



Needham's Point Holdings Limited ANNUAL REPORT 2012





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Mr. Kenneth Gittens
Chairman



Mr. Shawn Franklin
Deputy Chairman



Mr. Andrew Campbell



Mr. George Bennett



Mr. Gilbert Rowe



Mr. Gregory Hazzard



**Mrs. Juanita Thorington-
Powlett**



Mr. Luther Jones



Mr. Michael Greenidge

LEGAL ADVISOR

Mr. Norman Thomas, Q.C.

CHIEF EXECUTIVE OFFICER

Mr. Henderson Williams

AUDITORS

PriceWaterhouseCoopers

BANKERS

FirstCaribbean International Bank



CHAIRMAN'S REPORT

I have the honour to present this annual report of Needham's Point Holding Ltd (NPHL) for the year 2012. During the year under review, the company recorded gross revenues of \$59,722,927 which was a decrease of approximately of \$722,389 over the previous year from the operations of the Hilton Barbados hotel.

The company recorded an Owner's Return of \$12,360,719 from the hotel's operations for the year under review, which resulted NPHL's total comprehensive income for the year of \$322,722. This was a reduction of 50% when compared to the comprehensive income of \$650,150 for the previous year. We are focusing our attention on strategies geared towards increasing revenues and profitability of the company.

To this end, the services of an independent and experienced tourism consultant was retained to undertake a study of the hotel's operations and present recommendations on new initiatives that could be implemented to increase the revenues and the profitability of the Hotel. It is expected that this study should be completed during the first quarter of the new year.

In light of the significant energy costs at the Hotel, the Board commissioned an energy audit to determine what measures could be implemented to reduce the high utility costs confronting the Hotel.

Mr. Kenneth Gittens
Chairman





REVIEW OF OPERATIONS

HOTEL OPERATIONS 2012

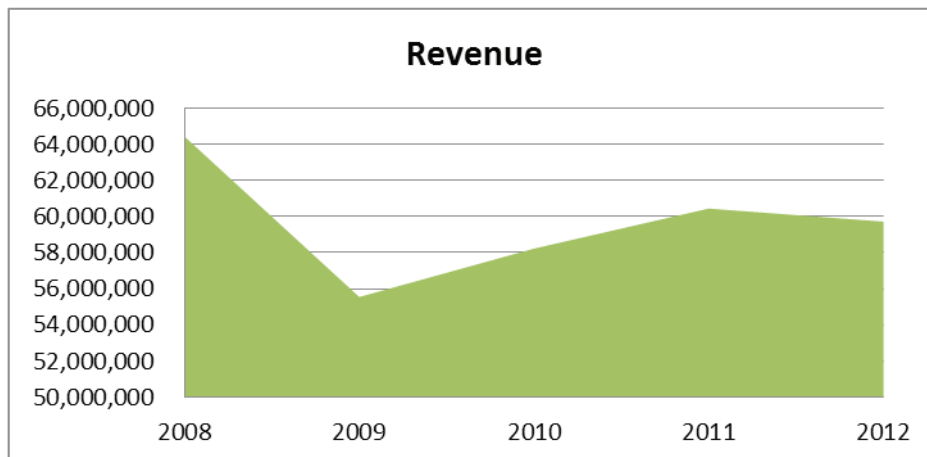
The results for the year 2012 were impacted by the continuing global economic downturn and slow growth in our source markets. Total revenues declined by \$722,389 from \$60,445,316 in 2011 to reach \$59,722,927 this year. This decline was evidenced by the fall in the occupied rooms to 70.07%, a reduction of 3.34% from the achieved rate of 73.41% in 2011. The decreases have been attributed to the decreases in airlift, visitor arrivals and expenditure into the island.

Despite the reduced occupancies, the hotel was able to improve its average daily rate (ADR) from \$430.40 in 2011 to \$439.50 this year, an improvement of \$9.10, which was achieved by yield and rate management. A major part of the strategy to improve the rate was to limit the offer of discounted rates and the adjustment of the concessions to wholesalers to yield higher rates. The comprehensive income (net profit) for the year was \$322,722, which was 50% of the

comprehensive income for the previous year, the decline being a result of the falling occupancies this year.

The Owner's Return for the year from the hotel operations was \$12,360,719 which was a decrease of \$911,458 or 6.9% from the previous year. During the year, Management and the Board of Directors continued to have discussions with the Hotel's Management regarding the exploration of all options to improve the returns to the Owner. For 2012, the sources of revenue remain unchanged with 66% of the total revenue being contributed from the sale of rooms and 31% from the food and beverage department. Revenue from room sales declined by 2.25% as a result of the decline of the overall arrivals from our major source markets and there was also shift in the business mix from the leisure and permanent segments to the group segment of 3%.

Management continued to monitor the operations of the hotel on a monthly basis through the reviewing of the Hotel's financials and meetings with the senior Management, together with quarterly meetings held by the Board and the Hotel's Management team.

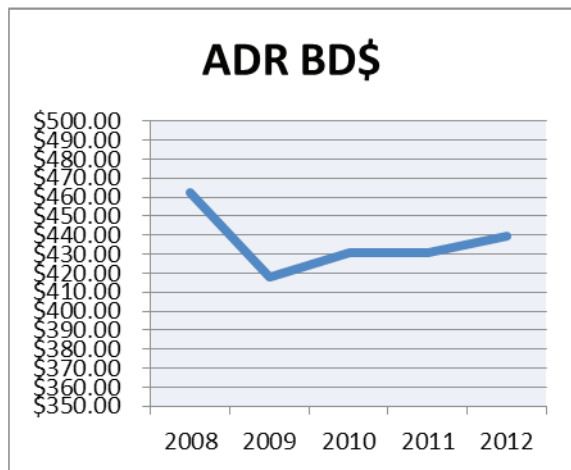


Gross Hotel revenue for the years 2008 to 2012

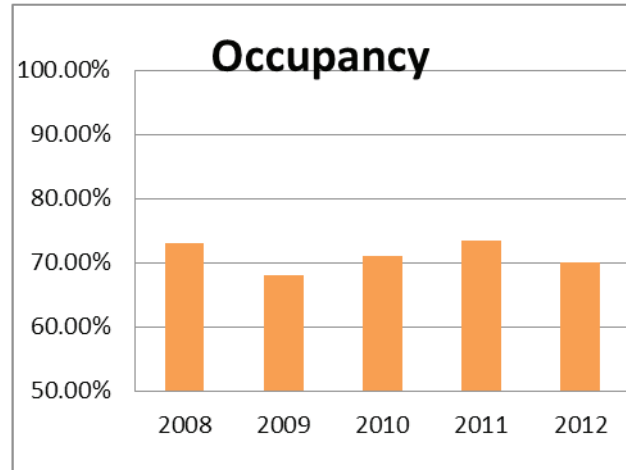


During the year, an energy audit was commissioned at the Hotel to determine what measures could be implemented to reduce the energy usage at the property and also to provide recommendations on energy saving measures in terms of energy efficiency and the identification of alternative energy options. The energy audit was completed during the latter half of the year and NPHL's Management, the Hotel's Management along with Hilton International were in the process of preparing its recommendations based on the audit.

In recognition of the need to keep the Hotel at the forefront of technology, wireless capability was extended to all of the guestrooms and this has been welcomed by the guests. In addition, there are a number of planned revenue enhancing projects in the pipeline that will further improve the standard and reputation of the hotel during the upcoming year.



Average Daily Rate (ADR) from 2008 to 2012



Occupancy percentages from 2008 to 2012

During the year under review, NPHL's staff continued its quarterly inspections of the hotel to ensure that the hotel continued to be maintained in a good state of repair, and also to highlight to the Hotel's Management any areas that required attention. The Hotel's Management has been responsive to the observations and recommendations made by the NPHL's Board and Management.

NPHL was able to reach an amicable mutual settlement with Hilton International to effectively end the dispute between both parties regarding the treatment of marketing expenses without having to proceed to arbitration.

PROJECTIONS FOR 2013

The Hotel's Management team has presented an operational budget for 2013 projecting revenue growth at the rate of 4.54%. Whilst no increase is projected in the average room rate (ADR) of \$454, occupancies are projected to increase by 3.92% to 71.6% by the end of the year. The project Owner's Return is \$13,501,939, which represents a 9.23% increase on the amount received for 2012. The Management and Directors have again expressed the view that the Hotel's Management should use all efforts to improve the revenue and Owner's Return of the Hotel to meet all the requirements of the Owner.



BOARD OF DIRECTORS

The Board held twelve (12) Board of Directors' meetings during the year.

CORPORATE INFORMATION

Mr. Henderson Williams

Mr. Nigel Hall

Mr. Bradley John

Ms. Rozanne DaSilva

– Chief Executive Officer

– Financial Controller

– Project Officer/Corporate Secretary (Ag.)

– Secretary





INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Needham's Point Holdings Limited

We have audited the accompanying financial statements of **Needham's Point Holdings Limited**, which comprise the balance sheet as of December 31, 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Needham's Point Holdings Limited** as of December 31, 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SPA

July 12, 2013
Bridgetown, Barbados

Needham's Point Holdings Limited

Balance Sheet

As of December 31, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
Assets		
Current assets		
Cash and cash equivalents (note 4)	16,266,991	16,092,311
Trade and other receivables (note 5)	7,004,736	7,137,146
Due from related party (note 16)	359,081	-
Taxation recoverable	69,292	37,074
Inventories (note 6)	715,641	809,449
Current portion of deferred transaction costs (note 9)	143,285	143,285
	<u>24,559,026</u>	<u>24,219,265</u>
Non-current assets		
Property, plant and equipment (note 7)	245,891,004	250,305,839
Long-term portion of deferred transaction costs (note 9)	1,002,994	1,146,279
	<u>271,453,024</u>	<u>275,671,383</u>
Liabilities and Equity		
Current liabilities		
Trade and other payables (note 8)	9,531,377	8,547,058
Accrued interest (note 9)	3,721,830	3,602,716
Due to related parties (note 16)	588,222	1,241,461
Borrowings (note 9)	9,023,688	9,023,688
	<u>22,865,117</u>	<u>22,414,923</u>
Non-current liabilities		
Borrowings (note 9)	120,870,415	125,361,690
Deferred development grant (note 10)	916,667	1,416,667
	<u>121,787,082</u>	<u>126,778,357</u>
Total liabilities	<u>144,652,199</u>	<u>149,193,280</u>
Equity		
Share capital (note 11)	98,682,283	98,682,283
Revaluation surplus (note 7)	69,824,597	69,824,597
Accumulated deficit	(41,706,055)	(42,028,777)
	<u>126,800,825</u>	<u>126,478,103</u>
Total liabilities and equity	<u>271,453,024</u>	<u>275,671,383</u>

Approved by the Board of Directors on July 10, 2013



Director



Director

Needham's Point Holdings Limited

Statement of Changes in Equity

For the year ended December 31, 2012

(expressed in Barbados dollars)

	Share capital \$	Revaluation surplus \$	Accumulated deficit \$	Total \$
Balance - December 31, 2010	98,682,283	69,824,597	(42,678,927)	125,827,953
Net profit and total comprehensive profit for the year	—	—	650,150	650,150
Balance - December 31, 2011	98,682,283	69,824,597	(42,028,777)	126,478,103
Net profit and total comprehensive profit for the year	—	—	322,722	322,722
Balance - December 31, 2012	98,682,283	69,824,597	(41,706,055)	126,800,825

Needham's Point Holdings Limited

Statement of Comprehensive Income

For the year ended December 31, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
Income		
Sales and room revenue	59,722,927	60,445,316
Cost of sales (note 15a)	<u>(5,786,799)</u>	<u>(5,823,768)</u>
Gross profit	53,936,128	54,621,548
Direct expenses (note 15b)	<u>(17,899,189)</u>	<u>(18,073,450)</u>
Departmental profit	36,036,939	36,548,098
Other income		
Amortisation of deferred development grant (note 10)	500,000	500,000
Interest income (note 4)	<u>272,618</u>	<u>296,690</u>
	<u>36,809,557</u>	<u>37,344,788</u>
Expenses		
Marketing and administrative expenses (note 15c)	<u>24,041,367</u>	<u>23,568,679</u>
Income before finance and fixed charges	<u>12,768,190</u>	<u>13,776,109</u>
Finance and fixed charges		
Interest and bank charges (note 9)	7,248,845	7,662,906
Depreciation (note 7)	5,164,616	5,198,305
Foreign exchange loss	26,888	258,336
Loss on disposal of plant and equipment	<u>5,119</u>	<u>6,412</u>
	<u>12,445,468</u>	<u>13,125,959</u>
Total comprehensive income for the year	<u>322,722</u>	<u>650,150</u>

Needham's Point Holdings Limited

Statement of Cash Flows

For the year ended December 31, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
Cash flows from operating activities		
Net profit for the year	322,722	650,150
Adjustment for:		
Interest income	(272,618)	(296,690)
Depreciation	5,164,616	5,198,305
Deferred revenue amortised	(500,000)	(500,000)
Finance costs	7,248,845	7,662,906
Loss on disposal of plant and equipment	5,119	6,412
Operating profit before working capital changes	11,968,684	12,721,083
Decrease/(increase) in trade and other receivables	132,410	(2,144,227)
Increase in due from related parties	(359,081)	-
Decrease/(increase) in inventories	93,808	(180,471)
Increase in trade and other payables	984,319	2,347,891
(Decrease)/increase in due to related parties	(700,749)	167,717
Cash generated from operations	12,119,391	12,911,993
Interest paid	(7,129,731)	(6,957,377)
Net cash generated from operating activities	4,989,660	5,954,616
Cash flows from investing activities		
Purchase of property, plant and equipment	(754,900)	(659,852)
Interest received	287,910	281,398
Net cash used in investing activities	(466,990)	(378,454)
Cash flows from financing activities		
Repayment of borrowings	(4,491,275)	(60,984,557)
Receipts from bond issue	-	80,000,000
Bond transaction costs expensed/(deferred)	143,285	(1,289,564)
Net cash (used in)/from financing activities	(4,347,990)	17,725,879
Increase in cash and cash equivalents for the year	174,680	23,302,041
Cash and cash equivalents - beginning of year	16,092,311	(7,209,730)
Cash and cash equivalents - end of year	16,266,991	16,092,311
Cash and cash equivalents comprise:		
Cash at bank	16,266,991	16,092,311

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

1 Incorporation , principal activity and management

The Company was incorporated under the Companies Act of Barbados on January 13, 1999 and commenced operations on November 27, 2000. The major shareholder is the Government of Barbados. The principal activity of the company is the ownership and operation of the Hilton Barbados as a resort/corporate hotel aimed at the higher end of the executive and incentive market.

The registered office of the company is located at the Old Town Hall Building, Bridgetown.

The Company and Hilton International have entered into a formal management agreement for management of the Hotel. The initial operating term of management is for 20 years. The annual management fee charged by Hilton International Co. is calculated at 3% of revenue plus 10% of the adjusted net operating profit.

2 Significant accounting policies

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and have been prepared under the historical cost convention except as modified for the revaluation of land and buildings as disclosed in note 7.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates.

b) Changes in accounting policy and disclosures

i) *New and amended standards adopted by the Company*

There are no IFRSs or IFRIC interpretations that are effective for the first time beginning on January 1, 2012 that have had a material impact on the Company.

ii) *New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012 and not early adopted*

Management has reviewed the new standards, amendments and interpretations to existing standards that are not yet effective and have determined that the following are relevant to the Company's operations. The Company has not early adopted the new standards, amendments and interpretations.

IAS 19 (amendment)	'Employee benefits' (effective January 1, 2013)
IFRS 9	'Financial instruments' (effective January 1, 2013)
IFRS 13	'Fair value measurement' (effective January 1, 2013)
IFRS 7 (amendment)	'Financial instruments: Disclosures', on asset and liability offsetting (effective January 1, 2013)
IFRS 11	'Joint arrangements' (effective January 1, 2013)

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

2 Significant accounting policies ...continued

b) Changes in accounting policy and disclosures ...continued

ii) *New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012 and not early adopted ...continued*

IAS 17	'Separate financial statements' (effective January 1, 2013)
IAS 28	'Associates and joint ventures' (effective January 1, 2013)
IAS 32 (amendment)	'Financial instruments: Presentation', on asset and liability offsetting (effective January 1, 2014)
IFRS 9	'Financial instruments' (effective January 1, 2015)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

iii) *New standards, amendments and interpretations issued but not effective for the financial year and not early adopted*

Management has reviewed the new standards, amendments and interpretations to existing standards that are not yet effective and have determined that the following are relevant to the company's operations. The company has not early adopted the new standards, amendments and interpretations.

IAS 24 (revised)	Related Party disclosures, (effective on or after January 1, 2011)
IAS 32 (amendment)	Financial Instruments: Recognition and Measurement
IFRS 9	Financial Instruments (effective on or after January 1, 2013)

c) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term deposits with maturity periods from the date of acquisition of less than three months.

d) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets

The Company classifies its financial assets in the following categories: cash on hand and at bank, trade and other receivables and due from related parties. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial liabilities

The Company's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At the balance sheet date, the following items were classified as financial liabilities: bank overdraft, borrowings, trade accounts payable and due to related parties.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

2 Significant accounting policies ...continued

e) Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

f) Related party balances and transactions

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

g) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on a first-in, first-out (FIFO) basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

h) Property, plant and equipment

Land is stated at the most recent valuation by the land tax department. All other property, plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates used are as follows:

Buildings	2%
Furniture, fittings, plant and equipment	10% - 33⅓%
Computer equipment	33⅓%
Other operating assets	33⅓%

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against the surplus directly in equity; all other decreases are charged to the statement of income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income. When revalued assets are sold, the amounts included in revaluation surplus are transferred to accumulated deficit.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

2 Significant accounting policies ...continued

i) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of an impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the Statement of Comprehensive Income.

j) Payables and provisions

Payables are stated at cost. Provisions are recognised when the company has a present legal or constructive obligation as a result of past/current events to record such expense. This is based on estimates and assumptions about the Asset or Liability that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. The actual results may differ from the estimates. Revisions to accounting estimates are recognized when the Asset/Liability is actualized and the cost is adjusted in the following period.

k) Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income account over the period of the borrowings.

l) Revenue recognition

Hotel revenue is recognised on the delivery of services and is recorded net of Value Added Tax.

m) Foreign currency translation

i) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Barbados dollars, which is the Company's functional and presentation currency.

ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

2 Significant accounting policies ...continued

n) Taxation

Taxation expense in the statement of comprehensive income comprises current and deferred tax charges.

Current tax charges are based on taxable income for the year, which differ from the income before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

The company follows the liability method of accounting for deferred tax.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised.

o) Employee benefits

Post-employment benefits

The Company has a defined contributory retirement plan where employees' participation is voluntary. A maximum of 6% is permitted but only 2.5% contribution is matched by the Company. Enrolment can start after the probationary period. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Short-term benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the company to its employees include salaries and wages, social security contributions, short-term compensated absences, 10% of rooms and food and beverage sales, incentive plans and allowances, meals and uniforms for all team members in the guest service department.

Health benefits (Life, Medical, Dental and Vision) are likewise available to all team members with a 50/50 split between team members and the Company. Coverage is available for families at the team member's expense. For management team members, the Company covers 100% of the cost.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

2 Significant accounting policies ...continued

p) Critical accounting estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The key area of judgement exercised by management in the preparation of these financial statements is in the review of the carrying value of the Company's assets to determine whether there is any indication of impairment.

q) Compound financial instruments

Compound financial instruments issued by the group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

3 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company has not entered into forward contracts to reduce its risk exposures.

Risk management is carried out by the Company under policies approved by the Board of Directors. The Company identifies, evaluates and hedges financial risks where considered appropriate. The Board provides guidance for overall risk management.

i) Market risk

a) Foreign exchange risk

The Company's transactions in foreign currencies are mainly contracts with tour operators for room rates and long-term borrowings. These transactions are denominated mainly in United States dollars. Since there is a fixed exchange rate between the Barbados dollar and the United States dollar there is no significant exposure to foreign exchange risk.

b) Interest rate risk

The Company's interest rate risk arises from long-term borrowings negotiated for the construction of the hotel and working capital.

ii) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents including outstanding receivables and committed transactions. Customers are rated internally and individually primarily on industry trends and past experience with each customer. Individual risk limits are based on the assessment of the Company's General Manager and Director of Finance.

Credit quality of financial assets

The credit quality of hotel accounts receivables is assessed in the table shown below:

	2012	2011
	\$	\$
Guest ledger	1,477,988	1,705,062
Existing customers (less than 6 months) with no default in the last 12 months	2,586,082	3,032,507
Existing customers (more than 6 months) with no default in the last 12 months	164,546	433,005
Existing customers (more than 6 months) with some default in the last 12 months	—	2,651
Total trade receivables	4,228,616	5,173,225

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

3 Financial risk management ...continued

iii) Liquidity risk

In order to manage liquidity risks, management seeks to maintain levels of cash which are sufficient to meet reasonable expectations of its short-term obligations.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year \$	Greater than 1 year \$	Total \$
As at December 31, 2012			
Trade and other payables	9,531,377	–	9,531,377
Accrued interest	3,721,830	–	3,721,830
Due to related parties	588,222	–	588,222
Borrowings	10,917,782	175,902,934	186,820,716
	<u>24,759,211</u>	<u>175,902,934</u>	<u>200,662,145</u>

As at December 31, 2011

Trade and other payables	8,547,058	–	8,547,058
Accrued interest	3,602,716	–	3,602,716
Due to related party	1,241,461	–	1,241,461
Borrowings	13,173,951	160,900,961	174,074,912
	<u>26,565,186</u>	<u>160,900,961</u>	<u>187,466,147</u>

The average credit period on purchases of certain goods from suppliers is 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged at 10% per annum on the outstanding balance. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

3 Financial risk management ...continued

iv) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

v) Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are not considered to be materially different from their carrying amounts, except for the convertible bond disclosed in note 9.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. All non-financial instruments such as prepayments and corporation tax payable are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the company.

4 Cash and cash equivalents

Interest earned on the operating account is calculated at 2.5% per annum. Interest earned on the property, plant and equipment account is calculated at 1.5% per annum.

	2012	2011
	\$	\$
CIBC FirstCaribbean International Bank - operating account BBD	4,446,558	2,218,697
CIBC FirstCaribbean International Bank - property, plant and equipment account	5,058,428	3,752,518
CIBC FirstCaribbean International Bank - operating account USD	1,819,949	700,074
Cashiers and other cash	163,344	177,745
CIBC FirstCaribbean International Bank - fixed deposit	4,778,712	4,690,147
Royal Fidelity Merchant Bank & Trust Barbados Ltd. - Certificate of Deposit	-	4,553,130
	<hr/>	<hr/>
	16,266,991	16,092,311

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

5 Trade and other receivables

	2012 \$	2011 \$
Trade receivables:		
Guest ledger	1,477,988	1,705,062
City ledger	2,489,349	3,496,085
	<hr/>	<hr/>
	3,967,337	5,201,147
Other receivables	1,985,232	973,829
Prepayments	1,106,169	1,120,938
	<hr/>	<hr/>
	7,058,738	7,295,914
Less: Provision for doubtful accounts	(54,002)	(158,768)
	<hr/>	<hr/>
	7,004,736	7,137,146
	<hr/>	<hr/>

6 Inventories

	2012 \$	2011 \$
Food	133,670	200,870
Beverage	231,012	244,930
Other operating inventories	350,959	363,649
	<hr/>	<hr/>
	715,641	809,449
	<hr/>	<hr/>

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

7 Property, plant and equipment

	Land \$	Buildings \$	Furniture, fittings, plant and equipment \$	Other operating assets \$	Computer equipment \$	Total \$
Year ended December 31, 2011						
Opening net book amount	88,200,000	159,455,789	6,931,724	—	263,191	254,850,704
Additions	—	—	643,408	—	16,444	659,852
Disposals	—	—	(17,472)	—	(8,070)	(25,542)
Accumulated depreciation on disposals	—	—	11,060	—	8,070	19,130
Depreciation charge	—	(3,589,999)	(1,423,975)	—	(184,331)	(5,198,305)
Closing net book amount	88,200,000	155,865,790	6,144,745	—	95,304	250,305,839
At December 31, 2011						
Cost or valuation	88,200,000	179,578,123	19,305,605	4,440,114	2,003,780	293,527,622
Accumulated depreciation	—	(23,712,333)	(13,160,860)	(4,440,114)	(1,908,476)	(43,221,783)
Net book amount	88,200,000	155,865,790	6,144,745	—	95,304	250,305,839



Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

7 Property, plant and equipment ...continued

	Land \$	Buildings \$	Furniture, fittings, plant and equipment \$	Other operating assets \$	Computer equipment \$	Total \$
Year ended December 31, 2012						
Opening net book amount	88,200,000	155,865,790	6,144,745	—	95,304	250,305,839
Additions	—	—	603,546	—	151,354	754,900
Disposals	—	—	(5,560)	—	—	(5,560)
Accumulated depreciation on disposals	—	—	441	—	—	441
Depreciation charge	—	(3,589,999)	(1,522,507)	—	(52,110)	(5,164,616)
Closing net book amount	88,200,000	152,275,791	5,220,665	—	194,548	245,891,004
At December 31, 2012						
Cost or valuation	88,200,000	179,578,123	19,903,591	4,440,114	2,155,134	294,276,962
Accumulated depreciation	—	(27,302,332)	(14,682,926)	(4,440,114)	(1,960,586)	(48,385,958)
Net book amount	88,200,000	152,275,791	5,220,665	—	194,548	245,891,004

During 2009 the land was revalued to fair value based on land tax valuations. The increase of \$69,824,597 was taken to the revaluation surplus.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

8 Trade and other payables

	2012 \$	2011 \$
Trade payables	3,061,951	3,519,313
Accrued expenses	3,992,579	3,848,641
Advance deposits	2,476,847	1,179,104
	<u>9,531,377</u>	<u>8,547,058</u>

9 Borrowings

i) Short term borrowing/related party transactions

	2012 \$	2011 \$
Interest bearing Advance by Government	4,666,881	4,666,881
Current portion of long term borrowings	4,356,807	4,356,807
	<u>9,023,688</u>	<u>9,023,688</u>

The short-term interest-bearing advance made by the Government of Barbados to enable the company to meet its contractual obligation, bears interest at a rate of 2.5% per annum. Interest expense incurred for the year amounted to \$139,952 (2011 - \$135,787). At year end accrued interest of \$961,784 (2011 - \$833,970) was recorded.

ii) Long term borrowings

	2012 \$	2011 \$
a) CIBC FirstCaribbean International Bank	40,831,667	44,749,608
b) National Insurance Board	4,395,555	4,968,889
c) Royal Fidelity	80,000,000	80,000,000
	<u>125,227,222</u>	<u>129,718,497</u>
Less: current portion	(4,356,807)	(4,356,807)
	<u>120,870,415</u>	<u>125,361,690</u>

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

9 Borrowings ...continued

ii) Long term borrowing ...continued

- a) The loan balance of \$40,831,667 (2011 - \$44,749,608) represents the remaining portion of all of the drawdown on the syndicated \$61,000,000 (US\$30,500,000) senior loan from CIBC First Caribbean International Bank for the construction of the new Hilton Barbados. The loan bears interest at 3 month LIBOR plus 2.25% per annum payable quarterly. At December 31, 2011, this equated to 2.6875% (2011 - 2.702%). The loan is amortized on a 15 year schedule and repayable in equal quarterly payments commencing 35 months after the initial drawdown with a balloon payment to effect full repayment in 10 years. It is secured by a charge over the 65,031 square metres of land at Needham's Point along with the pledge of 32,417,648 common shares of the Head Office held by Needham's Point Development Inc. At year end accrued interest of \$141,416 (2011 - \$150,116) was recorded.

The loan is secured by the insurance policy for property at Needham's Point for the sum of \$153,520,000.

- A letter of comfort from the Ministry of Finance, Economic Affairs and Energy in respect of a \$4,500,000 overdraft facility.
 - Certificate of charge for the sum of BS\$1,000,000 and US\$15,500,000.
- b) The loan balance of \$4,395,555 (2011 - \$4,968,889) represents the facility with the National Insurance Board. The loan bears interest at the rate of 6.5% per annum on the principal and is repayable in one hundred and eighty equal and consecutive monthly instalments commencing from the disbursement of the loan.

The loan is secured by certain parcels of land at Needham's Point.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

9 Borrowings ...continued

ii) Long term borrowing ...continued

- c) On January 7, 2011 the Company entered into an arrangement with Royal Fidelity Merchant Bank & Trust (Barbados) Limited (“The Trustee”) to raise the aggregate sum of Bds\$80,000,000 by the issue and sale of Barbados currency Convertible Fixed Rate Guaranteed Bonds of one series 2011-2021 (“The Bonds”). In consideration of the agreement to procure subscribers for the Bonds and to act as agent of the company in relation to the issue of the Bonds, the company has agreed to pay the Trustee a commission of 1% of the aggregate principal amount of the Bonds plus VAT.

The Bonds are initially issued in registered transferable denominated amounts of Bds\$250,000 with all subsequent issues to a Bondholder in denominations of Bds\$50,000. The Bonds accrue interest at 6.75% paid semi-annually on July 7 and January 7 and mature 10 years from the date of issue at their nominal value of Bds\$80,000,000 or converted into shares at the option of the Bondholder on the following dates and prices:

Exercise date	Conversion prices
September 1, 2013	Bds\$1.00
September 1, 2014	Bds\$1.02
September 1, 2015	Bds\$1.05
September 1, 2016	Bds\$1.15
September 1, 2017	Bds\$1.20

Based on the convertible option, the Bonds represent a compound financial instrument with a liability component and an equity conversion component. The fair value of the liability component included in non-current borrowings is calculated using a market interest rate for an equivalent non-convertible bond. The difference between the fair market value of the convertible bond and the non-convertible bond represents the equity portion of the financial instrument.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

9 Borrowings ...continued

iii) Long term borrowing ...continued

The fair value of the Convertible Fixed Rate Guaranteed Bonds was \$73,048,842 (2011 - \$80,000,000) at the end of the year.

	2012 \$	2011 \$
Interest payable b/fwd	2,618,630	-
Interest expense	5,415,435	3,762,020
Interest paid	<u>(5,415,435)</u>	<u>(1,143,390)</u>
Interest payable c/fwd	<u>2,618,630</u>	<u>2,618,630</u>

Transaction costs incurred on issuing the bond are amortized over the ten (10) year life of the bond.

	2012 \$	2011 \$
Deferred transaction costs		
Bond issue fees incurred	1,432,849	1,432,849
Amortisation of deferred transaction costs	<u>(286,570)</u>	<u>(143,285)</u>
	1,146,279	1,289,564
Less current portion	<u>(143,285)</u>	<u>(143,285)</u>
	<u>1,002,994</u>	<u>1,146,279</u>

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

10 Deferred development grant

	2012 \$	2011 \$
Hilton International	5,000,000	5,000,000
Less amortisation	<u>(4,083,333)</u>	<u>(3,583,333)</u>
	<u>916,667</u>	<u>1,416,667</u>

Hilton International agreed to advance Needham's Point Holdings Limited an amount of \$5,000,000. The funds were disbursed for the final payment of furnishings and equipment.

The money is repayable in full in the event that the management agreement is terminated prior to commencement of the operating term. In the event that termination occurs after commencement of the Operating Term, through no fault of Hilton's, Needham's Point Holdings Limited shall repay to Hilton International a proportion based on the period from termination of the management agreement until the end of the initial operating term divided by twenty (20) full calendar years. (Note 17)

Amortisation is calculated on a straight line basis at the rate of depreciation for furnishings and equipment:

	2012 \$	2011 \$
Charge for the year	<u>500,000</u>	<u>500,000</u>

11 Share capital

The Company is authorized to issue an unlimited number of common shares without nominal or par value. At December 31, 2012 and 2011, 98,682,283 shares had been issued and outstanding.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

12 Taxation

The tax on the company's net loss for the year differs from the theoretical amount that would arise using the statutory rate as follows:

	2012 \$	2011 \$
Net income for the year	<u>322,722</u>	650,150
Tax calculated at statutory rate of 25%	80,681	162,538
Decrease in deferred tax asset not recorded	(533,194)	(798,460)
Market development allowance	(186,515)	(145,827)
Loan interest allowance	(133,472)	(136,583)
Income not subject to tax	(125,000)	(125,000)
Expenses not deductible for tax	<u>897,500</u>	1,043,332
Tax charge for the year	<u>—</u>	—

At year end the company has a deferred tax asset which has not been recognised due to the uncertainty of future taxable income against which the deferred tax asset can be utilised. The deferred tax asset consists of the following components:

	2012 \$	2011 \$
Delayed tax depreciation	7,523,927	8,214,741
Unutilised tax losses (note 13)	19,301,748	20,638,941
Bad debt provision	54,002	158,768
Qualifying capital expenditure under the Tourism Development Act (note 14)	<u>166,343,400</u>	166,343,400
	<u>193,223,077</u>	195,355,850
Deferred tax asset at corporation tax rate of 25%	<u>48,305,769</u>	48,838,963

The delayed tax depreciation has no expiry date. The expiry dates of the unutilised tax losses and the Tourism Development expenditure are disclosed in notes 13 and 14.

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

13 Tax losses

Tax losses are available for set off against future taxable income within nine years from the date incurred. The tax losses are as follows:

Year	Balance b/fwd \$	Utilised \$	Balance c/fwd \$	Expiry date
2005	8,513,085	(1,337,193)	7,175,892	2014
2006	11,333,281	—	11,333,281	2015
2007	342,819	—	342,819	2016
2008	449,756	—	449,756	2017
	<u>20,638,941</u>	<u>(1,337,193)</u>	<u>19,301,748</u>	

The losses are as computed by the company in its corporation tax return and have as yet neither been confirmed nor disputed by the Commissioner of Inland Revenue.

14 Tourism Development Act relief

The company is an approved hotel under the Tourism Development Act and as such it is entitled to set-off the cost of certain qualifying capital expenditure incurred on buildings and amenities against taxable income for the next fifteen years from the date of such expenditure. The amount available for set-off is as follows:

Income year	Tourism Development Act relief \$	Expiry date
2000	16,433,291	2014
2001	6,276,711	2015
2002	35,131,641	2016
2003	63,074,974	2017
2004	45,222,337	2018
2008	<u>204,446</u>	2022
	<u>166,343,400</u>	

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

15 Expenses by nature

a) Cost of sales

	2012 \$	2011 \$
Food	4,334,146	4,360,028
Beverage	1,113,538	1,156,364
Telecom and leisure	339,115	307,376
	<u>5,786,799</u>	<u>5,823,768</u>

b) Direct expenses

	2012 \$	2011 \$
Salaries and other staff costs	11,807,639	11,445,415
Cleaning and laundry	2,657,491	2,514,788
Supplies including executive lounge	1,602,245	1,667,809
Other expenses	529,888	852,953
Music and entertainment	528,069	769,967
Commissions	663,503	724,458
Telephone and fax	110,354	98,060
	<u>17,899,189</u>	<u>18,073,450</u>

c) Marketing and administrative expenses

	2012 \$	2011 \$
Wages and salaries	6,272,926	6,461,336
Utilities	5,228,153	5,134,679
Management fees (note 16)	3,199,255	3,253,970
Property and maintenance	1,846,254	1,887,428
Selling and marketing	899,241	1,016,427
Miscellaneous expenses	1,839,206	1,340,636
Insurance	1,811,133	1,720,990
Credit card expenses	1,037,017	1,073,161
Land tax	511,614	571,339
Arbitration costs	184,898	85,000
Professional fees	99,548	77,055
Bad debts written off	248,846	176,187
Security	429,881	422,906
IT costs	407,480	322,562
Travel	25,915	25,003
	<u>24,041,367</u>	<u>23,568,679</u>

Needham's Point Holdings Limited

Notes to Financial Statements

December 31, 2012

(expressed in Barbados dollars)

16 Related party transactions

i) Management fees

The management fee is paid to Hilton International and is charged at the following rates:

Basic fee - 3% of revenue

Incentive fee - 10% of adjusted net operating profit

The adjusted net operating profit is calculated as the net income for the year after deducting the basic management fee.

ii) Due from/(to) related parties

	2012	2011
	\$	\$
Due from related parties		
Needham's Point Development Inc.	4,226	—
Hilton International - Watford	354,855	—
	<u>359,081</u>	<u>—</u>
Due to related parties		
Hilton International Miami	316,480	538,113
Hilton International (Barbados) Ltd.	271,742	481,705
Needham's Point Development Inc.	—	221,643
	<u>588,222</u>	<u>1,241,461</u>

17 Contingent liability

Per the Amending Agreement dated November 10, 2003 between the company and Hilton International Co., the company received US\$5,000,000 noted as Key Money to be used US\$2,500,000 for the purchase of fixed assets and US\$2,500,000 for pre-opening expenses. In the event that the operation agreement between Hilton International and Needham's Point Holdings is terminated before 20 full calendar years through no fault of Hilton International, then Needham's Point Holdings shall repay to Hilton a proportion of the Key Money based on the unexpired portion of the 20 years.

18 Comparative figures

Certain prior year figures have been reclassified to conform with the current year's financial statement presentation.







