but trial in these cases has not yet commenced, and the ultimate liability, if any, after any insurance settlements, is impossible to predict. See also note 28(c).

28. Subsequent events

(a) On October 2, 1997, Commonwealth Development Corporation ('CDC'), as a measure to protect an outstanding loan to Ciboney Hotels Limited ('CHL') of £3,580,686, plus accrued interest and other charges of £565,196, appointed a receiver for certain of the assets of CHL. The pledged assets (note 10) are included in the hotel premises which constitute a significant part of the group's operations. These and other assets also secure other debts and those secured lenders have subsequently made demands for immediate repayment of amounts owing or guaranteed to them by the group, demands which the group has been unable (or, in one case, unwilling) to meet [see also note 28(c)].

(b) By an agreement dated October 4, 1997 (the "succession agreement"), Crown Eagle Life Insurance Company Limited (CEL) took effective control of Ciboney Group Limited (CGL) (note 1). This resulted from the termination of a trust deed under which, up to that date, 223,406,286 shares, representing 40.9% of the equity shares of Ciboney Group Limited, were held in trust as non-voting shares. The redesignation of these shares as voting shares and their effective transfer to CEL, brought CEL's equity holding in CGL to 55.5%

Financial Sector Adjustment Company Limited (FINSAC) controls CEL; thus on October 4, 1997 it became the ultimate parent of the group.

One of the consequences of the change in ownership and control was the appointment of a new board of directors (and new executive management) with effect from November 1997 ("successor board"). The successor board, upon reviewing the carrying amounts of certain of the assets and liabilities of the group, wrote off some of the assets and repudiated a liability previously carried on the books of the group [see notes 19, 22 and 28(c)]. Further, the successor board raised questions about membership of the group; in particular, it claimed that CVC is a subsidiary of the company (see note 22) and that Number Sixty Limited (see notes 1 and 11) is a 50% held associated company rather than a wholly-owned subsidiary. It also asserted that certain parties, with whom the group had transacted business, ostensibly as unrelated parties, were indeed related parties.

(c) The company and certain subsidiaries are party to a dispute arising from its contention

that the claim by Neuson Limited against one of its subsidiaries, as debtor, and the company, as guarantor, for amounts due is not valid. Neuson Limited demanded immediate settlement from the subsidiary on October 3, 1997 and from the company on October 6, 1997, of the amounts it claims are outstanding. At September 30, 1997, these amounts were stated as J$130,105,027 and US$7,083,594 (the J$ equivalent of the US$ amount being approximately $258,552,000, at the then prevailing rate of exchange). By a decision of the successor board [see note 28(b)], the amount is excluded from these financial statements (see also note 22).

(d) With effect from February 20, 1998 the shares in Flexnon Limited (note 1) were transferred out of the group.