

LA LUCIA SANDS SHAREBLOCK LIMITED

(Registration number 1974/001166/06)
Annual financial statements
for the year ended 31 December 2010

Gobodo Incorporated
Chartered Accountants (S.A.)
Registered Accountants and Auditors
Issued 04 June 2011



LA LUCIA SANDS SHAREBLOCK LIMITED

(Registration number 1974/001166/06)

Annual Financial Statements for the year ended 31 December 2010

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Time Share
DIRECTORS	
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),BEEd,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 (2009 : 4).
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 2010, 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 407 669 were expensed for the financial year ended 31 December 2010.

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 nil (2009 : R 38 425).

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 2010 was R585 000 (2009: R 480 920).

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 2010, 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 is unable to hold any Annual General Meeting until a decision is reached on a pending Court case.



Gobodo Incorporated
Registered Accountants and Auditors
Per: M N Dama

04 June 2011

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 predetermined 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 2011 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.

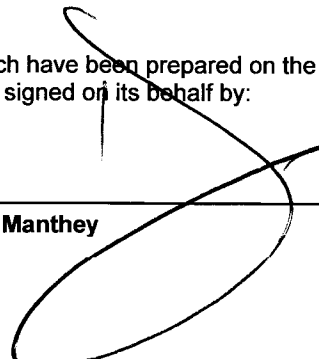
Although the board of directors are primarily responsible for the financial affairs of the company, they are supported by the company's external auditors.

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 04 June 2011 and were signed on its behalf by:



P M Collins (Chairman)



D A Manthey

Durban

04 June 2011

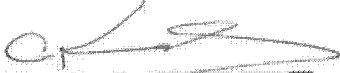
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Annual Financial Statements for the year ended 31 December 2010

LODGEMENT OF RETURNS WITH THE REGISTRAR OF COMPANIES

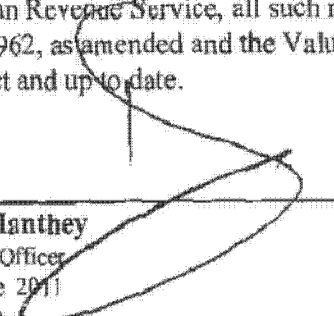
We hereby certify that for the year ended 31 December 2010 the company has lodged with the Registrar of Companies, all such returns as are required of a public company in terms of the Companies Act, 1973, as amended and that all such returns are true, correct and up to date.



C D Kneale
Corporate Governance CC
04 June 2011
Randpark Ridge

LODGEMENT OF RETURNS TO SOUTH AFRICAN REVENUE SERVICE

I hereby certify that for the year ended 31 December 2010 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 Mantney
Public Officer
04 June 2011
Durban

LA LUCIA SANDS SHAREBLOCK LIMITED

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Annual Financial Statements for the year ended 31 December 2010

DIRECTORS' REPORT

The directors submit their 27th report for the year ended 31 December 2010. 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 2010, as well as the comparative information for the previous year, are summarised as follows:

	2010	2009
Income	8,271,345	7,230,327
Operating Costs	(4,385,958)	(4,369,173)
Administration Expenses	(1,413,028)	(1,462,550)
Replacement and maintenance expenses	(2,012,257)	(1,396,159)
Finance charges	(936)	(661)
Surplus for the year	459,166	1,784

3.2 Total expenditure, excluding provisions for replacements, to 31 December 2010 of R 7 271 353 showed an increase of 5.71% (2009: 8.80% decrease) over the equivalent figure for the previous year. The surplus of R 459 166 (2009 : R 1784) is a record surplus and has enabled the company to have a cumulative surplus as opposed to a deficit.

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 address outstanding levies.

3.4 The provision for replacements and common property maintenance was reviewed during the prior year and the total provision at 31 December 2010 amounts to R585 000 (2009: R480 920). During the year under review, an amount of R 2 012 257 (2009: R 1 396 159) was spent on replacements and maintenance.

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 2010 of R5 000 has been increased for 2011 by R263.15 (5.2%) (2010: 14%) to R5 263.15 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 2011 year, at R2 631.57 excluding VAT; the vat inclusive amount is R3 000. Discounts were offered for prompt payment before 31 January 2011 and 31 July 2011 of R 550. No discounts are allowed for payments received after the specified dates, no matter the reason.
- 4.3 The levy for 2011, in monetary terms, remains well below that of other similar prestige resorts offering spacious three bedroom accommodation. This is despite the pressure on the finances of the company through continued inequitable property rates and other fiscal measures. Maintenance escalates with the ageing of the building and equipment and the maintenance 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 not as yet at an adequate level.
- 4.4 As a general rule, your directors are averse to raising special levies and rely on the annual levies to enable the setting aside of resources for ongoing maintenance and replacement commitments. No special levy was raised during the 2010 year.
- 4.5 Approximately 58% of the Value Added Tax charged on levies is refunded to the company in the form of input vat, equal to some R 676 315 in the year under review (2009:74%). Salaries and wages, which are not subject to vat represent 11.1% of the total expenditure (2009:11.8%). This decrease is in the main due to a reduction in salaries paid.

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 a not for profit company, no dividends were or will be declared or paid to the 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 exempt 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 the respective useful lives of the assets acquired.

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 in this regard. Your Board 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 bring and maintain the resort at 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 due to the 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 in terms of 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 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 Statements of Generally Accepted Accounting Practice, AC123 on Property, plant and equipment, would be to decrease assets and equity to R1.420 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 seven and a half years :

Net book value	2010 000'	2009 000'
Cost - from 1999 - if current accounting statement used	5,904	5,496
Estimated accumulated depreciation	(4,484)	(3,501)
	<hr/>	<hr/>
	1,420	1,995
Estimated depreciation charge for the current year	497	503

The current provision for replacements and maintenance of R585 000 does not cover the expected expenditure for 2011. This amount has already been set aside against budgeted refurbishment expenditure of R953 575.

8.2 Replacement Provision

In respect of timeshare entities, the Board disagrees with the concept of the South African Statements 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 and acceptable financial practices 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 increase by R 104 080 for the current year under review and the prior year's operating profit would decrease by R 38 425. The provision for replacements in the balance sheet would be unchanged at R 519 345 (2009: R519 345).

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Directors' Report

9. ENVIRONMENTAL IMPACT

Being a holiday resort, the company is sensitive to its impact on the environment with special reference to its position on the beach front. At first glance it would seem that your company has very little environmental impact. The resort was originally built on a swamp and rivulet. Most of the coastline on either side of the company has been developed and established for many years. The Directors have provided for an environmentally sensitively designed walk way on the beach as part of dune reclamation. Security lights on the beach have also been installed. This is in terms of enforced environmental requirements to protect the beach and dunes from permanent damage.

The parking area clearly shows the soil movement and continuous work has been undertaken in trying to keep the area stable. The main building has stood the test of time for 28 years and shows no evidence of structural damage.

The traffic in people and motor vehicles does not impact on the environment. During 2010 approximately some 4326 (2009: 4556) guests used the resort. Other factors affecting the general environment include the use of chemicals, electricity, which itself impacts on the environment, water resources, plastics and paper, which requires the felling of trees and in some instances deforestation.

Set out below is a table reflecting the use by your company of certain items, which impact on the general environment at large :

	2010	2009
Electricity consumption	447 863 kw	546 160 kw
Water consumption	16 269 kl	14 764 kl
Toilet rolls	11 808 rolls	14 160 rolls
HTH(Pool chemicals)	488 kg	374 kg

10. CORPORATE GOVERNANCE

The Board of Directors subscribes to the principal of good corporate governance. However, the size of your company and the volumes of activity do not warrant the creation of multiple committees. As your company is an unlisted public company, the Board of Directors is ever mindful of its role in maintaining integrity and accountability.

Your company has a unitary board comprising five non-executive directors and one full time executive director. It is considered that this provides a suitable balance and ensures that the non-executive directors play a major role in the governance of your company. The Board meets approximately four to five times a year.

Your company, in keeping with many other public companies, has one third of the directors re-elected annually by the shareholders on a rotational basis, in terms of Article 40 of the Articles of Association of the company. The company cannot hold an Annual General Meeting until the application brought by Flexi Club *sub nom* Batstone and Crosswell has been determined. The case has been linked to your company's interdict against the Clubs and Pierides and was postponed *sine die* on 26 November 2008. The details of these cases can be viewed on the company's website. Shareholders will receive circulars explaining the progress of these matters as they develop. Your directors believe the Flexi Club case against the company was based on the ulterior motive of gaining control of the company. It is unlikely that our Courts will sanction the Flexi Club approach.

The directors are ultimately accountable and responsible to the shareholders for the performance and affairs of your company. The Board therefore retains full and effective control over the company and issues strategic direction to the company's management. Part of that direction is to ensure that the resort is maintained for the benefit of the shareholders, as natural persons, and not for the benefit of any trading organisation or for any other form of corporate gain.

LA LUCIA SANDS SHAREBLOCK LIMITED

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Directors' Report

Details of Board meetings held during the year :

Director	Total number of meetings held	Number of meetings attended
Mr PM Collins (Chairman)	4	4
Mr B V H Alstone	4	3
Mr D A Manthey (Chairman - Audit Committee)	4	4
Prof. R E Moraka	4	4
Mr D N Phillips	4	4
Mr G Wolfe	4	3

11. POST BALANCE SHEET EVENTS

There are no post balance sheet events that require reporting.

12. NUMBER OF EMPLOYEES

The average number of employees during the year was 4 (2009: 4).

13. DIRECTORS

The directors of the company during the year and to the date of this report are as follows:

Name	First Appointed	Changes
P M Collins (Chairman)	28 April 1992	Re-elected 2005
B V H Alstone	18 May 1993	Re-elected 2006
Dr R E Moraka	05 May 2004	
G Wolfe	14 November 1997	Re-elected 2004
D A Manthey	12 April 2005	
DN Phillips	8 November 2008	Co-opted

The criminal case involving a former director, Mr. P. G. Pierides, and former accountant, Ms. S Ramnath (Lalu) continues and has been remanded until 23 August 2011, despite the State having set two trial dates which the accused were able to defer. The case involves fraud and breach of fiduciary duties for both accused.

14. SECRETARY

Corporate Governance CC was appointed as the Company Secretary on 27 July 2007.

Business address

1126 Colonial Drive
Eagle Canyon Golf Estate
Honeydew

Postal address

P.O. Box 279
Randpark Ridge
Johannesburg
2156

15. AUDITORS

Gobodo Incorporated will continue in office in accordance with section 270(2) of the Companies Act.

LA LUCIA SANDS SHAREBLOCK LIMITED

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Annual Financial Statements for the year ended 31 December 2010

STATEMENT OF FINANCIAL POSITION

	Note(s)	2010	2009
ASSETS			
Non-Current Assets			
Property, plant and equipment	2	13,601,184	13,571,998
Current Assets			
Inventories	3	90,781	56,704
Trade and other receivables	4	265,935	321,303
Cash and cash equivalents	5	2,186,013	1,213,124
		2,542,729	1,591,131
Total Assets		16,143,913	15,163,129
EQUITY AND LIABILITIES			
EQUITY			
Share capital	6	270,000	270,000
Reserves	7	13,564,856	13,564,856
Retained surplus / (deficit)		213,685	(245,481)
Total Equity		14,048,541	13,589,375
LIABILITIES			
Current Liabilities			
Trade and other payables	8	297,942	181,908
Levies paid in advance	9	1,212,430	910,926
Provision for replacements		585,000	480,920
		2,095,372	1,573,754
Total Equity and Liabilities		16,143,913	15,163,129

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STATEMENT OF COMPREHENSIVE INCOME

	Note(s)	2010	2009
Revenue	10	8,017,826	7,011,375
Other income		38,962	38,686
Operating expenses		(7,856,353)	(7,359,417)
Operating surplus / (deficit)	11	200,435	(309,356)
Investment income	12	214,557	180,266
Rental Pool Recoveries		45,110	131,535
Finance costs	13	(936)	(661)
Surplus for the year		459,166	1,784

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Non-distributable reserve	General reserve	Total reserves	Retained surplus / (deficit)	Total equity
Balance at 01 January 2009	1,920	268,080	270,000	13,169,213	395,643	13,564,856	(247,265)	13,587,591
Changes in equity								
Surplus for the year	-	-	-	-	-	-	1,784	1,784
Total changes	-	-	-	-	-	-	1,784	1,784
Balance at 01 January 2010	1,920	268,080	270,000	13,169,213	395,643	13,564,856	(245,481)	13,589,375
Changes in equity								
Surplus for the year	-	-	-	-	-	-	459,166	459,166
Total changes	-	-	-	-	-	-	459,166	459,166
Balance at 31 December 2010	1,920	268,080	270,000	13,169,213	395,643	13,564,856	213,685	14,048,541
Note(s)	6	6	6	7	7	7		

LA LUCIA SANDS SHAREBLOCK LIMITED

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STATEMENT OF CASH FLOWS

	Note(s)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		8,053,811	7,156,875
Cash paid to suppliers and employees		(7,239,324)	(7,238,546)
Cash generated from (used in) operations	16	814,487	(81,671)
Interest income		214,557	180,266
Finance costs		(936)	(661)
Net cash from operating activities		1,028,108	97,934
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	2	(55,219)	(14,268)
Total cash movement for the year		972,889	83,666
Cash at the beginning of the year		1,213,124	1,129,458
Total cash at end of the year	5	2,186,013	1,213,124

LA LUCIA SANDS SHAREBLOCK LIMITED

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Annual Financial Statements for the year ended 31 December 2010

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, except for the accounting of property, plant and equipment and provision for replacements, as set out in the Directors' Report. The annual financial statements have been prepared on the historical cost basis, except as modified by the revaluation of property, plant and equipment and incorporate the principal accounting policies set out below.

Unless otherwise specifically stated, these accounting policies are consistent with the previous period.

1.1 Revenue recognition

Levies are recorded as revenue at the due date, being 1 January and 1 July every year, in terms of the Consent of Use Agreement. As a consequence, because the year end of the company is 31 December, levy revenue reported for the year represents the total levies in respect of the right of use for each week of the financial year. Payments in advance are held in trust until the due date.

Levies, net of value added tax, are recorded in the annual financial statements.

1.2 Property, plant and equipment

Freehold land and buildings are classified as property, plant and equipment and are not depreciated but are valued periodically on an open market basis with existing use. On realisation, net revaluation surpluses are transferred from non-distributable to distributable reserves, and profits or losses on disposal, based on carrying values, are credited or charged to income (see note 2).

The original plant and equipment totaling R750 000, at its then valuation, is not revalued. Replacements of plant and equipment and non-routine maintenance are charged against the provision for replacements and maintenance. Additions to plant, equipment and vehicles, which represent an increase in quantity of an existing asset type or where the purchase is of an entirely new category of asset, are included at historical cost and are depreciated. Depreciation on such new assets is calculated to write-off the cost or amount of the valuation of these new replacements, including capitalised lease assets, on a straight line basis over their expected useful lives.

The net book value of disposals of plant and equipment, which are not expected to be replaced, are debited to the relevant asset category, with the related proceeds on disposal being credited to the income statement.

Expenditure during the year on replacements and non-routine maintenance is debited to the income statement. Any transfers to or from the replacement provision are accounted for in the income statement. Surpluses arising on revaluations, or losses on disposal, of land and buildings and plant and equipment, are reflected in the movements of non-distributable reserves.

Depreciation is calculated on the straight-line method to write-off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives. The depreciation rates applicable to each category of assets are as follows:

- Motor vehicles	20%
- Security equipment, gates and safes	10%
-Office equipment	25%
-Computer equipment	33.33%
-Plant and machinery	25%
-Furniture and fixtures	20%
-Linen and towels	33.33%

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Accounting Policies

1.3 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial instruments carried on the balance sheet include cash and bank balances, inventories and receivables. An estimate is made of doubtful receivables on a review of all outstanding amounts at year end. Bad debts are written off in the year in which they are identified.

Financial liabilities carried on the balance sheet include bank overdrafts and accounts payables. All financial liabilities are carried at the anticipated settlement amount. Unless otherwise stated, the carrying values of these financial assets and liabilities approximate their fair value.

1.4 Inventories

Inventories are measured at the lower of average cost and net realisable value. Costs include identifiable transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stock. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

1.5 Provisions and contingencies

A provision is created for the future replacement of furniture, fittings and soft furnishings, as well as expenditure on major items of property maintenance, other than those assets that are depreciated. Actual expenditure incurred on replacements and property maintenance is charged against this provision.

The Board reviews a forward estimate, prepared by management, of the costs of the property, plant and equipment additions, replacements and non-routine maintenance over the next ten years. The Board avoids the provision being in deficit. Peaks in expenditure are smoothed by sacrificing other expenditure in favour of urgent items. Only in exceptional circumstances will special levies be raised as the Board adopts a policy of not having any external borrowings in keeping with sound financial management of the company.

Provisions are not recognised for future operating losses.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 17 .

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	6,265,000	-	6,265,000	6,265,000	-	6,265,000
Buildings	6,487,000	-	6,487,000	6,487,000	-	6,487,000
Plant and machinery	96,449	(86,567)	9,882	84,074	(71,364)	12,710
Furniture and fixtures	826,341	(4,980)	821,361	790,996	(4,235)	786,761
Motor vehicles	155,109	(155,108)	1	155,109	(155,108)	1
Office equipment	66,624	(58,110)	8,514	59,125	(56,523)	2,602
Computer equipment	90,651	(81,252)	9,399	90,651	(72,754)	17,897
Security equipment	106,157	(106,150)	7	106,157	(106,150)	7
Linen and towels	126,080	(126,060)	20	126,080	(126,060)	20
Total	14,219,411	(618,227)	13,601,184	14,164,192	(592,194)	13,571,998

Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	Depreciation	Total
Land	6,265,000	-	-	6,265,000
Buildings	6,487,000	-	-	6,487,000
Plant and machinery	12,710	12,375	(15,203)	9,882
Furniture and fixtures	786,761	35,345	(745)	821,361
Motor vehicles	1	-	-	1
Office equipment	2,602	7,499	(1,587)	8,514
Computer equipment	17,897	-	(8,498)	9,399
Security equipment	7	-	-	7
Linen and towels	20	-	-	20
	13,571,998	55,219	(26,033)	13,601,184

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Depreciation	Total
Land	6,265,000	-	-	6,265,000
Buildings	6,487,000	-	-	6,487,000
Plant and machinery	28,574	-	(15,864)	12,710
Furniture and fixtures	787,758	-	(997)	786,761
Motor vehicles	2,586	-	(2,585)	1
Office equipment	698	2,551	(647)	2,602
Computer equipment	13,789	11,717	(7,609)	17,897
Security equipment	7	-	-	7
Linen and towels	20	-	-	20
	13,585,432	14,268	(27,702)	13,571,998

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Notes to the Annual Financial Statements

	2010	2009
2. PROPERTY, PLANT AND EQUIPMENT (continued)		
Revaluations		
A revaluation of the fixed property of the company was performed by independent valuers, Messrs Walters & Simpson, using the net replacement basis method. The fixed property was valued at R 32 155 000. The effective date of the valuation is 01 February 2007. This increase in value has not been brought into account in the balance sheet. These assumptions were based on current market conditions. Messrs Walters & Simpson are not connected to the company.		
Other information		
Land :		
Freehold land, being stand 1881 La Lucia extension 13, purchased on 1st October 1980 at cost -		
At cost - 1980	270,000	270,000
Revaluation-increase-1998	5,995,000	5,995,000
	6,265,000	6,265,000
Buildings :		
Buildings, including installed plant and equipment, comprising an apartment block containing 42 units, together with the various outbuildings being utilised on a timeshare basis -		
Additions at valuation - 1982	5,370,000	5,370,000
Additions at cost - 1997	62,787	62,787
Revaluation-increase-1998	1,054,213	1,054,213
	6,487,000	6,487,000
Furniture and fittings :		
Furniture and fittings, including soft furnishings, crockery and cutlery, at valuation by the directors on 3rd November 1982 -		
At valuation - 1982	750,000	750,000
Additions at cost -1993	13,025	13,025
Additions at cost - 1994	7,422	7,422
Additions at cost - 1995	4,162	4,162
Net disposals at cost - 1996	(3,777)	(3,777)
Additions at cost - 1997	12,876	12,876
Additions at cost - 1999	2,750	2,750
Net disposals at cost - 2000	(444)	(444)
Additions at cost -2005	4,982	4,982
	790,996	790,996
3. INVENTORIES		
Consumables Inventory	62,155	19,396
Apartment Inventory	28,626	37,308
	90,781	56,704

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	2010	2009
4. TRADE AND OTHER RECEIVABLES		
Trade receivables	53,425	39,195
Other receivables	59,461	59,461
Prepayments	43,488	33,925
VAT refund	98,297	141,177
Trade deposits	2,200	2,200
Sundry debtors	9,064	45,345
	265,935	321,303

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	3,000	(2,557)
Bank balances	2,183,013	1,215,681
	2,186,013	1,213,124

Favourable bank balances of the company earn interest at market rates while interest is incurred on bank overdrafts at the prime overdraft rate. Bank deposits are held with established and substantial banks.

General cessions : R 75000.00 from Absa Bank account 906236202029 has been ceded to Ethekweni Municipality.

6. SHARE CAPITAL

Authorised

4000 Ordinary shares of R1 each	4,000	4,000
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Issued

Ordinary	1,920	1,920
Share premium	268,080	268,080
	270,000	270,000

7. RESERVES

TOTAL RESERVES	13,564,856	13,564,856
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Total reserves consist of :

(1) General reserves comprising :

Special capital expenditure reserve	192,000	192,000
Replacement reserve	203,643	203,643
	395,643	395,643

(2) Non-distributable reserves comprising :

Surplus arising from revaluation of freehold land and buildings	13,169,213	13,169,213
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Notes to the Annual Financial Statements

	2010	2009
8. TRADE AND OTHER PAYABLES		
Trade payables	203,026	155,281
South African Revenue Service	(5,250)	19,618
Other accrued expenses	100,166	7,009
	297,942	181,908

9. LEVIES PAID IN ADVANCE

Some shareholders pay their levies in advance, the title to which, only transfers to the company on due date.

10. REVENUE

Ordinary Levies	7,942,985	6,885,289
Discounts received	860	829
Sundry Income	14,048	3,786
Rent Received	59,933	121,471
	8,017,826	7,011,375

Gross revenue comprises turnover, which excludes value-added tax and represents the invoiced value of levies due, less early settlement discounts.

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Notes to the Annual Financial Statements

	2010	2009
11. OPERATING SURPLUS / (DEFICIT)		
Operating surplus / (deficit) for the year is stated after accounting for the following:		
Depreciation on property, plant and equipment	26,033	27,702
Employee costs	851,438	791,932
Remuneration, other than to employees, for:		
Secretarial services	78,555	22,300
Replacements and Common Property Maintenance		
Expenditure incurred for the current year	2,012,257	1,396,159
Amount expensed in respect of retirement benefit plans:		
Provident fund contributions	77,633	65,375
12. INVESTMENT REVENUE		
Interest revenue		
Bank	214,557	180,266
13. FINANCE COSTS		
Other interest paid	936	661
14. TAXATION		
Levy income is exempt from tax in terms of S10(1)(e) of the Income Tax Act. Other income is taxable. No provision has been made for 2010 tax as the company has no taxable income. The estimated tax loss available for set off against future taxable income is R1 904 197 (2009 : R1 686 747).		
15. AUDITOR'S REMUNERATION		
Fees	103,000	113,500

Auditor's fees incurred for the 2010 financial year amounted to R 120 000.

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Notes to the Annual Financial Statements

	2010	2009
16. CASH GENERATED FROM (USED IN) OPERATIONS		
Surplus before taxation	459,166	1,784
Adjustments for:		
Depreciation	26,033	27,702
Interest received	(214,557)	(180,266)
Finance costs	936	661
Movement in provision for replacements	104,080	(38,427)
Changes in working capital:		
Inventories	(34,077)	(17,285)
Trade and other receivables	55,368	100,155
Trade and other payables	116,034	(303,592)
Levies paid in advance	301,504	327,597
	814,487	(81,671)

17. CONTINGENT LIABILITIES

Claim for damages :

Litigation is in the process against the company relating to a dispute with Flexi Club, which alleges that the company is liable for damages caused by the cancellation of the Use Agreement by the company and they are seeking damages of R 672,252. Due to Flexi Club being a defaulting debtor, the company sold the timeshare units to recoup outstanding levies due and payable to it. The company's lawyers and management consider the likelihood of the action against the company being successful as unlikely. In an endeavour to bring this matter to a head, the company has challenged the *locus standi* of Flexi Club and its associated clubs on the grounds that they are illegal entities and contravene the Companies Act. The companies legal advisors have estimated approximately R 450 000 would be incurred to pursue the matter further.

Guarantee for electricity services :

Guarantee with eThekweni Municipality	75,000	75,000
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18. RELATED PARTIES

Director - Mr G Wolfe
Director - Mr P M Collins
Director-Mr.D A Manthey

Partner in George Wolfe Attorneys
Indirect Interest in International Management
Partner in RL Manthey and Associates

Related party transactions

Consulting fees paid to related parties

RL Manthey and Associates	9,350	17,440
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Legal fees paid to related parties

George Wolfe Attorneys	11,350	51,650
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Notes to the Annual Financial Statements

19. DIRECTORS' EMOLUMENTS

Emoluments paid to the directors during the year were as follows:

2010	Emoluments	Total
For services as directors	17,000	17,000
For managerial and technical services	286,308	286,308
	303,308	303,308

2009	Emoluments	Total
For services as directors	18,072	18,072
For managerial and technical services	252,662	252,662
	270,734	270,734
