Ciboney Group Limited 2000

Notes to the Financial Statements

May 31, 2000

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 (CHL), 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 [see note 23].

- Leisure Operators Limited (LOL), lessee of the Ciboney Radisson Resort [see note 23].

- Luxury Resorts Enterprises Limited and its wholly-owned subsidiary, Number Sixty Limited, [see note 1(c)] which were established to engage in the business of acquiring, developing and letting resort properties.

- Luxury Resorts International Ltd.

Luxury Resorts International Ltd. (LRI) was incorporated in the Cayman Islands for the purpose of developing, owning, leasing, franchising and managing resort properties.

See also note 1 (c) in relation to Caribbean Vacation Club Limited (CVC).

(c) 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). 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%. The formal transfer of the shares to CEL has not yet been effected.

FINSAC Limited 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 note 22(b)]. It also asserted that certain parties, with whom the group had transacted business, ostensibly as unrelated parties, were indeed related parties. Further, the successor board raised questions about membership of the group; in particular, it claimed that CVC, the company which for some time operated the time share at the Ciboney Radisson Resort, is a subsidiary of the company. Also, the successor board determined that the status of Number Sixty Limited as a wholly-owned subsidiary needed to be legally established, one consequence of which was that that company was precluded from taking ownership of certain lands. Pursuant to a suit filed by Luxury Resorts Enterprises Limited ('LRE'), in connection with a claim to be the parent of Number Sixty Limited, the Supreme Court, on December 17, 1998, entered final judgement in favour of LRE. The effect of the judgement is that, inter alia, Number Sixty Limited was put in a position to implement the steps necessary to take possession of the lands in question (note 9), and LRE was put in a position to register itself as the owner of all the shares of Number Sixty Limited.

(d) The Group has an interest in an associated company, Ciboney Hotel Developers Limited (34.33%), which is engaged principally in hotel development and leasing. It previously owned the Sandals Ocho Rios Hotel, which was sold to the Sandals Group, by agreement dated April 1, 1999, for US$13.5 million. As part of the same agreement, the Sandals Group also purchased the 49% share of Hospitality Inns of Jamaica Limited (HIJ) owned by the company (34.9%) and Pembroke Hotel Enterprises Limited (14.1%).

(e) 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.

(f) 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.

(g) The financial statements are presented in Jamaican dollars unless otherwise indicated.

2. Basis of preparation. and significant accounting policies

The financial statements have been prepared under the historical cost convention, modified for the inclusion of certain fixed assets and investments at valuation, in accordance with the provisions of the Companies Act and Jamaican generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of the financial statements are summarised below and conform, in all material respects, to GAAP.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the income and expenses for the year then ended. Actual amounts could differ from these estimates.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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	
	2000	1999	2000	1999
	$	$	$	$
Net current liabilities	(109,333,782)	(560,970,074)	(46,439,453)	(913,848,406)
Profit/(loss) for year	108,893,895	(51,620,616)	(20,607,896)	(87,972,062)
Accumulated deficit	(519,387,809)	(628,281,704)	(665,987,713)	(769,994,685)

Stockholders' net deficit	(185,712,434)	(294,606,329)	(156,885,105)	(131,943,895)

The company and the group's financial difficulties are being experienced against the background of significant limitations on its ability to borrow or otherwise obtain adequate working capital. The future of the group as a going concern is, therefore, dependent-on its ability to obtain suitable financing and on sustained future profitable operations (see note 23).

The significant accounting policies follow:

(a) Consolidation:

The consolidated financial statements combine the financial position and results of operations of the company and its subsidiaries (note l(b)) made up to May 31, 2000, after eliminating intra-group balances, and the group's share of the net assets and results of operations of associated companies (note l(d)), also based on financial statements made up to May 31, 2000 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 [see note l(b)] are unaudited.

(b) Depreciation:

Fixed assets, except for land, on which no depreciation is provided, and leasehold improvements, which are amortized over the shorter 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%

(c) 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 weighted average buying exchange rate for the United States dollar at the balance sheet date was J$42.0175 (1999: J$38.38) [see note 24(d)].

(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. Any translation differences arising are included in the consolidated stockholders' funds.

(d) 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.

(e) 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.

(f) Time-share income and receivable:

Proceeds of sale of time-share weeks are deferred and included in current income in equal amounts each year over the expected life of the contract. Proceeds of sales are receivable for periods of up to seven years.

3. Accounts receivable and prepaid expenses

Accounts receivable is stated after a provision for doubtful debts of $Nil (1999: $Nil) for the company and $2,676,341 (1999: $2,676,341) for the group.

4. Long-term receivable

	Company and Group 2000	1999
Balance receivable	75,913,943	76,729,456
Less: provision for doubtful debts	(75,913,943)	(76,729,456)
	$ -	-

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

5. Interest in associated companies

	Company 2000	Company 1999	Group 2000	Group 1999
Ordinary shares - at cost	-	1,047,000	-	1,047,000
at valuation	11,861,574	18,020,405	11,861,574	18,020,405
Group's share of associated				
companies - replacement reserve	-	-	-	4,098,833
- capital reserves	-		16,439,620	132,574,168
- accumulated deficit	-	-	(27,160,380)	(32,881,171)
Current accounts	-	4,876,735	-	4,876,735
	$11,861,574	**23,944,140**	**1,140,814**	**127,735,970**

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 [see also note 1(d)].

6. Interest in subsidiaries

	Company 2000	Company 1999
Ordinary shares, at cost	120,826,764	120,826,764
Loans	11,845,000	11,845,000
Current accounts, net	375,316,681	249,034,789
	507,988,445	381,706,553
Provision for diminution in value of investments	(72,836,500)	(72,836,500)
	$435,151,945	308,870,053

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

7. Time-share receivable

	2000	1999
Total timeshare receivable	46,448,368	-
Less: current portion	(7,687,395)	-
	$38,760,973	-

This represents amounts receivable on financing contracts for the sale of time-share vacation weeks. Under financing contracts the purchase price is paid with a minimum deposit of 20% with the balance recoverable by 84 equal, consecutive monthly instalments at a rate of 14.9% per annum.

8. Fixed assets

Company:

	Furniture & fixtures	Office equipment	Computer equipment	Motor vehicles	Total
Cost:					
May 31, 1999	1,274,075	453,138	1,917,808	935,808	4,580,829
Assets written off during the year	(945,475)	(255,138)	(1,827,808)	(935,808)	(3,964,229)

May 31, 2000	328,600	198,000	90,000	-	616,600
Depreciation:					
May 31,1999	674,537	245,481	971,607	562,716	2,454,341
Charge for the year	32,860	19,800	9,000	-	61,660
Eliminated on assets written off	(625,247)	(215,782)	(958,107)	(562,716)	(2,361,852)
May 31, 2000	82,150	49,499	22,500	-	154,149
Net book values:					
May 31, 2000	**$ 246,450**	**148,501**	**67,500**	**-**	**462,451**
May 31, 1999	**$ 599,538**	**207,657**	**946,201**	**373,092**	**2,126,488**

Group:

	Land, buildings and infra-structure	Motor vehicles	Fumiture, fixtures and equipment	Leasehold improvements	Total
Cost/valuation:					
May 31, 1999	723,392,864	14,181,746	196,362,397	6,684,237	940,621,244
Additions	-	460,000	13,635,023	2,663,199	16,758,222
Assets written off	-	(935,808)	(3,028,420)	-	(3,964,228)
May 31, 2000	723,392,864	13,705,938	206,969,000	9,347,436	953,415,238
Depreciation:					
May 31, 1999	81,625,657	13,808,654	140,272,373	1,612,333	237,319,017
Charge for the year	11,381,437	-	21,434,389	417,438	33,233,264
Eliminated on assets written off	-	(562,716)	(1,799,134)	-	(2,361,850)
May 31, 2000	93,007,094	13,245,938	159,907,628	2,029,771	268,190,431
Net book values:					
May 31, 2000	**$630,385,770**	**460,000**	**47,061,372**	**7,317,665**	**685,224,807**
May 31, 1999	**$641,767,207**	**373,092**	**56,090,024**	**5,071,904**	**703,302,227**

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. The carrying value of fixed assets includes:

- currency exchange losses capitalised in accordance with the policy described in note 2(c) amounting to $190,805,486 (1999: $190,805,486);

- an amount of $227,315,301 (1999: $227,315,301) 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 deLisser and Associates Limited, real estate dealers and appraisers, as at January 21, 1992, in the amount of US$66,617,500 ($2,421,693,000).
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 13, the fixed assets of the group are among assets charged to secure the group's borrowings.

9. Project expenditure and land

This represents land held for development, the carrying value of which was determined in an independent appraisal by The C D Alexander Company Realty Limited. Formal transfer of title to the land is yet to be effected [see comments in note 1 (c) on Number Sixty Limited].

10. Share capital

	Company and Group	
	2000	1999
Authorized, issued and fully paid:		
546,000,000 ordinary shares, par value $0.10	$54,600,000	54,600,000

The ordinary shares were, when issued, converted to stock units.

11. Deferred income

Group

	2000	1999
Proceeds of time-share sales	140,280,046	-
Less: amount included in income for year	(3,486,549)	-
	136,793,497	-
Sale of villas to Caribbean Vacation Club [see note 1(c)]	19,674,068	19,674,068
	$156,467,565	19,674,068

12. Obligations under finance leases

	Company and Group	
	2000	1999
Total minimum future lease payments	-	460,647
Less: Future interest charges	-	(103,741)
Present value of minimum lease payments	-	356,906
Current and past due portions	-	(356,906)
	-	-

13. Long-term loans

		Company		Group	
		2000	1999	2000	1999
Loan No. 1	TDB	63,437,550	58,046,400	63,437,550	58,046,400
Loan No. 2	NDB	-	-	11,538,675	11,802,772
Loan No. 3	CDC	-	-	223,651,531	213,417,473
Loan No. 4	Recon]	151,360,027	138,496,892	151,360,027	138,496,892
Loan No. 5	Refin	18,368,993	18,368,993	18,368,993	18,368,993
Loan No. 6	Refin	179,540,539	179,540,539	179,540,539	179,540,539
Loan No. 7&8	Refin	85,118,853	77,395,200	85,118,853	77,395,200
Loan No. 9	Refin	9,473,937	9,473,937	9,473,937	9,473,937
Loan No. 10	TDB	16,854,723	15,422,332	16,854,723	15,422,332
		524,154,622	496,744,293	759,344,828	721,964,538
Current portions		-	(427,867,357)	(40,663,916)	(653,087,602)
		524,154,622	68,876,936	718,680,912	68,876,936

Note 1: TDB = Trafalgar Development Bank Limited; NDB = National Development Bank of Jamaica Limited; CDC = Commonwealth Development Corporation; Recon -

Recon Trust Limited; Refin = Refin Trust Limited.

Note 2: FINSAC Limited, through Recon Trust Limited and Refin Trust Limited, has assumed responsibility for repayment of the debts previously owed by the company to certain financial entities and has authorised the cancellation of all interest accrued from 1998 on Loans 4 to 9. New repayment schedules and other terms have not yet been finalised.

Loan No. 1, approximately the equivalent of US$1,500,000, was rescheduled and is repayable in 16 semi-annual instalments of US$93,750 commencing January 1, 2000. The loan bears interest at 12.5% per annum.

Loan No. 2 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. It is secured by the hypothecation of the shares and shareholders unsecured notes related to specified villas, in addition to the securities listed below:

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 ('LOL');

(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. 3 was rescheduled during the year and is now repayable by twelve semi-annual instalments, which commenced on January 31, 2000. The rescheduling also included the cancellation of accrued interest of $13,941,589 (note 16). Interest rate is fixed at 10.5% per annum. The loan is repayable in Pounds Sterling, and the above balance represents the equivalent of £3,612,702 (1999: £3,580,686). 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;

16. Exceptional items

	2000	1999
Gain on disposal of associated company	49,793,731	-
Legal fees and expenses	(25,669,514)	(69,255,501)
Write back of payables	-	48,661,924
Write back of interest on loans (see note 13)	13,941,589	60,325,622
	$38,065,806	39,732,045

17. Income tax

(a) The underlying hotel properties were, at commencement, each 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 Ciboney Ocho Rios property, the relief is for fifteen years, commencing with year of assessment 1991; in the case of the Sandals Ocho Rios property, the relief was for ten years, which commenced with year of assessment 1989 and expired on March 14, 1999.

(b) At the balance sheet date, income tax losses, subject to agreement by the Commissioner of Taxpayer Audit and Assessment, available for set-off against future taxable profits, amounted to approximately $370 million (1999: $347 million) for the company and $449 million (1999: $380 million) for the group.

18. Loss for the year attributable to members

	2000	1999
Dealt with in the financial statements of the:		

parent	108,893,895	(51,620,616)
subsidiaries	(146,179,149)	(23,612,924)
associated companies	16,677,358	(12,738,522)
	$(20,607,896)	(87,972,062)

19. Loss per stock unit

Loss per stock unit is calculated by dividing net loss for year attributable to members of $20,607,896 (1999: $87,972,062), by 546,000,000 (1999: 546,000,000), the number of stock units in issue.

20. Related parties

Services and advice for which remuneration has been paid by the group have been provided to the group by a related party, viz, the company has issued an indeminity to an associated company [Hospitality Inns of Jamaica Limited ("HIP) (note 1)] and HIJ's parent, Sandals Ocho Rios Limited ("Sandals"), providing 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 (1999: $Nil) [see note 1 (d)].

During the year, the following income was earned in transactions with related parties:

	2000 $	1999 $
Charges by company to associated company	-	(2,000,000)

21. 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 (see note 23).

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' contributions plus accumulated earnings.

The contributions for the year, all of which have been charged in the profit and loss account, are as follows:

	2000	1999
Company	$ -	44,362
Group	$2,488,719	2,432,126

22. Contingent liabilities

(a) There are claims of approximately $2.5 million for injuries allegedly suffered as employees of, or guests at, the Ciboney Ocho Rios 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, cannot reasonably be predicted.

(b) 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 $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 1(c)], the amount is excluded from these financial statements.

On July 15, 1999, the Supreme Court granted an injunction barring Neuson Limited from taking over hotel property in connection with the demanded settlement of loans purportedly made to the group until the suit brought against them by the group has been tried.

(c) The company and the group are contingently liable for income tax in the amount of $6 million and $10.2 million, respectively, arising from an assessment by the Commissioner of Taxpayer Audit and Assessment (formerly Commissioner of Income

Tax). An objection to the assessments has been filed and no provision for the amount has been made in the financial statements.

23. Subsequent event

Subsequent to the balance sheet date, a subsidiary, the lessee of the Ciboney Ocho Rios Resort, agreed in principle to contract with Sandals Resort International (SRI) for the sub-lease and management of the resort, effective September 1, 2000. The lease agreement has not yet been signed.

All employees of the subsidiary were terminated as at August 31, 2000.

24. Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and short-term investments and accounts receivable. Financial liabilities have been determined to include bank loans and overdrafts, accounts payable and long-term loans.

Exposure to credit, interest rate and currency risks arises in the ordinary course of the company's and group's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange risks.

(a) Fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some of the company's and group's financial instruments lack an available trading market or are the subject of legal disputes. Therefore, their values may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. These include some accounts receivable balances, bank loans and long-term liabilities. The estimated fair value of the company's and group's other financial instruments are assumed to approximate their carrying values, due to their short-term nature.

(b) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market rates. A number of the company's and group's short-term investments are at variable rates of interest and the company and group have no mechanism available to anticipate the timing or extent of any changes. Some of the long-term liabilities are at fixed interest rate, whilst no fixed terms are yet in place for the others.

The company manages its interest rate risk by negotiating for the best rates available within cash flow and credit considerations.

(c) Credit risk:

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company and group generally do not require collateral in respect of their financial assets.

At balance sheet date, there was no significant concentration of credit risk attaching to trade receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. However, some accounts receivable balances are the subject of legal disputes, the outcome of which cannot reasonably be estimated.

(d) Foreign currency risk:

The company and group are exposed to foreign currency risk on transactions that they undertake in foreign currencies. The main foreign currencies giving rise to this risk are the United States Dollar and the United Kingdom Pound Sterling. The company and group endeavour to keep the net exposure at a minimum level. There were net foreign currency liabilities at the balance sheet date as follows:

	Company		Group	
	2000	1999	2000	1999
Net foreign currency liabilities (US$)	3,207,083	6,162,644	772,504	2,980,660
Net foreign currency liabilities (£)	-	-	3,707,485	3,580,686

25. Employee numbers and costs

The average number of persons employed by the company and the group during the year was as follows:

	2000	1999
Company	4	4
Group	614	619

The aggregate payroll costs for these persons were as follows:

	Company		Group	
	2000	1999	2000	1999
Salaries	3,091,193	1,455,305	89,104,298	102,555,174
Pension scheme contributions	-	-	2,488,719	2,387,764
Statutory contributions	421,526	199,653	10,809,649	9,176,078
Other	-	770,298	30,496,831	25,178,851
	$3,512,719	2,425,256	132,899,497	139,297,867