

Directors' report

For the year ended 31 December 1998

3102256

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 1998.

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.

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 provision of travel services to individuals who have previously purchased holiday ownership from fellow subsidiaries. The company changed its name to Canaryroute Limited from LSI Travel Club Limited during the year.

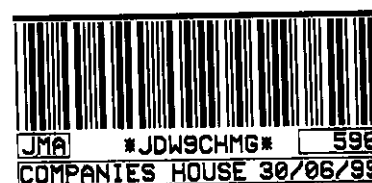
The results of the year are set out in the profit and loss account on page 4 and the financial position of the company is set out in the balance sheet on page 5. The directors consider the trading result and the financial position of the company to be satisfactory.

Results and dividends

Results and recommended transfers to reserves are as follows:

	£
Retained profit at 1 January 1998	333,302
Profit for the financial year	12,538
Retained profit at 31 December 1998	<u>345,840</u>

The directors do not recommend the payment of a dividend (1997 - £Nil).



Directors' report (continued)

Directors and their interests

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

I.K. Ganney	(resigned 18 June 1998)
R.I. Harrington	
N.J. Benson	(appointed 7 May 1998)
G. Bruce	(appointed 18 June 1998)

R.I. Harrington, G. Bruce and N.J. Benson are directors, and I.K. Ganney was until his resignation was a director of the immediate parent undertaking, LSI 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 are taking reasonable steps to ensure that all systems are year 2000 compliant.

The company has followed the requirements of UITF Abstract 20 by charging the costs of rendering existing software year 2000 compliant to the profit and loss account as they are incurred and is satisfied that the total future amount will not be material to the future profitability or liquidity of the company.

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

23 June 1999

Auditors' report

Manchester

To the Shareholders of Canaryroute Limited:

We have audited the accounts on pages 4 to 10, 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. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

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.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1998 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

23 June 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £	1997 £
Turnover	2	771,748	955,802
Other operating expenses (net)	3	(755,413)	(860,369)
Operating profit		<u>16,335</u>	<u>95,433</u>
Interest receivable		448	-
Profit on ordinary activities before taxation	4	<u>16,783</u>	<u>95,433</u>
Tax on profit on ordinary activities	6	(4,245)	(30,962)
Profit for the financial year		<u>12,538</u>	<u>64,471</u>

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 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	7	39,311	11,232
Current assets			
Debtors	8	1,626,277	2,349,061
Cash at bank and in hand		263,255	139,726
		1,889,532	2,488,787
Creditors: Amounts falling due within one year	9	(1,533,003)	(2,116,717)
Net current assets		356,529	372,070
Net assets		395,840	383,302
Capital and reserves			
Called-up share capital	11	50,000	50,000
Profit and loss account	12	345,840	333,302
Equity shareholders' funds	13	395,840	383,302

Signed on behalf of the Board



G. Bruce

Director

23 June 1999

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

Notes to accounts

31 December 1998

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.

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.

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.

Notes to accounts (continued)

3 Other operating expenses (net)

	1998 £	1997 £
Selling and distribution costs	330,109	450,220
Administrative expenses	569,291	410,149
Other operating income	(143,987)	-
	<u>755,413</u>	<u>860,369</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £	1997 £
Depreciation and amounts written off owned tangible fixed assets	7,954	1,447
Operating lease rentals	3,508	2,777
Auditors' remuneration for audit services	3,800	7,875
Staff costs (see note 5)	<u>468,323</u>	<u>380,104</u>

5 Directors' emoluments

The directors of the company did not receive any emoluments for services provided to the company (1997 - £Nil).

6 Tax on profit on ordinary activities

The tax charge comprises:

	1998 £	1997 £
Corporation tax	4,245	1,781
Adjustment in respect of prior years	-	(1,510)
Deferred taxation	-	30,691
	<u>4,245</u>	<u>30,962</u>

Notes to accounts (continued)

7 Tangible fixed assets

The movement in the year was as follows:

	Fixtures, fittings and equipment £
Cost	
Beginning of year	12,939
Additions	36,033
End of year	48,972
Depreciation	
Beginning of year	1,707
Charge	7,954
End of year	9,661
Net book value	
Beginning of year	11,232
End of year	39,311

8 Debtors

Amounts falling due within one year:

	1998 £	1997 £
Trade debtors	302,315	670,810
Amounts owed by group undertakings	1,304,778	1,646,902
Other debtors	3,675	817
Prepayments and accrued income	-	15,023
Deferred tax (see note 10)	15,509	15,509
	<u>1,626,277</u>	<u>2,349,061</u>

9 Creditors: Amounts falling due within one year

	1998 £	1997 £
Bank overdraft	6,715	-
Trade creditors	490,894	842,725
Amounts owed to group undertakings	586,992	739,660
Taxation and social security	4,388	1,781
Other creditors	19,504	69,153
Accruals and deferred income	424,510	463,398
	<u>1,533,003</u>	<u>2,116,717</u>

Notes to accounts (continued)

10 Deferred Taxation

	1998 £	1997 £
Beginning of year	15,509	46,200
Transfer to profit and loss account	-	(30,691)
End of year	<u>15,509</u>	<u>15,509</u>

The deferred tax asset comprises:

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

11 Called-up share capital

	1998 £	1997 £
<i>Authorised</i>		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<i>Allotted, called up and fully paid</i>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

12 Reserves

	Profit and loss account £
Beginning of year	333,302
Retained profit for the year	12,538
End of year	<u>345,840</u>

13 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the financial year	12,538	64,471
Opening shareholders' funds	383,302	318,831
Closing shareholders' funds	<u>395,840</u>	<u>383,302</u>

Notes to accounts (continued)

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 1998. The directors are of the opinion that no additional liability is likely to arise from the failure of other group companies.

15 Ultimate parent company

The directors regard Sunterra Corporation Inc. (formerly Signature Resorts 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 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 LSI 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.