



ARTHUR ANDERSEN

Canaryroute Limited

Accounts 31 December 1999
together with directors' and auditors' reports

Registered number: 3102256



A28 *A1AFSSQR* 0169
COMPANIES HOUSE 03/08/00

Directors' report

For the year ended 31 December 1999

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1999.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business. In this respect we draw your attention to the basis of preparation set out in note 1 to the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities and business review

The company is engaged in the marketing of holiday ownership on behalf of fellow subsidiaries.

The results of the year are set out in the profit and loss account on page 4 and the financial position of the company is set out in the balance sheet on page 5. The directors consider the trading result and the financial position of the company to be satisfactory.

Results and dividends

Results and recommended transfers to reserves are as follows:

	£
Retained profit at 1 January 1999	345,840
Profit for the financial year	364,242
Retained profit at 31 December 1999	<u>710,082</u>

The directors do not recommend the payment of a dividend (1998 - £Nil).

Directors' report (continued)

Directors and their interests

The directors who served during the year are as shown below.

R.I. Harrington
N.J. Benson
G. Bruce

R.I. Harrington, G. Bruce and N.J. Benson are directors of the immediate parent undertaking, Sunterra Europe (Group Holdings) Plc and their interests in the shares of the holding company are disclosed in the accounts of that company.

The directors have no other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Year 2000

The directors are aware of the year 2000 issue and have taken reasonable steps to ensure that all systems are year 2000 compliant.

The directors will continue to monitor the IT systems of the group until such time as this is no longer considered necessary.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,



G. Bruce
Director

Pine Lake Resort
Carnforth
Lancaster
LA6 1JZ

30 June 2000

To the Shareholders of Canaryroute Limited:

We have audited the accounts on pages 4 to 11, which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the possible outcome of the Chapter 11 filing by the ultimate parent company Sunterra Corporation Inc. and certain of that company's US based subsidiary undertakings. In view of the significance of this uncertainty we consider it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

30 June 2000

Profit and loss account

For the year ended 31 December 1999

	Notes	1999 £	1998 £
Turnover	2	552,155	771,748
Other operating income	3	499,593	143,987
Administration expenses		(512,935)	(899,400)
Operating profit		538,813	16,355
Interest receivable		-	448
Profit on ordinary activities before taxation	4	538,813	16,783
Tax on profit on ordinary activities	6	(174,571)	(4,245)
Profit for the financial year		364,242	12,538

All activity has arisen from continuing operations. There are no recognised gains or losses in either year other than the profit for the financial year.

A statement of movements on reserves is given in note 12.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	7	66,421	39,311
Current assets			
Debtors	8	1,114,818	1,626,277
Cash at bank and in hand		2,123,722	263,255
		3,238,540	1,889,532
Creditors: Amounts falling due within one year	9	(2,544,879)	(1,533,003)
Net current assets		693,661	356,529
Net assets		760,082	395,840
Capital and reserves			
Called-up share capital	11	50,000	50,000
Profit and loss account	12	710,082	345,840
Equity shareholders' funds	13	760,082	395,840

Signed on behalf of the Board



G. Bruce

Director

30 June 2000

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1999

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and the preceding year, is set out below.

a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Sunterra Corporation Inc., a company incorporated in the USA, and its cash flows are included within the consolidated cash flow statement of that company accounts, which are publicly available.

The company's ultimate parent company and certain of that company's US based subsidiaries have filed a voluntary petition for relief under Chapter 11 of the US Bankruptcy Code. The directors of Canaryroute Limited and its UK based parent company wish to stress that these companies do not form part of this Chapter 11 filing. The directors believe this will have no material adverse effect on the business of Canaryroute Limited and consequently the accounts have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The financial statements do not include any adjustments that would result if the plan was not approved.

b) Fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures, fittings and equipment	- 5 years
----------------------------------	-----------

c) Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease, even if payments are not made on such a basis.

Notes to accounts (continued)

1 Accounting policies (continued)

d) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 Turnover

Turnover represents the amount receivable for goods and services supplied and excludes value added tax. The turnover and pre-tax profit is attributable to one activity. All the turnover is from within the United Kingdom.

3 Other operating income

	1999 £	1998 £
Administration fee release	499,593	136,478
Other operating income	-	7,509
	<u>499,593</u>	<u>143,987</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999 £	1998 £
Depreciation and amounts written off owned tangible fixed assets	21,091	7,954
Operating lease rentals	259	3,508
Auditors' remuneration for audit services	4,000	3,800
Staff costs (see note 5)	-	468,323
	<u>-</u>	<u>468,323</u>

5 Staff costs

All staff are employed and paid by a fellow group company Sunterra Europe Limited.

The directors did not receive any emoluments for services to the company (1998 - £Nil).

Notes to accounts (continued)

6 Tax on profit on ordinary activities

The tax charge comprises:

	1999 £	1998 £
Corporation tax	163,217	4,245
Adjustment in respect of prior years	(4,155)	-
Deferred taxation	15,509	-
	<u>174,571</u>	<u>4,245</u>

7 Tangible fixed assets

The movement in the year was as follows:

	Fixtures, fittings and equipment £
Cost	
Beginning of year	48,972
Additions	48,201
End of year	<u>97,173</u>
Depreciation	
Beginning of year	9,661
Charge	21,091
End of year	<u>30,752</u>
Net book value	
Beginning of year	39,311
End of year	<u>66,421</u>

Notes to accounts (continued)

8 Debtors

Amounts falling due within one year:

	1999 £	1998 £
Trade debtors	624,148	302,315
Amounts owed by group undertakings	68,109	1,304,778
Other debtors	6,546	3,675
Prepayments and accrued income	416,015	-
Deferred tax (see note 10)	-	15,509
	<u>1,114,818</u>	<u>1,626,277</u>

9 Creditors: Amounts falling due within one year

	1999 £	1998 £
Bank overdraft	-	6,715
Trade creditors	1,459,171	490,894
Amounts owed to group undertakings	205,068	586,992
Taxation and social security	163,217	4,388
Other creditors	17,124	19,504
Accruals and deferred income	700,299	424,510
	<u>2,544,879</u>	<u>1,533,003</u>

10 Deferred taxation

	1999 £	1998 £
Beginning of year	15,509	15,509
Transfer to profit and loss account	(15,509)	-
End of year	<u>-</u>	<u>15,509</u>

The deferred tax asset comprises:

	£	£
Short term timing difference	<u>-</u>	<u>15,509</u>

Notes to accounts (continued)

11 Called-up share capital

	1999 £	1998 £
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100,000	100,000
<i>Allotted, called up and fully paid</i>		
50,000 ordinary shares of £1 each	50,000	50,000

12 Reserves

	Profit and loss account £
Beginning of year	345,840
Retained profit for the year	364,242
End of year	710,082

13 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit for the financial year	364,242	12,538
Opening shareholders' funds	395,840	383,302
Closing shareholders' funds	760,082	395,840

14 Guarantees and other financial commitments

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of this group at 31 December 1999. The directors are of the opinion that no additional liability is likely to arise from the failure of other group companies.

Notes to accounts (continued)

15 Ultimate parent company

The directors regard Sunterra Corporation Inc., a company incorporated in the USA, as the company's ultimate parent undertaking.

The smallest group in which the results of the company are consolidated is that headed by Sunterra Europe (Group Holdings) Plc (formerly LSI Group Holdings Plc), whose principal place of business is at Pine Lake Resort, Carnforth, Lancaster, LA6 1JZ. The consolidated accounts of the group will be delivered to, and can be obtained from, the Registrar of Companies, Companies Registration Office, Crown Way, Maindy, Cardiff, CF4 3UZ.

As a subsidiary of Sunterra Europe (Group Holdings) Plc, the company has taken advantage of the exemption in FRS8 "Related party disclosures" not to disclose transactions with other members of the group headed by Sunterra Europe (Group Holdings) Plc.