

**LS Financial Services Limited**

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

Registered number: 01934359



## 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 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 provision of complementary services to individuals who have previously purchased timeshare interests from fellow subsidiaries. During the year these services mainly comprised the provision of loan finance.

The results for 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 results 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	317,588
Profit for the financial year	193,623
Retained profit at 31 December 1999	<u>511,211</u>

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

## Directors' report (continued)

### Directors and their interests

The director who served during the year are as shown below:

N.J. Benson

G. Bruce

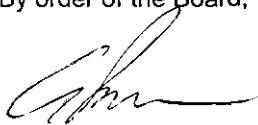
N.J. Benson and G. Bruce are directors of the immediate parent undertaking, Sunterra Europe (Group Holdings) Plc and their interests in the shares of the holding company are disclosed in the accounts of that company.

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

### 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 October 2000

**To the Shareholders of LS Financial Services Limited:**

We have audited the accounts on pages 4 to 9, which have been prepared under the historical cost convention and the accounting policies set out on page 6.

**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 October 2000

## Profit and loss account

For the year ended 31 December 1999

	Notes	1999 £	1998 £
<b>Turnover</b>	2	440,755	319,699
Cost of sales		-	-
<b>Gross profit</b>		440,755	319,699
Administrative expenses		(177,766)	(105,120)
Other operating income		14,593	49
<b>Operating profit</b>		277,582	214,628
Interest payable		-	(5)
<b>Profit on ordinary activities before taxation</b>	3	277,582	214,623
Tax on profit on ordinary activities	4	(83,959)	(66,720)
<b>Profit for the financial year</b>		193,623	147,903

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 8.

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

Balance sheet  
31 December 1999

	Notes	1999 £	1998 £
<b>Current assets</b>			
Debtors: Amounts falling due within one year	5	3,458,023	3,169,060
Debtors: Amounts falling due after more than one year	5	882,891	771,000
Cash at bank and in hand		220,068	167,403
		<u>4,560,982</u>	<u>4,107,463</u>
<b>Creditors: Amounts falling due within one year</b>	6	<u>(4,029,771)</u>	<u>(3,769,875)</u>
<b>Net assets</b>		<u>531,211</u>	<u>337,588</u>
<b>Capital and reserves</b>			
Called-up share capital	7	20,000	20,000
Profit and loss account	8	<u>511,211</u>	<u>317,588</u>
<b>Equity shareholders' funds</b>	9	<u>531,211</u>	<u>337,588</u>

Signed on behalf of the Board



G. Bruce  
Director

30 October 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 accounting*

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention.

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 LS Financial Services 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 LS Financial Services 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) Cash flow statement*

The company is exempt from the requirement of Financial Reporting Standard 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 U.S.A., and its cash flows are included within the consolidated cash flow statement of that company.

#### *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 with 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.

#### *d) Taxation*

The charge for taxation is based on the profit for the year 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 using the liability method, only to the extent that it is probable that an actual liability will crystallise.

### 2 Turnover

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

## Notes to accounts (continued)

### 3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999 £	1998 £
Auditors' remuneration		
- audit fee	<u>3,000</u>	<u>2,640</u>

The directors received no remuneration during the year ended 31 December 1999 (1998 - £nil).

### 4 Tax on profit on ordinary activities

The tax charge comprises:

	1999 £	1998 £
Corporation tax	83,959	66,533
Adjustment in respect of prior years	<u>-</u>	<u>187</u>
	<u>83,959</u>	<u>66,720</u>

### 5 Debtors

Amounts falling due within one year:

	1999 £	1998 £
Trade debtors	1,793,375	1,372,021
Amounts owed by group undertakings	1,609,581	1,744,308
Other debtors	43,217	37,077
Prepayments and accrued income	<u>11,850</u>	<u>15,654</u>
	<u>3,458,023</u>	<u>3,169,060</u>

	1999 £	1998 £
Amounts falling due after more than one year:		
Trade debtors	<u>882,891</u>	<u>771,000</u>



Balance sheet  
31 December 1999

**6 Creditors: Amounts falling due within one year**

	1999 £	1998 £
Trade creditors	-	661
Amount owed to group undertakings	3,427,745	3,456,453
Corporation tax	83,959	66,533
Other creditors	3,269	-
Provisions	511,798	-
Accruals and deferred income	3,000	246,228
	<u>4,029,771</u>	<u>3,769,875</u>

**7 Called-up share capital**

	1999 £	1998 £
<i>Authorised</i>		
250,000 ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>
<i>Allotted, called up and fully paid</i>		
20,000 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

**8 Reserves**

	Profit and loss account £
Beginning of year	317,588
Retained profit for the year	<u>193,623</u>
End of year	<u>511,211</u>

**9 Reconciliation at movements in equity shareholders' funds**

	1999 £	1998 £
Profit for the financial year	193,623	147,903
Opening shareholders' funds	<u>337,588</u>	<u>189,685</u>
Closing shareholders' funds	<u>531,211</u>	<u>337,588</u>

## Balance sheet

31 December 1999

### **10 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 as 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.

### **11 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, whose principal place of business is at Pine Lake Resort, Carnforth, Lancaster, LA6 1JZ. The consolidated accounts of this group will be delivered, 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 LSI Group Holdings Plc.