

# Ciboney Group Limited

## Notes to the Financial Statements

May 31, 2003

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### 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 had an option to purchase the resort for US\$17.5 million during the three-year sub-lease period ended August 31, 2003. The option was not exercised by the expiration date, but an extension to December 31, 2003 was granted.

- (iii) Luxury Resorts Enterprises Limited and its wholly-owned subsidiary, Number Sixty Limited, which were established to engage in the business of acquiring, developing

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- (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 7).

- (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 18).

- (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:

	<u>Company</u>		<u>Group</u>	
	2003	2002	2003	2002
	\$	\$	\$	\$
Net current liabilities	(211,380,629)	(213,835,103)	(162,341,468)	(153,307,986)
(Loss)/profit for year	(53,193,950)	(14,809,717)	(54,302,808)	34,721,899
Accumulated deficit	(615,416,782)	(562,222,832)	(914,356,349)	(862,375,019)
Stockholders' net deficit	(281,741,407)	(228,547,457)	(368,318,175)	(314,015,367)
	=====	=====	=====	=====

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 Jamaica 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, 2003, 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, 2003 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 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%
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\$59.08 (2002: J\$48.12) [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) Resale agreements:

Securities purchased under resale agreements ("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 \$67,931,724 (2002: \$39,540,971) 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)(ii)], 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 the sale is not completed, the cash is retained by Ciboney Hotels Limited.

5. 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 (or other documents evidencing an interest in the securities) and agrees to resell them (or surrender the documents) on a specified date and at a specified price. The securities are not transferred,

however, unless the counterparty fails to repurchase them in accordance with the agreement.

6. Accounts receivable and prepaid expenses

Accounts receivable and prepaid expenses include prepaid transfer tax and stamp duties amounting to \$106,950,660.

7. 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.

8. Accounts payable and accrued charges

Accounts payable and accrued charges for the group includes an amount of \$155,805,000 (US\$2,625,000) [2002: \$126,315,000 (US\$2,625,000)] which represents a deposit by Rios in relation to its option to purchase the resort [note 1(b)(ii)].

9. Interest in associated company

	<u>Company</u>		<u>Group</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Ordinary shares - at valuation	-	3,122,114	-	3,122,114
Group's share of associated				
company's - capital reserves	-	-	-	8,002,529
- accumulated deficit	-	-	-	(10,553,978)
	<u>\$ -</u>	<u>3,122,114</u>	<u>-</u>	<u>570,665</u>
	=====	=====	=====	=====

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.

10. Interest in subsidiaries

	<u>Company</u>	
	<u>2003</u>	<u>2002</u>
Ordinary shares, at cost	120,826,764	120,826,764
Loans	11,808,500	11,808,500
Current accounts, net	<u>443,063,567</u>	<u>443,783,029</u>
	575,698,831	576,418,293
Provision for diminution in value of investments	<u>( 72,800,000)</u>	<u>( 72,800,000)</u>
	<u>\$502,898,831</u>	<u>503,618,293</u>
	=====	=====

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

11. Time-share receivable

	<u>Group</u>	
	<u>2003</u>	<u>2002</u>
Total time-share receivable	25,136,374	33,403,048
Less: current portion	<u>( 9,932,683)</u>	<u>( 9,870,710)</u>
	<u>\$15,203,691</u>	<u>23,532,338</u>
	=====	=====

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.

12. Fixed assets

**Company:**

	<u>Furniture &amp; fixtures</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Total</u>
Cost:				
May 31, 2002 and 2003	<u>328,600</u>	<u>198,000</u>	<u>90,000</u>	<u>616,600</u>



Depreciation:				
May 31, 2002	147,870	89,099	40,500	277,469
Charge for the year	<u>32,860</u>	19,800	<u>9,000</u>	<u>61,660</u>
May 31, 2003	<u>180,730</u>	<u>108,899</u>	<u>49,500</u>	<u>339,129</u>
Net book values:				
May 31, 2003	\$147,870	89,101	40,500	277,471
	=====	=====	=====	=====
May 31, 2002	\$180,730	108,901	40,500	339,131
	=====	=====	=====	=====

**Group:**

	Land, buildings and infrastructure	Motor vehicles	Furniture, fixtures and equipment	Total
Cost/valuation:				
May 31, 2002	723,392,864	13,705,938	153,700,652	890,799,454
Additions	1,114,497	-	-	1,114,497
Disposals	<u>-</u>	<u>(13,705,938)</u>	<u>-</u>	<u>( 13,705,938)</u>
May 31, 2003	<u>724,507,361</u>	<u>-</u>	<u>153,700,652</u>	<u>878,208,013</u>
Accumulated depreciation:				
May 31, 2002	126,984,386	13,705,938	153,361,519	294,051,843
Charge for the year	12,507,972	-	61,660	12,569,632
Disposals	<u>-</u>	<u>(13,705,938)</u>	<u>-</u>	<u>( 13,705,938)</u>
May 31, 2003	<u>139,492,358</u>	<u>-</u>	<u>153,423,179</u>	<u>292,915,537</u>
Net book values:				
May 31, 2003	\$585,015,003	-	277,473	585,292,476
	=====	=====	=====	=====
May 31, 2002	\$596,408,478	-	339,133	596,747,611
	=====	=====	=====	=====

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 (2002: \$190,805,486), capitalised in accordance with the policy described in note 3(c); and
- an amount of \$227,315,301 (2002: \$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 indicated in [note 1(b)(ii)], there was an option to acquire the entire resort for US\$17.5 million; however, the option was not exercised by its expiration date. An extension to December 31, 2003 was granted.

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

### 13. Share capital

	<u>Company and Group</u>	
	<u>2003</u>	<u>2002</u>
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.

14. Deferred income

	<u>Group</u>	
	<u>2003</u>	<u>2002</u>
Time-share sales	129,778,450	133,285,976
less: amount included in income for the year	( 4,048,356)	( 3,507,526)
	<u>\$125,730,094</u>	<u>129,778,450</u>
	=====	=====

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

15. Long-term loans

		<u>Company</u>		<u>Group</u>	
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Loan No. 1	TDB	44,310,000	50,526,000	44,310,000	50,526,000
Loan No. 2	TDB	-	7,218,000	-	7,218,000
Loan No. 3	DBJ	-	-	7,071,403	7,071,403
Loan No. 4	CDC	-	-	161,447,920	161,917,922
Loan No. 5	[Recon]	211,444,543	172,219,218	211,444,543	172,219,218
Loan No. 6	[Refin]	18,368,993	18,368,993	18,368,993	18,368,993
Loan No. 7	[Recon]	179,540,539	179,540,539	179,540,539	179,540,539
Loan No. 8 & 9	[Refin]	118,736,097	96,811,234	118,736,097	96,811,234
Loan No. 10	[Recon]	9,473,937	9,473,937	9,473,937	9,473,937
Loan No. 11	[Refin]	<u>9,686,971</u>	<u>9,686,971</u>	<u>9,686,971</u>	<u>9,686,971</u>