

**St. Kitts & Nevis Sugar Industry
Diversification Foundation**

Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

Independent Auditors' Report

To the Board of Councillors of
St. Kitts & Nevis Sugar Industry Diversification Foundation

We have audited the accompanying financial statements of St. Kitts & Nevis Sugar Industry Diversification Foundation, which comprise the balance sheet as of December 31, 2008 and the statement of income and expenditure, statement of accumulated fund 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 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 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 auditors' judgement, 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 auditors consider 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.

Opinion

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Kitts & Nevis Sugar Industry Diversification Foundation as of December 31, 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
February 12, 2010
Basseterre, St. Kitts

St. Kitts & Nevis Sugar Industry Diversification Foundation

Balance Sheet


As of December 31, 2008


(expressed in Eastern Caribbean dollars)

	2008 \$	2007 \$
Assets		
Current assets		
Cash (note 4)	30,189,651	17,558,862
Accounts receivable (note 5)	5,771,565	48,500
Loan receivable (note 6)	4,032,300	-
Total assets	39,993,516	17,607,362
Liabilities and Accumulated Fund		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	1,599,638	3,329,152
Accumulated fund	38,393,878	14,278,210
Total liabilities and accumulated fund	39,993,516	17,607,362

The accompanying notes on pages 1 to 7 are an integral part of these financial statements.

Approved by the Board of Councillors on February 12, 2010


Chairman


Councillor

St. Kitts & Nevis Sugar Industry Diversification Foundation

Statement of Income and Expenditure

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	For the period December 13 to December 31, 2007 \$
Income		
Contributions	36,043,386	19,274,397
Interest income	122,846	353
	<hr/>	<hr/>
	36,166,232	19,274,750
Expenditure		
Processing fees	4,643,365	2,688,200
Marketing fees	3,064,548	1,666,684
Project donations	1,750,000	–
Agricultural training programme (ATEP)	974,784	–
Due diligence fees	795,335	637,103
Agricultural resource management- Land reclamation	341,478	–
Management fees	222,750	–
Councillors fees	114,500	–
Consulting fees	81,000	–
Courier services	43,919	–
Professional fees	13,785	3,850
General expenses	3,263	–
Finance charges	1,136	703
Office expenses	701	–
	<hr/>	<hr/>
	12,050,564	4,996,540
Surplus for the year/period	<hr/>	<hr/>
	24,115,668	14,278,210

The accompanying notes on pages 1 to 7 are an integral part of these financial statements.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Statement of Accumulated Fund

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	Accumulated Fund \$
Balance at September 15, 2006	–
Surplus for the period	<u>14,278,210</u>
Balance at December 31, 2007	14,278,210
Surplus for the year	<u>24,115,668</u>
Balance at December 31, 2008	<u>38,393,878</u>

The accompanying notes on pages 1 to 7 are an integral part of these financial statements.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Statement of Cash Flows

For the year ended December 31, 2008

(expressed in Eastern Caribbean dollars)

	2008 \$	For the Period December 13 to December 31, 2007 \$
Cash flows from operating activities		
Surplus for the year	24,115,668	14,278,210
Increase in accounts receivable	(5,723,065)	(48,500)
Increase in loan receivable	(4,032,300)	-
(Decrease)/increase in accounts payable and accrued liabilities	(1,729,514)	3,329,152
Net cash generated by operating activities	<u>12,630,789</u>	<u>17,558,862</u>
Increase in cash	12,630,789	17,558,862
Cash - beginning of period	<u>17,558,862</u>	-
Cash - end of period	<u>30,189,651</u>	<u>17,558,862</u>

The accompanying notes on pages 1 to 7 are an integral part of these financial statements.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

1 Establishment of the Foundation

The St. Kitts & Nevis Sugar Industry Diversification Foundation (the "Foundation") was established on September 15, 2006, pursuant to section 4 of the Foundation's Act 2003 of the Federation of Saint Christopher and Nevis, and commenced operations on December 13, 2007.

The purpose of the Foundation is to research into the development of other industries to replace the sugar industry; to fund the development of these industries and to fund ongoing research and development to ensure the sustainability of these alternative industries.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

a) Basis of preparation

The financial statements of the St. Kitts & Nevis Sugar Industry Diversification Foundation have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

Interpretations to published standards effective in the financial year 2008

IFRC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Foundation's financial statements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Foundation's financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Foundation

The following standards and amendments to existing standards have been published and are mandatory for the Foundation's accounting periods beginning on or after 1 January 2009 or later periods, but the Foundation has not early adopted them:

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009);
IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009);

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

a) Basis of preparation ... continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Foundation...continued

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009);

IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009);

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009);

IAS 32 (Amendment), 'Financial Instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009);

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009);

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009);

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009); and

IFRS 1 (Amendment), 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009);

IFRS 2 (Amendment), 'Share-based payments' (effective from 1 January 2009).

b) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks, and other short term highly liquid investments with maturities at acquisition of three months or less, net of any bank overdraft.

c) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Foundation will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

d) Revenue recognition

Contributions

The Foundation has been designated a special approved project for the purposes of the Government of St. Kitts and Nevis Citizenship by Investment Programme. Accordingly, persons making contributions at prescribed levels to the Foundation are eligible to apply for citizenship by investment. Contributions are recognised as income when applicants are approved for citizenship by the Government.

Interest income

Interest income is recognised in the statement of income and expenditure for all interest bearing instruments on an accruals basis using the effective yield method based on actual purchase price. Interest income includes income earned on cash and cash equivalents and term deposits.

e) Taxation

In accordance with section 64 of the Foundation's Act 2003, the St. Kitts & Nevis Sugar Industry Diversification Foundation is not subject for assessment or liable to any tax in the Federation.

f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Foundation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Eastern Caribbean dollars, which is the Foundation's presentation and functional 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. Monetary assets and liabilities denominated in currencies other than the functional currency are reported at the exchange rates prevailing at the period end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the statement of income and expenditure.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

3 Financial risk management

The Foundation's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. Management seeks to minimise potential adverse effects on the financial performance of the Foundation by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Councillors.

Foreign exchange risk

The Foundation is exposed to foreign exchange risk arising from various currency exposures. Such transactions are primarily in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.70 = US\$1.00 since July 1976. The Board does not believe significant foreign exchange rate risk exists at December 31, 2008.

Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Foundation. The amount of the Foundation's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. The Foundation's financial assets which potentially expose the Foundation to concentrations of credit risk consist primarily of their receivables. The Board does not believe that significant credit risk exists as of December 31, 2008.

As at December 31, 2008 none of the Foundation's receivables are considered past-due or impaired.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability of funding through an adequate amount of committed credit facilities. The Board does not believe that significant liquidity risk exists as of December 31, 2008.

The table below analyses the Foundation's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	1 year \$	1 to 5 years \$	Over 5 years \$	Total \$
As at December 31, 2008				
Accounts payable and accrued liabilities	1,599,638	—	—	1,599,638
As at December 31, 2007				
Accounts payable and accrued liabilities	3,329,152	—	—	3,329,152

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

Fair value of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. With the exception of cash, none of the Foundation's financial assets and liabilities are traded in a formal market. Estimated fair values are assumed to approximate their carrying values.

4 Cash

	2008	For the period December 13 to December 31, 2007
	\$	\$
Cash at bank	30,189,651	17,558,862

Cash is held in bank accounts at the St. Kitts-Nevis-Anguilla National Bank and The Bank of Nova Scotia, and earns interest at rates ranging from 0% - 2% per annum (2007: 0% - 2%).

5 Accounts receivable

	2008	For the period December 13 to December 31, 2007
	\$	\$
Due from Government	5,771,565	48,500

The amount due from Government is interest-free and has no fixed terms of repayment.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

December 31, 2008

(expressed in Eastern Caribbean dollars)

6 Loan receivable

	2008	For the period December 13 to December 31, 2007
	\$	\$
Loan due from Government	<u>4,032,300</u>	–

The loan receivable from Government earns interest at 4% per annum (2007- \$Nil) and is repayable over 12 months commencing December 31, 2008. The loan is secured by the assignment of funds to be received from the insurance claim for a fire at Needmust Power Station during the year.

7 Accounts payable and accrued liabilities

	2008	For the period December 13 to December 31, 2007
	\$	\$
Due to Government		
Citizenship Processing Unit - Processing	1,451,628	2,688,200
Financial Services Department - Due diligence	132,300	637,102
Professional fees	13,500	3,850
Federal Holding Ltd	2,210	–
	<u>1,599,638</u>	<u>3,329,152</u>

8 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of business transactions are entered into statutory bodies and other government entities in the normal course of business.

St. Kitts & Nevis Sugar Industry Diversification Foundation

Notes to Financial Statements

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(expressed in Eastern Caribbean dollars)

8 Related party transactions...continued

Included in accounts payable and accrued liabilities is the following amount due to Government:

	2008	2007
	\$	\$
Central Government Departments	<u>1,583,928</u>	<u>3,325,302</u>

Included in accounts receivable is the following amount due from Government:

	2008	2007
	\$	\$
Central Government Departments	<u>5,771,565</u>	<u>48,500</u>

Included in cash is the following amount held with a Government controlled entity:

	2008	2007
	\$	\$
St. Kitts-Nevis-Anguilla National Bank Limited	<u>30,188,727</u>	<u>17,558,862</u>

Included in expenditure are the following transactions with related parties:

	2008	2007
	\$	\$
Expenditure		
Citizenship Processing Unit	4,643,365	2,688,200
Financial Services Department	3,859,883	2,303,787
Saint Christopher Tourism Authority	1,500,000	–
Department of Agriculture	1,316,262	–
Development Bank of St. Kitts and Nevis	<u>250,000</u>	<u>–</u>
	<u>11,569,510</u>	<u>4,991,987</u>

	2008	2007
	\$	\$
Finance charges		
St. Kitts-Nevis-Anguilla National Bank Limited	<u>1,136</u>	<u>708</u>

Key management compensation

During the year, fees of \$114,500 (2007: \$Nil) were paid to the Board of Councillors.