

LA LUCIA SANDS SHAREBLOCK LIMITED

(Registration number 1974/001166/06)

Annual financial statements
for the year ended 31 December 2009

Gobodo Incorporated
Chartered Accountants (S.A.)
Registered Accountants and Auditors
Issued 02 March 2010



LA LUCIA SANDS SHAREBLOCK LIMITED

(Registration number 1974/001166/06)

Annual Financial Statements for the year ended 31 December 2009

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Time Share
DIRECTORS	P M Collins (Chairman) [PA(SA),FSCA,CA(SD),FCCA,DipCG,LLM,MBL(SA)MSc(cum laude)] B V H Alstone [FinstD] Prof. R E Moraka [B TH,BA(Hons),BEd,MDP,MEd,PhD] G Wolfe [B Proc] D A Manthey(Chairman-Audit Committee) DN Phillips
REGISTERED OFFICE	58 Marine Drive La Lucia KwaZulu Natal 4051
BUSINESS ADDRESS	58 Marine Drive La Lucia KwaZulu Natal 4051
POSTAL ADDRESS	P O Box 557 Umhlanga Rocks KwaZulu Natal 4320
BANKERS	Absa Bank Limited
AUDITORS	Gobodo Incorporated <i>Chartered Accountants (S.A.)</i> <i>Registered Accountants and Auditors</i>
SECRETARY	Corporate Governance CC
COMPANY REGISTRATION NUMBER	1974/001166/06
EMPLOYEES	The average number of employees during the year was 4 (2008 : 5).
ATTORNEY	Grundlingh Attorneys George Wolfe Attorneys
COMPANY ACCOUNTANT	J Stokes-ACIS

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REPORT OF THE INDEPENDENT AUDITORS

To the shareholders of LA LUCIA SANDS SHAREBLOCK LIMITED

We have audited the accompanying annual financial statements of LA LUCIA SANDS SHAREBLOCK LIMITED, which comprises the directors' report, the Statement of Financial Position as at 31 December 2009, the Statement of Comprehensive Income, the Statement of changes in equity and the Statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 24.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, 1973. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Disagreement

As discussed in point 8.1 in the directors' report, asset replacement costs and major repairs to property, plant and equipment have been expensed annually.

This accounting treatment differs from South African Statements of Generally Accepted Accounting Practice: Property, Plant and Equipment AC 123 which requires that property, plant and equipment acquired be capitalised and depreciated over their respective useful lives. Asset replacement costs of R 97 106 were expensed for the financial year ended 31 December 2009.

As discussed in point 8.2 in the directors' report, in addition to writing off replacements and maintenance to the Statement of comprehensive income, provisions for future replacements and maintenance are raised and written off to the statement of comprehensive income. The amount written off to the Statement of comprehensive income in the current financial year is R 38 425. (2008 : NIL).

This accounting treatment differs from the South African Statement of Generally Accepted Accounting Practice: Provisions AC 130 which does not permit the recognition of provisions for future replacements and maintenance. The amount of the provision for future replacements and maintenance on the Statement of Financial Position as at 31 December 2009 was R480 925 (2008: R519 345).

Opinion

In our opinion, except for the effect on the annual financial statements of the matters referred to in the preceding paragraph, the annual financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, 1973.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact an Annual General Meeting as required by Section 179 (1) of the Companies Act of South Africa, 1973 was not held. The company has applied to the Registrar of Companies for an extension of time to hold an Annual General Meeting and which been granted until 31 March 2010.



Gobodo Incorporated
Registered Accountants and Auditors
Per: M N Dama

02 March 2010

2 Flanders Place
Mount Edgecombe
Durban
4000

LA LUCIA SANDS SHAREBLOCK LIMITED

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DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required by the Companies Act of South Africa, 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within pre-determined procedures and constraints.

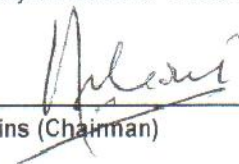
The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

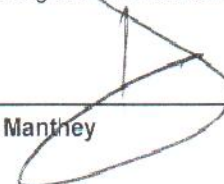
The directors have reviewed the company's cash flow forecast for the year to 31 December 2010 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board of directors are primarily responsible for the financial affairs of the company, they are supported by the company's external auditors.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 3 to 4.

The annual financial statements set out on pages 7 to 26, which have been prepared on the going concern basis, were approved by the board of directors on 02 March 2010 and were signed on its behalf by:


P M Collins (Chairman)


D A Manthey

Durban

02 March 2010

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LODGEMENT OF RETURNS WITH THE REGISTRAR OF COMPANIES

We hereby certify that for the year ended 31 December 2009 the company has lodged with the Registrar of Companies, all such returns as are required of a public company in terms of the Companies Act, 1973, as amended and that all such returns are true, correct and up to date.

C D Kneale

Corporate Governance CC

02 March 2010

Randpark Ridge

LODGEMENT OF RETURNS TO SOUTH AFRICAN REVENUE SERVICE

I hereby certify that for the year ended 31 December 2009 the company has lodged with the South African Revenue Service, all such returns as are required of a company in terms of the Income Tax Act, 1962, as amended and the Value Added Tax, 1991, as amended and that all such returns are true, correct and up to date.

DA Manthey

Public Officer

02 March 2010

Durban

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DIRECTORS' REPORT

The directors submit their 26th report for the year ended 31 December 2009. This report forms part of the audited financial statements.

1. INCORPORATION

Your company was incorporated on 05 June 1974 and obtained its certificate to commence business on the same day. The company was formed as Parliament Chambers Limited but changed its name on 27 April 1981 to La Lucia Sands Share Block Limited. The shareblock complex was officially opened and commenced accepting occupancy on 18 November 1982.

2. REVIEW OF ACTIVITIES

Main business and operations

The company carries on the business of Timeshare in the hospitality industry. The company owns the complex known as La Lucia Sands, a luxury three bedroom apartment block operating on a time-sharing basis, with each share in issue entitling the holder to occupation of a specific apartment for a specific period of time as set out in the "Consent of Use Agreement".

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment. No material fact or circumstance has occurred between the accounting date and the date of this report.

3. FINANCIAL RESULTS

3.1 The financial results of operations of the company for the year ended 31 December 2009, in comparison to previous year, are summarised as follows:

	2009	2008
Income	7,230,327	7,458,144
Operating Costs	(4 297 871)	(5 072 369)
Administration Expenses	(1 462 552)	(1 291 269)
Replacement and maintenance expenses	(1 467 461)	(1 617 239)
Finance charges	(661)	1 681
Profit/(Loss) for the year	1 782	(521 052)

3.2 Total expenditure, excluding provisions for replacements, to 31 December 2009 of R 7 359 419 showed a decrease of 8.8% (2008: 50% increase) over the equivalent figure for the previous year.

3.3 The provision for bad debts remains at R5 000. The directors continue to adopt stringent procedures in terms of the Consent of Use Agreement to deal with levy defaulters.

3.4 The provision for replacements and common property maintenance was reviewed during the prior year and the total provision at 31 December 2009 amounts to R480 920 (2008: R519 345). During the year under review, an amount of R 1 467 461 (2008: R 1 617 239) was spent on replacements and maintenance. An amount of R 38 425 was transferred to provisions during the 2009 year.

4. LEVIES

4.1 The company's main source of income is in the form of levies payable by shareholders. These funds provide for the day to day operations of the complex including any loss brought forward at the beginning of the financial year. In addition, provision has to be made for the future replacement of furniture, fittings and equipment as and when required, as well as maintenance of the common property. The Share Block Control Act no.59 of 1980 has been complied with in this regard.

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Directors' Report

- 4.2 The levy per unit for the year ending 31 December 2009 of R4 336 has been increased for 2009 by R164 (14%) (2008: 4.17%) to R5 000 per annum, which excludes VAT. The bi-annual levy, for January to June, and July to December each year, was set by the directors for the first period of the 2010 year, at R2 500 excluding VAT the VAT inclusive amount is R2 850. Discounts were offered for prompt payment before 31 January 2009 and 31 July 2009 of R 510.
- 4.3 The levy for 2010, in monetary terms, remains well below that of other similar prestige resorts offering spacious three bedroom accommodation. This is despite the pressure of finances through continued inequitable property rates and other fiscus measures. Maintenance escalates with the ageing of the building and equipment and the programme is adjusted to meet these needs. A ten year plan exists and in the opinion of the directors, the maintenance provision to meet the resort's needs is still not yet adequate.
- 4.4 No special levy was raised during the 2009 year under review. As a general rule, your directors are averse to raising special levies and rely on the annual levies to set aside resources for ongoing maintenance and replacement commitments.
- 4.5 About 74% of the Value Added Tax charged on levies is refunded to the company in the form of input vat, equal to some R 825 531 in the year under review (2008:80%). Salaries and wages, which are not subject to vat represent 11.8% of the total expenditure (2008:14%). This decrease is mainly due to the outsourcing of the accounting and resort control services.

5. DIVIDENDS

The company is a non profit organisation and any surpluses are utilised to maintain the assets and provide the facilities for a time share resort. As a consequence of being not for profit, no dividends were or will be declared or paid to any shareholders during the year. As a share block company, the distribution of dividends is not part of the normal business of the company.

6. TAXATION

During the year 2000, the company became liable for taxation on all income that is not exempt under section 10(1)e of the Income Tax Act. This section of the Income Tax Act was amended to remove the total exemption previously available to share block companies. Levy income less related expenditure is still exempted from taxation, and no assessed loss can arise therefrom. The result of this change is explained in the notes to the annual financial statements.

7. AUTHORISED AND ISSUED SHARE CAPITAL

There were no changes in the authorised or issued share capital of the company during the year under review.

8. NON-CURRENT ASSETS

There have been no major changes in the nature of the non-current assets of the company during the year as well as no changes in the policy relating to their use.

8.1 Accounting for Property, Plant and Equipment

In accordance with the provisions of the Share Blocks Control Act 59 of 1980, and in common with other timeshare operations in South Africa, your company has, since its inception as a Share Block Company, raised an annual levy allowing for a provision therefrom, for the maintenance and upkeep of the property. Asset replacement costs and major repairs to property, plant and equipment have been charged to this account annually. This accounting treatment differs from the relevant South African Statement of Generally Accepted Accounting Practice which requires that property, plant and equipment acquired be capitalised and depreciated over their respective useful lives.

The Company's auditors are obliged to refer to this difference in accounting treatment, which they have done in their audit report. Your Board considers that the South African Statement of Generally Accepted Accounting Practice in relation to property plant and equipment assets, is not appropriate for Share Block companies in the timeshare industry. It would appear that the industry is strongly in favour of the approach your directors have adopted on this issue. Your Board still considers its approach to be correct but depending on the outcome of discussions with interested parties it will decide whether any changes in the presentation of your Company's annual financial statements is required in future.

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Directors' Report

The Board considers that the current accounting treatment in these financial statements to be far more conservative, practical and representative of the financial position of your Company. Timeshare companies could suffer major financial loss and even liquidation, because of poor financial management, presentation and reporting. The programme of asset maintenance and replacement each year to keep or bring the resort to a high standard of acceptability is considered appropriate. The assets affected by the accounting treatment are not assets that produce an income in the ordinary course of business as is the situation with trading, hotel or manufacturing companies. These assets hold insignificant resale value and their lives are short by nature of the timeshare activities. As a general rule, your directors rely on the annual levies to set aside resources for ongoing maintenance and replacement commitments and obligations required by law and good financial management. The object is to smooth the increase in levies and avoid the implementation of special levies.

Your Board considers that it has abided by the Accounting Framework Statement, issued by the International Accounting Standards Board, in that the current annual financial statements reflect the concept of capital maintenance.

The following estimates are provided at cost, accumulated depreciation and depreciation charged for the year on the basis that the cost of each item of plant and equipment has been determined by reference to the actual cost of the respective asset replacements, and the depreciation charged over the estimated useful lives of the assets. The assumption made is that at best the average life of the composite assets would be approximately seven and a half years. Attention is drawn to the original valuation of the composite group of assets (Furniture and Fittings) which was placed at R750 000. The net effect of this requirement by the South African Statement of Generally Accepted Accounting Practice AC123 on Property, plant and equipment, would be to decrease assets and equity to R1.877 million. This would not take into account the effect of rising prices or the nature of the household type of asset. The estimates, below, are based over the ten and a half years :

Net book value	2009 000'	2008 000'
Cost - from 1999 - if current accounting statement used	5 496	5 360
Estimated accumulated depreciation	(3 501)	(3 483)
	1 995	1 877
Estimated depreciation charge for the current year	503	575

The current provision for replacements and maintenance of R480 920 does not cover the expected expenditure for 2010. This amount has already been set aside against budgeted capital expenditure of R848 520.

8.2 Replacement Provision

In respect of timeshare entities, the Board disagrees with the concept of the South African Statement of Generally Accepted Accounting Practice AC130, which disallows a provision for future replacements and maintenance. Such a charge is not reflected within the statutory income but would appear only as a reserve in the balance sheet. In keeping with accounting policies since commencement of operations in 1982, the Board has raised a provision for future replacements and maintenance, which is then shown within the income statement and thus affects the surplus or deficit therein. In the opinion of the Board, the replacement provision is a form of depreciation provision as opposed to a distribution of surplus funds.

The auditors are compelled to report on this approach resulting in a technical qualification of the accounts based on this departure from Statement AC130. The Board consider this to be a conservative approach and ensures that the resort is maintained at a high standard. Had the South African Statement of Generally Accepted Accounting Practice AC130 been complied with, the operating profit would be increased by R 38 425 for the current year under review and the prior year would remain unchanged. The provision for replacements in the balance sheet would be R 480 920 (2008: R519 345).