# Ciboney Group Limited

## Notes to the Financial Statements

## MaY 31, 2002

1 Identification

(a) Ciboney Group Limited ("the company") is a subsidiary of Crown Eagle Life Insurance Company Limited ("parent") and its ultimate parent is Finsac Limited. All these companies are incorporated in Jamaica.

Its primary activities are in the hospitality industry.

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

(i) Ciboney Hotels Limited (CHL) and its 84.2% subsidiary, Ciboney Proprietors Limited (CPL). CHL is the owner of the land and buildings comprising the resort complex, now operating as Beaches Grande Sport at Ciboney, except for fifteen villas and the common land and facilities. CPL owns and is responsible for the management and maintenance of the resort's common land and facilities.

(ii) Leisure Operators Limited (LOL), lessee of the resort complex referred to in the preceding paragraph. Under an agreement dated December 15, 2000, Leisure Operators Limited sub-leased the resort to Rios Hotel Management Limited ("Rios") for three years from September 1, 2000. No sub-lease rental was charged for the three months from that date to November 30, 2000. The sub-lease rental is US$180,000 per month from December 1, 2000. Under the terms of a separate agreement dated December 15, 2000, Rios has an option to purchase the resort for US$17.5 million during the three-year sub-lease period ending August 31, 2003.

(iii) Luxury Resorts Enterprises Limited and its wholly-owned subsidiary, Number Sixty Limited, which were established to engage in the business of acquiring, developing and letting resort properties. The proposal for such development has since been abandoned and the land being held is to be sold (note 11).

(iv) Luxury Resorts International Limited
Luxury Resorts International Limited (LRI) was incorporated in the Cayman Islands for the purpose of developing, owning, leasing, franchising and managing resort properties. On the application of the company, LRI was struck from the Register of Companies on June 29, 2001 (note 17).

(c) The Group has an interest in an associated company, Ciboney Hotel Developers Limited ("CHDL") (34.33%), which was 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) which was also owned by the company (34.9%) and by Pembroke Hotel Enterprises Limited (14.1%). CHDL is no longer operating.

(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.

2 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation, and in accordance with the provisions of the Companies Act and Jamaican generally accepted accounting principles ("GAAP"). GAAP is substantially codified in Statements of Standard Accounting Practice issued by the Institute of Chartered Accountants of Jamaica. 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.

Where necessary, certain comparative amounts have been reclassified to accord 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 | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | $ | $ | $ | $ |
| Working capital deficit | (223,522,075) | (203,069,269) | (162,994,958) | (191,334,580) |
| Profit/(loss) for year | (14,809,717) | (28,025,306) | 34,721,899 | (192,852,161) |
| Accumulated deficit | (562,222,832) | (547,413,115) | (819,475,019) | (856,518,396) |
| Stockholders' net deficit | (228,547,457) | (213,737,740) | (314,015,367) | (349,737,266) |

The company's and the group's financial difficulties are being experienced against the background of limited income being generated from the resort it has leased and significant limitations on its ability to borrow or otherwise obtain adequate working capital. The future of the company and the group as going concerns is, therefore, dependent on their ability to rapidly return to profitability.

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

## 3 Significant accounting policies

(a) Consolidation:

The consolidated financial statements combine the financial position and results of operations of the company and its subsidiaries [note 1 (b)] made up to May 31, 2002, after eliminating intra-group balances, and the group's share of the net assets and results of operations of associated companies [note 1(c)], also based on financial statements made up to May 31, 2002 and accounted for by the equity method. Where the minority interest in the losses of a relevant subsidiary exceeds the minority interest in the net assets of the subsidiary, the excess is charged against the majority interest.

(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 tenn 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% |
| 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 rates 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$48.12 (2001: J$45.6267) [see note 21 (b)(iii)].

(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, provided such carrying value is not increased beyond the recoverable amount.

(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) Securities purchased under resale agreements:

Securities purchased under resale agreements are accounted for as collateralised financing.

(f) Time-share income and receivable:
Proceeds of sale of time-share weeks are deferred and included in current income in equal annual amounts over the expected life of the contract. Contracts are for periods of up to 60 years.

4 Cash and short-term deposits

Cash for the group includes $39,540,971 (2001: $15,919,407) received from time-share owners and held in trust for Ciboney Hotels Limited, pending the action to be taken in relation to the option by Rios Hotel Management Limited. If Rios exercises its option to buy the property on termination of the lease [see note 1 (b)] it shall, upon completion of the purchase, be entitled to, inter alia, the cash (including additional receipts from time-share owners subsequent to the balance sheet date and up to such exercise) and any interest earned thereon. In the event no sale is completed, the cash reverts to Ciboney Hotels Limited.

5 Securities purchased under resale agreements

The group makes funds available to third parties by entering into short-term agreements with them. The group, on delivering the funds, receives the securities and agrees to resell them on a specified date and at a specified price (reverse repos).

6 Accounts payable and accrued charges

Accounts payable and accrued charges for the group includes an amount of $126,315,000 (US$2,625,000) [2001: $Nil (US$Nil)] which represents a deposit by Rios in relation to its option to purchase the resort [note I (b)].

7 Interest in associated company

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Ordinary shares - at valuation | 3,122,114 | 3,122,114 | 3,122,114 | 3,122,114 |
| Group's share of associated | | | | |
| company's - capital reserves | - | - | 8,002,529 | 9,375,729 |
| - accumulated deficit | - | - | (10,553,978) | (10,680,156) |
| | 3,122,114 | 3,122,114 | 570,665 | 1,817,687 |
| | ========= | ========= | =========== | ============ |

Shares in associated company 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(c)]. However, the interest in associated company has been reduced to reflect the group's share of the associated company's net assets at the balance sheet date.

8 Interest in subsidiaries

| | Company | |
|---|---|---|
| | 2002 | 2001 |
| Ordinary shares, at cost | 120,826,764 | 120,826,764 |
| Loans | 11,808,500 | 11,845,000 |
| Current accounts, net | 443,783,029 | 452,214,669 |
| | 576,418,293 | 584,886,433 |
| Provision for diminution in value of investment | (72,800,000) | (72,836,500) |
| | $503,618,293 | 512,049,933 |

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

9 Time-share receivable

| | 2002 | 2001 |
|---|---|---|
| Total time-share receivable | 33,403,048 | 49,353,548 |
| Less: current portion | (9,870,710) | (9,870,710) |
| | $23,532,338 | 39,482,838 |

This represents the balance of proceeds of sale of time-share vacation weeks. Under the terms of the vendor-financed contracts, the purchase price is to be settled by a minimum deposit of 20%, with the balance receivable by 84 monthly instalments and bearing interest at a rate of 14.9% per annum.

10 **Fixed assets**

**Company:**

| | **Furniture & fixtures** | **Office equipment** | **Computer equipment** | **Total** |
|---|---|---|---|---|
| Cost: | | | | |
| May 31, 2001 and 2002 | 328,600 | 198,000 | 90,000 | 616,600 |

| | | | | |
|---|---|---|---|---|
| Depreciation: | | | | |
| May 31, 2001 | 115,010 | 69,299 | 31,500 | 215,809 |
| Charge for the year | 32,860 | 19,800 | 9,000 | 61,660 |
| May 31, 2002 | 147,870 | 89,099 | 40,500 | 277,469 |
| Net book values: | | | | |
| May 31, 2002 | $180,730 | 108,901 | 49,500 | 339,131 |
| May 31, 2001 | $213,590 | 128,701 | 58,500 | 400,791 |

**Group:**

| | Land, buildings and infrastructure | Motor vehicles | Furniture, fixtures and equipment | Total |
|---|---|---|---|---|
| Cost/valuation: | | | | |
| May 31, 2001 and 2002 | 723,392,864 | 13,705,938 | 153,700,652 | 890,799,454 |
| Depreciation: | | | | |
| May 31, 2001 | 111,097,026 | 13,705,938 | 145,833,893 | 270,636,857 |
| Charge for the year | 15,887,360 | - | 7,527,626 | 23,414,986 |
| May 31, 2002 | 126,984,386 | 13,705,938 | 153,361,519 | 294,051,843 |
| Net book values: | | | | |
| May 31, 2002 | $596,408,478 | - | 339,133 | 596,747,611 |
| May 31, 2001 | $614,498,409 | - | 5,664,188 | 620,162,597 |

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, amounting to $190,805,486 (2001: $190,805,486), capitallsed in accordance with the policy described in note 2(c); and

- an amount of $227,315,301 (2001: $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. However, there is an option to acquire the entire resort for US$17.5 million [note 1 (b)(ii].

As more fully described in note 13, the fixed assets of the group are among assets charged to secure the group's borrowings.

11 Land held for sale

This represents land held for sale, the carrying value of which was determined in an independent appraisal by The C D Alexander Company Realty Limited in February 2002. Formal transfer of title to the land is yet to be effected.

12 Share capital

| | Company and Group | |
|---|---|---|
| | 2002 | 2001 |
| 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.

13 Deferred income

| | Group | |
|---|---|---|
| | 2002 | 2001 |
| Time-share sales | 133,285,976 | 136,793,502 |
| less: amount included in income for the year | (3,507,526) | (3,507,526) |
| | 129,778,450 | 133,285,976 |
| | ============ | ============ |

Deferred income represents an amount set aside out of the proceeds of sale of the time-share vacation weeks to cover the company's obligation to supply vacation weeks in the future under the time-share contracts.

14 Long-term loans

| | | Company | | Group | |
|---|---|---|---|---|---|
| | | 2002 | 2001 | 2002 | 2001 |
| Loan No. 1 | [TDB] | 50,526,000 | 61,864,425 | 50,526,000 | 61,864,426 |
| Loan No. 2 | [DBJ] | - | - | 7,071,403 | 8,687,255 |
| Loan No. 3 | [CDC] | - | - | 161,917,922 | 190,535,674 |
| Loan No. 4 | [Recon] | 172,219,218 | 164,007,333 | 172,219,218 | 164,007,333 |
| Loan No. 5 | [Refin] | 18,368,993 | 18,368,993 | 18,368,993 | 18,368,993 |
| Loan No. 6 | [Recon] | 179,540,539 | 179,540,539 | 179,540,539 | 179,540,539 |
| Loans No. 7 & 8 | [Refin] | 96,811,233 | 92,195,008 | 96,811,233 | 92,195,008 |
| Loan No. 9 | [Recon] | 9,473,937 | 9,473,937 | 9,473,937 | 9,473,937 |
| Loan No. 10 | [TDB] | 7,218,000 | 17,121,606 | 7,218,000 | 17,121,606 |
| | | 534,157,920 | 542,571,841 | 703,147,245 | 741,794,771 |
| Current portion | | (21,753,000) | (16,030,532) | (64,094,261) | (58,371,793) |
| | | $512,404,920 | 526,541,309 | 639,052,984 | 683,422,978 |
| | | ============ | ============ | ============ | ============ |

Note 1:TDB Trafalgar Development Bank Limited; DBJ Development Bank of Jamaica Limited, formerly National Development Bank of Jamaica Limited; CDC = Commonwealth Development Corporation; Recon = Recon Trust Limited; Refin = Refin Trust Limited (Recon and Refin are subsidiaries of Finsac Limited [note 1 (a)]).

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$ 1,350,000, 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 was disbursed, and is repayable, through "approved financial institutions". It is repayable by 28 equal quarterly instalments, which commenced June 1993. The loan is made up as follows:

| | 2002 | 2001 | |
|---|---|---|---|
| Finsac (assumed from EMBJ*) | 6,258,546 | 6,258,546 | at interest rate of 13% p.a. |
| Finsac (assumed from EMBJ*) | 812,857 | 812,857 | at interest rate of 15% p.a. |
| National Commercial Bank of Ja. Ltd. | - | 1,615,852 | at interest rate of 22% p.a. |
| | $7,071,403 | 8,687,255 | |

* EMBJ = Eagle Merchant Bank of Jamaica Limited

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') and leased 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 lenders involved in certain of the loans.

Loan No. 3 was rescheduled in 2000 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. Interest rate is fixed at 10.5% per annum. The loan is repayable in Pounds Sterling, and the above balance represents the equivalent of E2,298,992 (2001: E2,955,847). On November 11, 1998, the House of Representatives approved a Government of Jamaica guarantee of E4,200,000 for this CDC loan. Upon the issue of this guarantee, a Supplemental Agreement was signed transferring all securities from CDC to the guarantor,Government of Jamaica.

Loan No. 4, approximately the equivalent of US$3,578,953, is secured by a charge over specified villas.

Loan No. 5 is secured by a charge on specified villas.

Loan No. 6 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 nineteen villas at the Beaches Grande Sport at Ciboney Resort, formerly Ciboney Ocho Rios Resort.

Loan No. 7 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. 8 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.

Loan No. 9 is secured by a guarantee from CHL for J$8,000,000 supported by first legal mortgages over nineteen villas at the Beaches Grande Sport at Ciboney Resort, formerly Ciboney Ocho Rios Resort.

Loan No. 10, approximately the equivalent of US$150,000 (2001:US$373,626), is a consolidation of a previous loan and interest arrears on Loan No. 1, and is scheduled to be repaid in 16 semi-annual instalments, which commenced January 1, 2000. The loan attracts interest at 12V2% per annum, and is secured by guarantee of CHL, stamped for US$1,900,000 plus interest, supported by registered mortgage over certain villas at the Beaches Grande Sport at Ciboney Resort, formerly Ciboney Ocho Rios Resort. The loan was fully repaid after year end.

15 Operating revenue

In the previous year, the revenue of the group comprised mainly revenue from all-inclusive packages and, from December 2000, rental from the sub-lease of the resort [note l(b)(ii)]. In the current year, it is mainly lease rental.

16 Profit/(loss) before exceptional items

The following are among the items which have been charged in arriving at the consolidated loss before exceptional items:

| | | 2002<br>$ | 2001<br>$ |
|---|---|---|---|
| Depreciation | | 23,414,988 | 35,710,514 |
| Auditors'remuneration | - current year | 1,074,430 | 1,751,200 |
| | - prior year | 25,200 | 150,000 |
| Directors' emoluments | - fees | 104,850 | 439,200 |
| Interest expense | - overdraft | 15,553 | 500,861 |
| | - loan | 27,785,106 | 36,075,599 |
| Redundancy payments | | - | 51,283,298 |
| | | ========== | ========== |

17 Exceptional items

| | 2002 | 2001 |
|---|---|---|
| Assets written off. | | |
| Fixed assets | - | (29,397,696) |
| Deferred expenditure | - | (9,655,790) |
| Circulating inventory | - | (15,193,533) |
| Other balances not supported or expected to be settled, now written off | 10,883,661 | - |
| Gain on disposal of subsidiary (see note 1 below) | 14,224,235 | - |
| Legal fees and expenses | - | (2,612,053) |
| Write back of payables | - | 9,284,866 |
| Write back of bank overdraft | - | 15,799,988 |
| Settlement of lawsuits involving Neuson Limited et al (see note 2 below) | - | (14,999,931) |
| Adjustment in carrying value of group's interest in associated company | 30,237 | 7,017,394 |
| | $25,138,133 | (39,756,755) |
| | =========== | ============ |

Note 1:
This represents accumulated deficit on company struck off the register [note I (b)(iv)].

Note 2:
The group had made certain claims against certain former directors and others.

The claims were the subject of counterclaims, disputes and lawsuits. By an agreement dated December 22, 2000, Ciboney Group Limited, Ciboney Hotels Limited and Luxury Resorts Enterprises Limited (together "Ciboney Group"), on the one hand, and Neuson Limited, Baanq Limited, Radox Limited and Messrs. Ivor Alexander, Peter Rousseau, Francisco Soler and John Ross, on the other hand, agreed to settle the lawsuit filed by Ciboney Group in February 1998 and the counterclaims against Ciboney Group. The essential aspects of the agreement were as follows:

(i) the acceptance by Neuson Limited of US$1 million in settlement of a claim by them against Ciboney Group in respect of loans and interest accrued, which, at the commencement of the litigation, was stated at US$7.7 million and J$220 million;

(ii) Neuson Limited also released and discharged all charges over the assets of Ciboney Group which they held as security for their loan;

(iii) the time share contracts of Caribbean Vacation Club Incorporated, together with US$1,117,510.99, were to be transferred to Ciboney Group Limited;

(iv) one of the parties paid US$250,000 to Ciboney Group Limited and procured the transfer, without payment, of the 89,605,276 shares in Ciboney Group Limited, held by International Villas Limited, to a Ciboney-related entity; and

(v) Ciboney Group released all the defendants from all claims brought against them in the suit, and they in turn released Ciboney Group from all claims they had brought against Ciboney Group in their counterclaim in the suit, thereby settling all claims that Ciboney Group had or might have had against the defendants and vice versa.

18 Income tax

(a) The underlying hotel property was, at commencement, declared an "Approved Hotel Enterprise" under the Hotels (Incentives) Act by virtue of which profits derived from its operations are relieved of income tax. The relief is for fifteen years, which commenced with year of assessment 1991.

(b) The income tax charge for the year represents the group's share of the associated company's tax charge.

(c) 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 $214 million (2001: $221 million) for the company and $395 million (2001: $445 million) for the group.

19 Profit/(loss) per stock unit

Profit/(loss) per stock unit is calculated by dividing net profit/(loss) for year attributable to members of $34,721,899 [2001: ($192,852,161)], by 546,000,000 (2001: 546,000,000), the number of stock units in issue.

20 Employee retirement benefits

The group provided 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 was administered by a life assurance company which also managed all its funds.

During the prior year, arising from its decision to cease managing the hotel and, instead, sub-lease it, the group terminated all its employees who were members of the scheme in August 2000. The scheme was, therefore, also terminated.

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

| | 2002 | 2001 |
|---|---|---|
| Group | $ - | 179,213 |
| | ===== | ======= |

21 Financial instruments

A financial instrument is any 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 deposits, reverse repos, accounts receivable, owed by related company, and time share receivables. Its financial liabilities comprise bank loan and overdraft, accounts payable, owed to parent, ultimate parent and other related companies, and long-term loans. Information relating to fair values and financial instruments risks is summarized below.

(a) Fair values:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of financial instruments have been determined, where practicable, using a generally accepted alternative method. However, considerable judgement is required in interpreting market data to develop estimates of fair value and even greater judgement where there is no public or over-the-counter market. Accordingly, the estimates presented below are not necessarily indicative of the amounts that the company would receive on realisation of its financial assets or would pay to settle its financial liabilities in a current market exchange.

The fair values of cash and short-term deposits, reverse repos, accounts receivable, owed by related company, bank loan and overdraft, and accounts payable are assumed to approximate their carrying value, due to their short-term nature. The fair values of time-share receivables, owed to parent, ultimate parent and other related companies, and long-term loans cannot practicably be determined due to the unavailability of quoted market prices or other relevant market information.

(b) Financial instruments risks:

The company does not use derivatives as a risk management strategy at this time. Accordingly, exposure to credit, interest rate, foreign currency, liquidity and market risks arises in the ordinary course of the company's operations.

(i) Credit risk:

Credit risk is the risk that a loss may occur from the failure of one party to perform according to the terms of a contract. The company manages its credit risk by establishing policies for granting credit and by rigorous follow up of debtors; however, the group is involved in a very limited range of activities.

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. It arises when there is a mismatch in the maturity profiles of interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustment within a specified period.

The company is exposed to interest rate risk in that it has both interest-earning financial assets and interest-bearing financial liabilities. All these rates are subject to change as market rates move.

The company has no formal interest rate risk management policy. However, it monitors interest rates and adjusts its holding of financial assets and liabilities to the extent practicable.

(iii) Foreign currency risk:

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The principal currencies giving rise to this risk are the United States dollar (US$) and the United Kingdom pound (£). The company manages the risk by reviewing foreign exchange rate movements and monitoring the extent to which balances are held in foreign currency. There were net foreign currency balances at the balance sheet date as follows:

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Net foreign currency liabilities | US$5,287,984 | 7,109,994 | 1,888,303 | 6,040,774 |
| Net foreign currency liabilities | - | - | 2,379,457 | 3,059,302 |
| | ============ | ========= | ========= | ========= |

(iv) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at or close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed facilities. The company had net current liabilities at the balance sheet date, notwithstanding that it had negotiated committed credit facilities.

(v) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Market risk is of little significance for the company as it does not hold any traded securities.

22 Employee numbers and costs

The number of persons employed by the company and the group at the end of the year was as follows:

| | 2002 | 2001 |
|---|---|---|
| Company | 2 | 2 |
| Group | 2 | 2 |

The aggregate payroll costs for these persons were as follows:

| | Company | | Group | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Salaries | 538,561 | 1,731,237 | 538,561 | 14,824,415 |
| Pension scheme contributions | - | - | - | 179,213 |
| Statutory contributions | 276,988 | 651,861 | 276,988 | 6,811,522 |
| Other | 12,295 | - | 12,295 | 17,249,829 |
| Redundancy | - | 2,428,482 | - | 51,283,298 |
| | $827,844 | 4,811,580 | 827,844 | 90,348,277 |

23 Contingent liability

A hotel guest (at the former Seawind Beach Hotel) has alleged that she fell and suffered injuries and has filed a claim, as yet unquantified, for loss of earnings and medical expenses. The company has filed a defence.