Annual Report 2011

Cave Shepherd & Co. Ltd.

Cave Shepherd & Co. Ltd.

Annual Report 2011

Our Vision

"To be the leading Caribbean public company in the services arena."

Contents

Notice of the Annual General Meeting	3
Board of Directors, Corporate Secretary, Subsidiary and Associated Companies	4-7
Financial Highlights	8-9
Five Year Summary	10
Directors' Report	11-19
Independent Auditor's Report	20
Consolidated Balance Sheet	21
Consolidated Statement of Changes in Equity	22
Consolidated Statement of Comprehensive Income	23
Consolidated Statement of Cash Flows	24
Notes to the Consolidated Financial Statements	25-69
Additional Information as Required in Accordance with the Barbados Stock Exchange Listing Agreement	70-72
Management Proxy Circular	73-74
Notes	75-76
Proxy Form	77

Notice of Annual General Meeting

Notice is hereby given that the FORTY-FIRST ANNUAL GENERAL MEETING of the shareholders of CAVE SHEPHERD & CO. LIMITED will be held at the Lloyd Erskine Sandiford Centre, Two Mile Hill, St. Michael, Barbados on Thursday the 26th day of April, 2012 at 5:30 p.m. The Agenda is as follows:

1. To receive and consider the reports of the Directors and Auditor and the Audited Financial Statements for the year ended 31st December 2011.

2. To elect Directors:
   (i) the following Directors retire by rotation in accordance with paragraphs 3.9 and 3.10 of the revised by-laws and being eligible, offer themselves for re-election for the term stated:

Mr. John M. B. Williams	3 years
Mr. Roger M. Cave	3 years
Mr. Robert M. Harvey-Read	3 years

   (ii) the following Director, having attained the age of 72, retires in accordance with paragraphs 3.10 of the revised by-laws and being eligible, offers himself for re-election for the term stated:

Mr. M. Grantley Taylor	1 year

   (iii) it is recommended that the following nominee be elected to membership of the Board in accordance with paragraph 3.6(a) of the revised by-laws for the term stated:

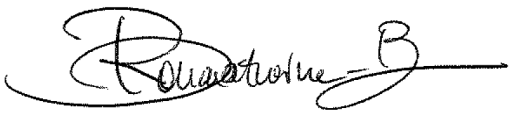
Mr. Edward J. L. Ince	1 year

3. To appoint an Auditor for the ensuing year.

4. To discuss any other business of the Company which may properly be considered at the Annual General Meeting.

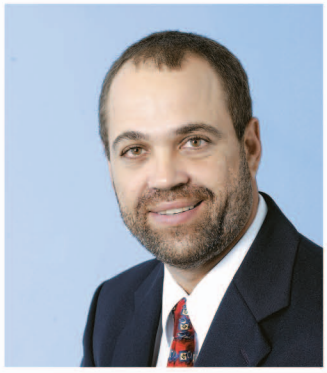
Dated this 16th day of March, 2012

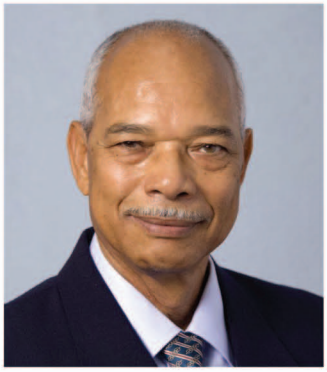
By order of the Board of Directors



Corporate Services Limited
As Secretary of
Cave Shepherd & Co. Limited

Board of Directors





Senator R.G. Cave, Chairman; J.M.B. Williams, Chief Executive Officer; H.E. Tryhane
M.D. Davis; M.G. Taylor; R.M. Harvey-Read; Prof. V.E. Barriteau
L.J. Ramdhanny; R.G. Simpson; R.M. Cave

Board of Directors, Corporate Secretary, Subsidiary and Associated Companies

Directors
Senator R. G. Cave, Chairman
J. M. B. Williams, Chief Executive Officer
Prof. V. E. Barriteau
R. M. Cave
M. D. Davis
R. M. Harvey-Read
L. J. Ramdhanny
R. G. Simpson
M. G. Taylor
H. E. Tryhane

Corporate Secretary
Corporate Services Limited

Auditor
PricewaterhouseCoopers SRL

Bankers
FirstCaribbean International Bank
(Barbados) Limited

Attorneys-at-Law
Sir Henry deB Forde, Q.C.
Clarke Gittens & Farmer

Registered Office
10 - 14 Broad Street
Bridgetown, Barbados

Subsidiary Companies
Cave Shepherd Inc.
Miami, Florida, USA

Cave Shepherd (Cayman) Ltd.
Grand Cayman, Cayman Islands

Cave Shepherd SRL
10 - 14 Broad Street, Bridgetown, Barbados

Cayco Ltd.
Grand Cayman, Cayman Islands

Colombian Emeralds International Limited
Tortola, BVI

Fortress Fund Managers Limited
Carlisle House, Bridgetown, Barbados

Fortress Fund Advisors Limited
Pointe Seraphine, Castries, St. Lucia

Fortress Insurance Company Limited
Carlisle House, Bridgetown, Barbados

Fortress Staff Share Scheme Inc.
Carlisle House, Bridgetown, Barbados

Fortress Advisory & Investment Services Ltd.
Carlisle House, Bridgetown, Barbados

Fortress Global Value Fund
Tortola, BVI

Associated Companies

DUTY FREE CARIBBEAN HOLDINGS

CaveShepherd

COLOMBIAN EMERALDS INTERNATIONAL

HARRISONS

PAGES BOOKSTORE

Ganzee The Island Shop

Bridgetown Cruise Terminals Inc.

DGM BANK & TRUST INC.

Fortress FUND MANAGERS

SIGNIA FINANCIAL GROUP INC.

Associated Companies

Duty Free Caribbean (Holdings) Ltd.
24 Broad Street, Bridgetown, Barbados

Duty Free Caribbean Limited
24 Broad Street, Bridgetown, Barbados

DFC Services Corp.
Ft. Lauderdale, Florida, USA

Duty Free Caribbean Emeralds (St Lucia) Ltd.
Pointe Seraphine, Castries, St. Lucia

Duty Free Caribbean (Grenada) Ltd.
The Carenage, St Georges, Grenada

Ashworth Limited
Freeport, Bahamas

Caribworld Inc.
Pointe Seraphine, Castries, St. Lucia

Caribworld (Trinidad) Ltd.
Port-of-Spain, Trinidad

Carib Home Shopping Ltd.
Kingston, Jamaica

Duty Free Caribbean Cayman (Holdings) Ltd.
Grand Cayman, Cayman Islands

Emerald Distributors Limited
Grand Cayman, Cayman Islands

CS Cayman Ltd.
Grand Cayman, Cayman Islands

CEI Limited
St. John's, Antigua

Colombian Emeralds International N.V.
Oranjestad, Aruba

Colombian Emeralds International Limited
Pointe Seraphine, Castries, St. Lucia

Deltamar N.V.
Philipsburg, St. Maarten

Duty Free Caribbean (TCI) Ltd.
Turks & Caicos Islands

Duty Free Caribbean (Jamaica) Ltd.
Kingston, Jamaica

Duty Free Caribbean (Curacao) N.V.
Willemstad, Curacao

DFC (USVI) Ltd.
St. Thomas, USVI

DFC Investments Ltd.
24 Broad Street, Bridgetown, Barbados

Amoro Holdings Ltd.
24 Broad Street, Bridgetown, Barbados

J.C.S. Sunglasses Limited
The Financial Services Centre, St. Michael, Barbados

Bridgetown Cruise Terminals Inc.
Deep Water Harbour, St. Michael, Barbados

GCS Limited
Newton Industrial Park, Christ Church, Barbados

CSGK Finance (Holdings) Limited
Carlisle House, Bridgetown, Barbados

Signia Financial Group Inc.
Carlisle House, Bridgetown, Barbados

Franchise Services Corporation
24 Broad Street, Bridgetown, Barbados

The Perfect Time Ltd.
24 Broad Street, Bridgetown, Barbados

CS&C Joint Venture
Carlisle House, Bridgetown, Barbados

Caribbean Trade Logistics Advisors Inc.
Holetown, St. James, Barbados

FSSB Inc.
Carlisle House, Bridgetown, Barbados

Contonou Shores Ltd.
Nassau, Bahamas

DGM Holdings (Canada) Inc.
Toronto, Ontario, Canada

DGM Bank & Trust Inc.
Hastings, Christ Church, Barbados

DGM Trust Corporation
Hastings, Christ Church, Barbados

DGM Insurance Holdings Corporation
Hastings, Christ Church, Barbados

DGM Insurance Corporation
Hastings, Christ Church, Barbados

DGM Securities Limited
Hastings, Christ Church, Barbados

Fowling Overseas Limited
Tortola, BVI

Financial Highlights

For the year ended December 31, 2011
Expressed in Barbados dollars

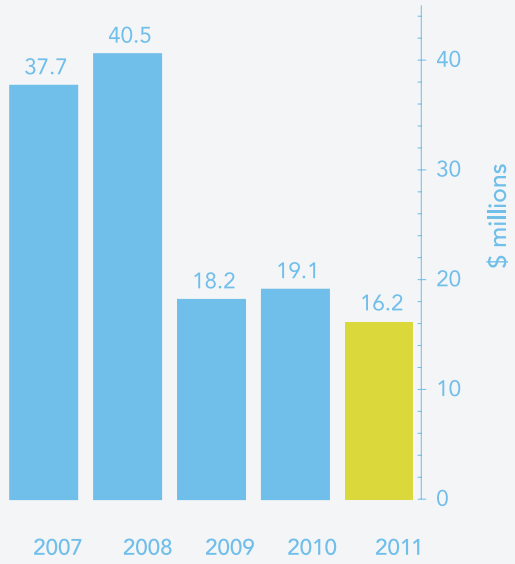
	2011 $	2010 $
RESULTS FOR THE YEAR (in $ millions)		
Revenue from operations and other gains	**16.15**	19.09
Profit/(loss) before taxation	**2.88**	(0.76)
Income tax expense	**(0.99)**	(0.94)
Net profit/(loss) attributable to equity holders of the Company	**1.07**	(2.57)
YEAR END POSITION (in $ millions)		
Working capital	**60.19**	56.50
Total assets	**161.76**	154.65
Equity	**113.48**	118.82
PER SHARE OF CAPITAL STOCK (in dollars)		
Proft/(loss) before taxation and non-controlling interest	**0.16**	(0.04)
Net profit/(loss) attributable to equity holders of the Company	**0.06**	(0.14)
Dividends declared	**0.20**	0.20
Equity	**6.18**	6.40
Market price per share	**4.60**	4.48
FINANCIAL RATIOS (in percentages)		
Return on revenue from operations and other gains	**6.6%**	(13.5%)
Return on average equity	**0.9%**	(2.1%)

Financial Highlights

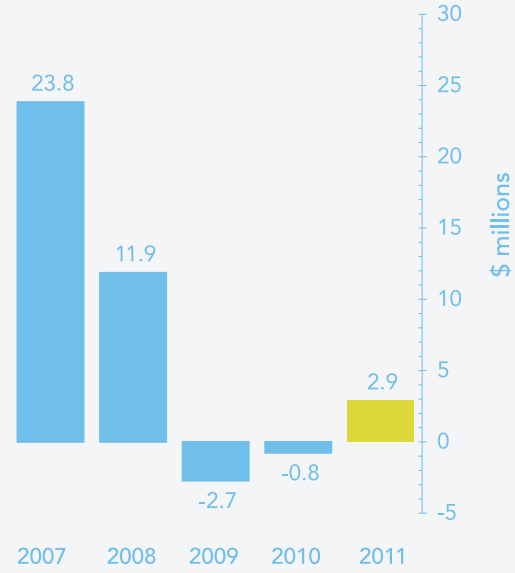
For the year ended December 31, 2011

Expressed in Barbados dollars

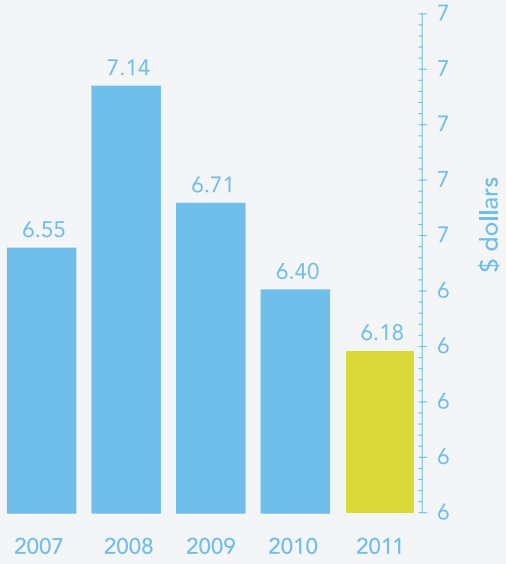
Revenue



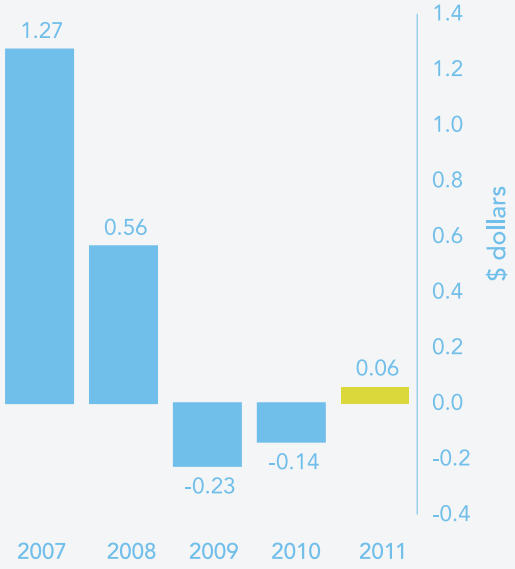
Profit before Tax



Book Value Per Share



Earnings Per Share



*2007 denotes a fifteen month period

Five Year Summary

Year End Position (in $ millions)	**2011**	2010	2009	2008	2007*
Current Assets					
Cash and Cash Equivalents	**14.8**	19.2	16.1	17.1	17.3
Financial Assets Held for Trading	**29.4**	22.3	15.7	10.9	9.7
Inventories	**4.9**	4.1	4.6	6.6	5.9
Trade and Other Receivables and Prepayments	**19.1**	17.2	17.6	17.6	17.8
Other Current Assets	**9.8**	4.4	6.6	7.2	6.3
Total Current Assets	**78.0**	67.2	60.6	59.4	57.0
Less Current Liabilities	**17.8**	10.7	8.6	9.6	6.8
Working Capital	**60.2**	56.5	52.0	49.8	50.2
Investment Property and Other Assets	**83.8**	87.5	98.6	104.9	91.6
	144.0	144.0	150.6	154.7	141.8
Financed By:					
Long-term Borrowings	**30.5**	25.2	24.5	20.6	18.5
Shareholders' Equity	**113.5**	118.8	126.1	134.1	123.3
	144.0	144.0	150.6	154.7	141.8
No. of Shares Outstanding (in millions)	**18.4**	18.6	18.8	18.8	18.8
Share of Associates Revenue (in $ millions)	**118.1**	110.3	109.3	139.2	171.6
Results For The Year (in $ millions)					
Revenue from operations and other gains	**16.2**	19.1	18.2	40.5	37.7
Profit/(loss) before Interest, Taxes etc.	**3.0**	(1.8)	1.1	8.7	11.7
Profit/(loss) before Taxation and Non-controlling Interest	**2.9**	(0.8)	(2.7)	11.9	23.8
Net comprehensive income/(loss) attributable to equity holders of the Company	**1.1**	(2.6)	(4.2)	10.6	23.9
Dividends Declared	**3.7**	3.7	3.8	4.7	4.2
Per Share Of Capital Stock (in dollars)					
Earnings	**0.06**	(0.14)	(0.23)	0.56	1.27
Dividends Declared	**0.20**	0.20	0.20	0.25	0.225
Net Book Value	**6.18**	6.40	6.71	7.14	6.55
Financial Ratios					
Current Ratio	**4.40**	6.28	7.04	6.21	8.35
Gearing Ratio	**0.06**	0.00	0.04	0.01	0.01
Returns (%)					
On Revenue from Operations and Other Gains	**7%**	(13%)	(23%)	26%	64%
On Average Equity	**1%**	(2%)	(3%)	8%	21%

*2007 denotes a fifteen month period

Directors' Report

Geoffrey Cave
Chairman

John Williams
Chief Executive Officer

We are pleased to report that the Cave Shepherd Group recorded a profit of $1.1 million for the year ended December 31, 2011. After two years of net losses this was a welcome turnaround, albeit only to a relatively modest level of profitability. Our main retail associate, Duty Free Caribbean (Holdings) Ltd. still incurred a loss, but less than that recorded in the prior year. Our other businesses were impacted to varying degrees by the depressed economic environment with some recording lesser performances than in 2010. Importantly for the Group, the level of unusual and one-off write downs and impairment expenses did not materially affect the Group as it had in the prior year's results.

Our Balance Sheet remains strong and although the current global economic down turn has lasted longer than most of us expected, our underlying businesses are holding steady and we are confident that the Group is on track to regaining an acceptable level of financial performance. Given our solid Balance Sheet, healthy level of cash and liquid assets, and the improved results, the Directors were comfortable in maintaining our aggregate dividend at 20 cents per share.

Retail and Franchise

The Jewellers at Limegrove

Retail

Our principal retail businesses operate under our associated company, the Duty Free Caribbean (Holdings) Group. These include our Cave Shepherd, Harrisons, Pages Bookstore and Colombian Emeralds International brands, the latter represented in ten territories as our own stores and in a further seven territories and on board nine cruise ships under franchise arrangements. Duty Free Caribbean (Holdings) Ltd. recorded revenues of $256 million, an increase of 10% over the prior year due to a combination of new shop openings together with organic growth at existing locations. As it is an associated company, these revenues are not consolidated into our own revenue line in the Statement of Comprehensive Income. Despite recording a loss, the business produced an improved performance over last year as it continues to recover from the very serious downturn that started in 2008. Sales to visitors picked up in the first half of the year but this trend slowed in the second half as further uncertainty in our major tourist source markets was reflected in more cautious spending by visitors to the Caribbean. Barbados domestic economy recorded only marginal growth during the year and this impacted on sales to local customers. Management continues to position this company during this time to return it to acceptable levels of profitability by improving efficiencies and pursuing opportunities for revenue growth.

Our Colombian Emeralds International store in Tortola is the only retail business that is wholly-owned by the Group. Although it recorded a smaller loss than in prior year as a result of reduced depreciation charges, it still performed below management's expectations. Tortola which traditionally generated a significant proportion of its sales from the expatriate market remains depressed as this market continues to decline. This operation remains under close scrutiny and management will take whatever further steps, are necessary to turn this operation around.

Management and staff of GCS Ltd. which trades under the Ganzee brand name, are to be congratulated on a noteworthy turnaround during 2011 after a very difficult couple of years. Although the company showed an increased loss position as a result of a one-off consolidation entry, the same store sales increased over the prior year and these together with cost savings resulted in a much improved operating result. If the trend of improved sales continues then this company will move back into profitability in 2012. As a consequence of the better performance we reassessed the recoverability of shareholder loans advanced to this business from the parent company and this has resulted in a net write-back of $1.12 million.

Financial + Services

Re-Launch of New Cave Shepherd & Co. Ltd. Website

Financial Services

Fortress Fund Managers Limited produced an improved result despite the many challenges facing the industry. As stated in last year's report, the removal of the tax allowance on mutual funds did considerably dampen new investment by individuals into the Funds. However, total Funds under management increased by 4% from $523 million at the end of 2010 to $541 million by the end of 2011. Our international portfolios produced decent returns with all of the Fortress strategies meeting or exceeding their respective benchmarks for the year. The Caribbean markets of Trinidad and Jamaica produced healthy returns of 20.8% and 10.6% respectively with Barbados lagging with 7.6%. The lagging return of the Barbados market has affected our largest Fund, the Fortress Caribbean Growth which holds 17% in Barbados listed securities. This Fund recorded a marginal return of 0.9% for the year. Our pension investment and administration business for group pension plans and personal retirement plans for individuals through the Fortress Registered Retirement Savings Plan both recorded steady growth in 2011.

Signia performed well during the year recording loan portfolio growth of 7% and a commensurate increase in gross revenues. This was commendable in a domestic economy that grew less than 1% in 2011. Reported profits for this operation were down on prior year due to a consolidation adjustment as well as increased expenses in the area of loan provisions as the subdued prospects for the local economy persuaded us to take an even more conservative line with our loss provisioning. Notwithstanding the increased provisioning, the actual delinquency record for Signia's loan portfolio remains well within acceptable limits. Brokerage and trading business for Signia remained low because of limited activity on the local stock exchange.

DGM Bank & Trust recorded a lower profit than 2010, as the company's revenues remained flat during the year, whilst cost were higher than in the prior year due in part to the relocation of offices to new premises. Revenues were particularly affected in the second half of the year by the unsettled international capital markets which in turn resulted in limited market activity by our clients. These conditions impacted some of the new products and services that were introduced in late 2010 and in 2011 resulting in the business not achieving the volumes that were projected. Our aim in the coming year will be to maintain strict control over expenses while focusing on increased revenues from existing and new markets.

In our last Annual Report we noted our intention to pursue new opportunities for the Cave Shepherd Card. Considerable progress has been made during 2011 with a restructuring of the Card Services Unit to provide a greater focus on business development. We have enhanced our marketing and promotions as well as developing our CS Online Service which was formally launched just after year end. The latter allows cardholders to access their account details and make payments via the internet. We are in the advanced stages of expanding the card to new merchants in response to our cardholders' desire to make use of the Cave Shepherd Card across a broader range of businesses. We anticipate announcing the first of these arrangements in the first quarter of 2012. Notwithstanding our emphasis on business development we have continued our strong emphasis on credit control and delinquency management and we are very satisfied that these continue to be well managed. The financial performance of the Cave Shepherd Card business was in line with prior year as increased revenues were offset by additional business development costs.

Other

Cave Shepherd Credit Card goes online

Other

As noted in previous reports, the Group maintains a proportion of our liquid assets in short term investments. During the year the performance on these were mixed with one portfolio managed by Fortress showing good gains whilst another portfolio which had performed well in 2010 dropping back in 2011. Overall we registered a modest loss on our portfolio for the year.

During the year we disposed of our interest in the Coral Cove Condominium, and as part of the same deal purchased a share in a property development in The Grenadines. Given the oversupply in the Barbados condominium market, we thought it a sensible move and an investment which has greater upside potential.

At the beginning of the year, Cave Shepherd took a 44% interest in a new startup company, Caribbean Trade Logistic Advisors Inc. The major shareholder was a former longstanding and highly regarded member of the Duty Free Caribbean Holdings management team.

The company provides logistic services including shipping, customs clearance, warehousing and in-bond processing to local companies and in particular to several tenants of the new Limegrove Lifestyle Centre. The project falls fully within our strategy of investing in the services arena and we believe that there are considerable opportunities for providing out-sourced logistics to local companies as well as future expansion into other Caribbean islands.

The troubles facing the Almond Resorts Group resulted in a drop of their share price from $1.55 to 50 cents and that translated into a $1.3 million write down on the 1.25 million shares that we hold in that company.

Bridgetown Cruise Terminal Inc. recorded a similar profit compared to prior year. Cruise passenger numbers were slightly down from the prior year recording a drop of 2.5%. The future of this company is unclear since the current lease of the cruise facility expires in December 2013.

Community Spiritedness
Board of Directors
and Conclusion

New startup Company - Caribbean logistics Advisors Inc.

Community Spiritedness

The Cave Shepherd Group of Companies continues to demonstrate its commitment to giving back to the communities in which it operates. The Group maintained covenants, donations and sponsorships to charities, sporting organizations as well as to educational and cultural events.

We also renewed our obligations to the AIDS Foundation of Barbados, The Salvation Army, Substance Abuse Foundation of Barbados and The Crime Stoppers of Barbados.

Board of Directors

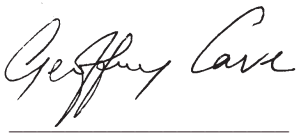
Mr. Harold Tryhane will not be standing for re-election as a Director. Mr. Tryhane has been a Director since 1998, but his contribution as trusted advisor to the Company goes back over forty years. The Board thanks him for his excellent and committed service, and wishes him the very best in retirement.

We are proposing that the vacancy created by the retirement of Mr. Tryhane be filled by Mr. Edward Ince. Mr. Ince is a joint Managing Director of the Prism Services Group of Companies, which operates in several Caribbean countries offering a range of services including technology consulting for financial services, and outsourcing business services for government and private industry. We believe that Mr. Ince's regional perspective and business insight will be a great asset to the Board.

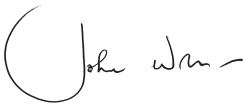
Conclusion

The management of Cave Shepherd Group maintains a responsible fiscal approach during this extended period of economic uncertainty while at the same time continuing our search for business opportunities to both grow our existing operations as well as to enter new attractive industries. Although we remain flexible and are actively looking beyond our traditional areas of business we understand the merit of balancing the risks of new opportunities against the necessary financial prudence that these economic circumstances dictate. Shareholders can be assured that we will continue to follow this balanced approach.

In closing we wish to thank our many loyal customers and clients across our several businesses, as well as our management and staff, for their continuing support during the year.



R. Geoffrey Cave
Chairman



John M.B. Williams
Chief Executive Officer

13th March, 2012

Independent Auditor's Report

To the Shareholders of Cave Shepherd & Co. Limited

We have audited the accompanying consolidated financial statements of Cave Shepherd & Co. Limited., which comprise the consolidated balance sheet as at December 31, 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Cave Shepherd & Co. Limited as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 16, 2012
Bridgetown, Barbados

Consolidated Balance Sheet

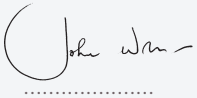
As at December 31, 2011

Expressed in Barbados dollars

	2011 $	2010 $
Current Assets		
Cash and cash equivalents (note 4)	14,765,043	19,168,223
Financial assets held for trading (note 5)	29,399,929	22,305,382
Trade and other receivables and prepayments (note 6)	19,146,113	17,191,255
Inventories (note 7)	4,845,896	4,098,214
Due by associates (note 8)	9,813,333	4,389,513
	77,970,314	67,152,587
Current Liabilities		
Trade and other payables (note 10)	5,036,194	4,003,914
Due to associates (note 8)	8,039,737	3,223,502
Due to affiliates (note 9)	2,223,133	884,406
Current income tax liability	643,791	678,035
Dividend payable	1,839,405	1,859,494
	17,782,260	10,649,351
Working Capital	60,188,054	56,503,236
Investments in associates (note 11)	69,513,032	66,757,003
Financial assets at fair value through profit and loss (note 12)	182,380	218,275
Held-to-maturity investments	959,315	953,618
Intangible assets and goodwill (note 13)	5,418,233	6,262,633
Investment property (note 14)	-	2,560,000
Property, plant and equipment (note 15)	1,012,415	1,285,561
Loans due by associate (note 16)	5,800,000	8,560,000
Pension plan surplus (note 17)	905,192	903,242
Fixed income certificates payable (note 18)	(19,049,545)	(19,553,956)
Loans due to non-controlling interest (note 19)	(1,912,500)	-
Loan due to associate (note 20)	(640,000)	-
Due to registered retirement savings plan holders (note 21)	(8,886,566)	(5,623,435)
Deferred income tax liability (note 23)	(5,361)	(1,875)
	113,484,649	118,824,302
Capital and Reserves attributable to the Equity holders of the Company		
Share capital (note 24)	38,689,673	39,113,043
Share option reserve (note 25)	52,506	-
Retained earnings (note 26)	71,509,425	74,626,932
	110,251,604	113,739,975
Non-controlling interest	3,233,045	5,084,327
	113,484,649	118,824,302

The accompanying notes form an integral part of these consolidated financial statements.
Approved by the Board of Directors on March 13, 2012.

Director



Director

Consolidated Statement of Changes In Equity

For the year ended December 31, 2011
Expressed in Barbados dollars

	Attributable to equity holders of the Company			Non-controlling Interest	
	Share Capital	Retained Earnings	Share Option Reserve		Total
	$	$	$	$	$
Balance as at December 31, 2009	39,584,581	81,379,218	-	5,158,837	**126,122,636**
Total comprehensive (loss)/income for the year	-	(2,572,137)	-	862,990	**(1,709,147)**
	39,584,581	78,807,081	-	6,021,827	124,413,489
Dividends (20¢ per share)	-	(3,740,810)	-	-	**(3,740,810)**
Dividends paid to non-controlling interest	-	-	-	(937,500)	**(937,500)**
Repurchase of shares (note 24)	(471,538)	(439,339)	-	-	(910,877)
Balance as at December 31, 2010	**39,113,043**	**74,626,932**	**-**	**5,084,327**	**118,824,302**
Total comprehensive income for the year	-	1,073,788	-	811,218	**1,885,006**
	39,113,043	75,700,720	-	5,895,545	120,709,308
Dividends (20¢ per share)	-	(3,687,700)	-	-	**(3,687,700)**
Dividends paid to non-controlling interest	-	-	-	(2,662,500)	**(2,662,500)**
Employee share options (note 25)	-	-	52,506	-	**52,506**
Repurchase of shares (note 24)	(423,370)	(503,595)	-	-	(926,965)
Balance as at December 31, 2011	**38,689,673**	**71,509,425**	**52,506**	**3,233,045**	**113,484,649**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011
Expressed in Barbados dollars

	2011 $	2010 $
Revenue and other gains		
Revenue from operations (note 27)	15,838,781	17,787,944
Other gains (note 28)	315,213	1,299,345
	16,153,994	19,087,289
Expenses		
Cost of sales from retail operations (note 7)	2,652,588	2,865,564
Payroll costs (note 29)	4,849,848	4,382,312
Depreciation (note 15)	518,927	884,817
Amortisation of intangible assets (note 13)	844,400	844,400
Impairment of goodwill (note 13)	-	5,396,691
Write (back)/off of amount due by associate (note 8)	(1,120,000)	1,120,000
Other operating expenses	5,369,032	5,421,487
	13,114,795	20,915,271
Profit/(loss) before interest and taxes	3,039,199	(1,827,982)
Finance costs	(1,213,484)	(1,103,849)
Net operating profit/(loss)	1,825,715	(2,931,831)
Share of results of associates (note 11)	1,053,229	2,167,244
Profit/(loss) before taxation	2,878,944	(764,587)
Income tax expense (note 31)	(993,938)	(944,560)
Net profit/(loss) and total comprehensive income/(loss) for the year	1,885,006	(1,709,147)
Attributable to:		
Equity holders of the Company	1,073,788	(2,572,137)
Non-controlling interest	811,218	862,990
	1,885,006	(1,709,147)
Earnings per share for profit attributable to the equity holders of the Company during the year.		
- basic and diluted (note 32)	$0.06	($0.14)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2011
Expressed in Barbados dollars

	2011 $	2010 $
Net cash generated from operations (note 33)	5,291,175	4,408,632
Cash flows from investing activities		
Purchase of property, plant and equipment (note 15)	(291,318)	(170,622)
Purchase of investments in associates (note 11)	(3,146,376)	-
Purchase of other investments (note 12)	(2,000)	-
Purchase of financial assets held for trading and held-to-maturity investments	(20,984,229)	(14,021,852)
Proceeds on disposal of property, plant and equipment	45,000	86,748
Proceeds on disposal of investment property (note 14)	2,875,750	1,253,758
Proceeds from capital reduction in associate (note 11)	-	4,243,200
Proceeds on disposal of financial assets held for trading	12,244,985	8,575,713
Dividends received (note 27)	134,705	90,039
Dividends received from associates (note 11)	1,443,576	2,052,155
Net cash (used in)/from investing activities	(7,679,907)	2,109,139
Cash flows from financing activities		
Repurchase of shares (note 24)	(926,965)	(910,877)
Fixed income certificates payable (net)	(504,411)	212,960
Dividends paid to shareholders	(3,707,789)	(3,763,184)
Dividends paid to non-controlling interest	(2,662,500)	(937,500)
Registered retirement savings plan holders	3,234,717	2,310,894
Loans due to non-controlling interest	1,912,500	-
Loans due by associate (note 16)	-	1,600,000
Loan due to associate (note 20)	640,000	(1,920,000)
Net cash used in financing activities	(2,014,448)	(3,407,707)
Net (decrease)/increase in cash and cash equivalents	(4,403,180)	3,110,064
Cash and cash equivalents - beginning of year	19,168,223	16,058,159
Cash and cash equivalents - end of year	14,765,043	19,168,223
Represented by:		
Cash at bank and in hand (note 4)	8,759,689	8,322,003
Short-term deposits (note 4)	6,005,354	10,846,220
	14,765,043	19,168,223

The accompanying notes form an integral part of these consolidated financial statements.

Notes To The Consolidated Financial Statements

December 31, 2011

Expressed in Barbados dollars

1. General Information

The principal activities of Cave Shepherd & Co. Limited ('the Company') and its subsidiaries (together 'the Group') are retailing, provision of financial services and holding of investments.

The Company is a limited liability company incorporated and domiciled under the Laws of Barbados. The address of its registered office is 10-14 Broad Street, Bridgetown, Barbados.

The Company is listed on the Barbados Stock Exchange.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of Preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment property, as disclosed in Note 2(d) and financial assets at fair value through profit and loss as disclosed in Note 2(h).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2(k).

2. Summary of Significant Accounting Policies ...continued

(a) Basis of Preparation ...continued

New and amended standards adopted by the Group:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on January 1, 2011 that have had a material impact on the Group.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted

- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on January 1, 2013.

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on January 1, 2013.

2. Summary of Significant Accounting Policies ...continued

(a) Basis of Preparation ...continued

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted:

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on January 1, 2013.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on January 1, 2012.

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

(b) Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. Summary of Significant Accounting Policies ...continued

(b) Consolidation ...continued

Subsidiaries ...continued

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

These consolidated financial statements include the financial statements of the Company and its subsidiary companies:

Cave Shepherd Inc.	100%
Cave Shepherd (Cayman) Ltd.	100%
Cave Shepherd SRL	100%
Fortress Fund Managers Limited	75%
Fortress Fund Advisors Limited	75%
Fortress Insurance Company Limited	75%
Fortress Staff Share Scheme Inc.	75%
Fortress Advisory & Investment Services Ltd.	75%
Fortress Global Value Fund	75%
Cayco Ltd.	100%
Colombian Emeralds International Limited	100%

2. Summary of Significant Accounting Policies ...continued

(b) Consolidation ...continued

Subsidiaries ...continued

During the year, Fortress Fund Managers Limited issued a further 600,000 common shares at $4.50 per share of which the Company purchased 510,000 shares for a total consideration of $2,295,000. This increased the Company's holding in the common shares of Fortress Fund Managers Limited from 60% to 75%.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in other comprehensive income and accumulated in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The associates and interest therein are set out below:

Duty Free Caribbean (Holdings) Ltd.	40%
Duty Free Caribbean Limited	40%
DFC Services Corp.	40%
Duty Free Caribbean Emeralds (St. Lucia) Ltd.	40%
Duty Free Caribbean (Grenada) Ltd.	40%
Ashworth Limited	40%
Emerald Distributors Limited	40%
Duty Free Caribbean (Cayman) Holdings Ltd.	40%
CS Cayman Ltd.	16%
Duty Free Caribbean (Jamaica) Ltd.	40%
Duty Free Caribbean (TCI) Ltd.	40%
Duty Free Caribbean (Curacao) N.V.	40%
Colombian Emeralds International N.V.	40%
Colombian Emeralds International Limited	40%
CEI Limited	40%

2. Summary of Significant Accounting Policies ...continued

(b) Consolidation ...continued

Associates ...continued

The associates and interest therein are set out below:

Deltamar N.V.	40%
DFC (USVI) Ltd.	40%
DFC Investments Ltd.	40%
Amoro Holdings Ltd.	20%
Caribworld Inc.	20.4%
Caribworld (Trinidad) Ltd.	20.4%
Carib Home Shopping Ltd.	20.4%
J.C.S. Sunglasses Limited	50%
Bridgetown Cruise Terminals Inc.	20%
DGM Holdings (Canada) Inc.	40%
DGM Bank & Trust Inc.	40%
DGM Trust Corporation	40%
DGM Insurance Holdings Corporation	40%
DGM Insurance Corporation	40%
DGM Securities Limited	40%
Fowling Overseas Ltd.	40%
GCS Limited	40%
CSGK Finance (Holdings) Limited	40%
Signia Financial Group Inc.	40%
CS&C Joint Venture	16%
The Sunset Joint Venture	16%
Franchise Services Corporation	25%
The Perfect Time Ltd.	25%
Caribbean Trade Logistics Advisors Inc.	44%
Contonou Shores Ltd.	35%
FSSB Inc.	15%

During the year, the following amalgamations occurred in the Duty Free Caribbean (Holdings) Ltd. Group:

- Duty Free Caribbean Limited and Colombian Emeralds International (Barbados) Limited
- Duty Free Caribbean (Grenada) Ltd. and Colombian Emeralds International (Grenada) Limited
- Colombian Emeralds International Limited and Cave Shepherd (St. Lucia) Ltd.
- Duty Free Caribbean Emeralds (St. Lucia) Ltd. and Duty Free Caribbean (St. Lucia) Ltd.
- Emerald Distributors Ltd. and YCJ Distributors Ltd.

2. Summary of Significant Accounting Policies ...continued

(c) Revenue Recognition

Revenue earned by the Group is recognised on the following basis:

- Interest income
  Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

- Commission (factoring) income
  Commission income on credit cards is recognised on an accrual basis upon generation of sales through merchants, mainly Duty Free Caribbean.

- Dividend income
  Dividend income is recognised when the right to receive payment is established.

- Management fee income
  Management fee income of Fortress Fund Managers Limited is recognised based on the actual net asset values of the Funds it manages. As Fortress Fund Managers Limited is the manager of all the Funds, a percentage of the management fees are refunded to avoid double charging on assets invested between the Funds. The refund is based on the net asset value of the investments calculated monthly and payable in arrears.

- Initial fee income
  The Group charges non-institutional entrants into the Fortress Mutual Fund Limited an entry fee, calculated on the subscription amount.

- Sales of goods - retail
  Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs.

(d) Investment Property

Investment Property is held for long-term rental yields and capital appreciation and is not substantially occupied by the Group. Investment Property is treated as a long-term investment and is carried at fair value, representing market value as determined by the Board of Directors. Under IFRS 40 - 'Investment Property', changes in fair value are recorded in the consolidated statement of comprehensive income.

2. Summary of Significant Accounting Policies ...continued

(e) Property, Plant & Equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on a straight line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Furniture and Equipment	3 to 5 years
Motor Vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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 the carrying amount. These are included in the consolidated statement of comprehensive income.

(f) Accounts Receivable

Receivables from credit card holders are carried at anticipated realisable value. A provision for impairment of credit card receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. 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 trade receivable is 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. The amount of the provision is recognised in the consolidated statement of comprehensive income. The credit risk of the receivables portfolio is assumed by the Company. The discount fee on these receivables is included in the consolidated statement of comprehensive income when earned.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on an average basis. Net realisable value is the price at which inventories can be realised in the normal course of business after allowing for the costs of realisation. Provision is made for obsolete, slow-moving and defective inventories. Consignment inventory has been included in inventories in the consolidated balance sheet and the corresponding liability has been included in payables in the consolidated balance sheet.

(h) Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

2. Summary of Significant Accounting Policies ...continued

(h) Financial Assets ...continued

Financial assets at fair-value through profit and loss

This category has two sub-categories: 'financial assets held for trading', and those 'designated at fair value through profit or loss at inception'. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables', 'due by associates' and 'loans due by associate' in the consolidated balance sheet.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intention and ability to hold to maturity. All financial assets held-to-maturity are initially recognised at fair value and are subsequently carried at amortised cost. The Group's held-to-maturity investment relates to a Government of Barbados Bond of $959,315 (2010 - $953,618) that carries a coupon rate of 7.25% (2010 - 7.25%) and is expected to mature in 2025.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the consolidated statement of comprehensive income in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are recognised in the consolidated statement of comprehensive income.

2. Summary of Significant Accounting Policies ...continued

(i) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values

The fair value of the Group's financial assets and liabilities with non-related parties are not materially different to their carrying amounts. The fair value of the Group's financial assets and liabilities with related parties that are interest-free are not materially different to their carrying amounts given the short term nature of these balances.

(j) Current and Deferred Income Taxes

The tax expense comprises current and deferred taxes. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which appropriate tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of Significant Accounting Policies ...continued

(k) Critical Accounting Estimates and Assumptions

Estimates and assumptions 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with accounting policies stated in Notes 2(n) and 2(o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

- Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

- Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 17.

- Fair value of financial instruments that are not traded

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

- Investment properties

The Group utilises Director's judgement to determine fair value of its investment properties taking into account inputs from professional valuers. Valuations are determined through the application of valuation methods which are sensitive to the underlying assumptions chosen.

2. Summary of Significant Accounting Policies ...continued

(l) Foreign Currency Translation

Functional and presentation currency

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

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 consolidated statement of comprehensive income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the consolidated statement of comprehensive income.

Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet.
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- All resulting differences are recognised in the statement of comprehensive income.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 90 days or less and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in current liabilities on the consolidated balance sheet.

(n) Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2. Summary of Significant Accounting Policies ...continued

(n) Intangible Assets ...continued

Management Contracts

Management contracts acquired in a business combination are recognised at their estimated fair values at the acquisition date. The management contracts have a finite useful life and are carried at estimated realisable value less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful lives of the management contracts.

(o) Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Employee Benefits

Pension Plan Valuation

The Group operates both defined benefit and defined contribution pension plans for the employees. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the consolidated balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of long-term government securities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately to income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2. Summary of Significant Accounting Policies ...continued

(p) Employee Benefits ...continued

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's average share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to the original estimates, if any, in the cosolidated statement of comprehensive income, with a corresponding adjustment to equity. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

The granting by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

The Fortress Group operates a staff share scheme which allows its employees to indirectly hold shares in that company. Employees can purchase shares in Fortress Staff Share Scheme Inc. at a discounted price to the calculated fair value of the shares. Employees can redeem shares previously purchased at the end of each financial year, at the fair value determined as at that date. As the shares are redeemable at the option of the employees they have been classified as financial liabilities and carried at fair value. As the fair value of the shares is determined on an annual basis, the difference is charged or credited to the consolidated statement of comprehensive income with a corresponding adjustment to the financial liability.

2. Summary of Significant Accounting Policies ...continued

(q) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(t) Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(u) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(v) Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared by the Company's directors.

(w) Due to registered retirement savings plans holders

The Group sells registered retirement savings plans through the subsidiary, Fortress Insurance Company Limited. The liability to the plan holders is classified as a long term liability. Through the plan, options holders can invest in the Fortress Caribbean Pension Fund, the Fortress Mutual Fund and the Fortress Caribbean High Interest Fund. As a result, the value of the long term liability is dependent on the fair value of these underlying financial assets. The Group charges an annual administration fee for each plan. This fee is waived for the first two years of holding a plan.

2. Summary of Significant Accounting Policies ...continued

(x) Leases

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentive received from the lessor) are charged to the consolidated statement of comprehensive income on a straight line basis over the period of the lease.

3. Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk, (which includes price risk, currency risk and interest rate risk), credit risk and liquidity risk in the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below:

(a) Market risk

(i) Price Risk

The Group is exposed to market price risk arising primarily from changes in equity prices. To manage this risk the Group holds a diversified portfolio of investments in accordance with its investment policy. As at December 31, 2011, 52% (2010-55%) of financial assets held for trading comprise investments in other funds that have been fair valued in accordance with the policies set out in note 2(i).

Sensitivity

The effects of an across the board 10% change in equity prices of the Group's financial assets held for trading and at fair value through profit or loss are set out below:

	Carrying Value	Effect of 10% change at December 31, 2011
	$	$
Listed on Caribbean stock exchanges and markets	3,604,217	360,422
Listed on foreign stock exchanges and markets	12,474,736	1,247,474
Unlisted securities	13,503,356	1,350,336
	29,582,309	2,958,232

	Carrying Value	Effect of 10% change at December 31, 2010
	$	$
Listed on Caribbean stock exchanges and markets	4,496,754	449,675
Listed on foreign stock exchanges and markets	7,624,948	762,495
Unlisted securities	10,401,955	1,040,196
	22,523,657	2,252,366

3. Financial Risk Management ...continued

(a) Market risk ...continued

(ii) Interest rate risk

The majority of the Group's interest bearing financial assets and liabilities are short-term deposits, credit card receivables, loans due by associates and fixed income certificates payable. Except for short-term deposits, interest is charged on these financial assets and liabilities at fixed rates. As a result the Group is not subject to significant amounts of risk due to fluctuation in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The Group has a material interest-bearing asset in trade receivables which arises through its credit card operation. Interest is charged on all unpaid balances that are 30 days and older. Interest is charged at a fixed rate in line with industry standards. The nature of the credit card industry is such that interest rates show little variation and are stable in nature; as a result the Group is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

The table below summaries the Group's exposure to interest rate risk. It includes the Group's financial assets and liabilities categorised by the earlier of contractual re-pricing or maturity dates.

At December 31, 2011	0-5 years $	Over 5 years $	Non-interest bearing $	Total $
Financial assets				
Cash and cash equivalents	6,005,354	-	8,759,689	14,765,043
Financial assets held for trading	-	-	29,399,929	29,399,929
Trade and other receivables	16,943,469	-	1,759,431	18,702,900
Due by associates	3,000,000	-	6,813,333	9,813,333
Financial assets at fair value through profit and loss	-	-	182,380	182,380
Held-to-maturity investments	-	959,315	-	959,315
Loans due by associate	4,720,000	1,080,000	-	5,800,000
Total financial assets	30,668,823	2,039,315	46,914,762	79,622,900
Financial liabilities				
Trade and other payables	-	-	5,036,194	5,036,194
Due to associates	-	-	8,039,737	8,039,737
Due to affiliates	-	-	2,223,133	2,223,133
Long term loan due to associate	640,000	-	-	640,000
Loans due to non-controlling interest	1,912,500	-	-	1,912,500
Fixed income certificates payable	19,049,545	-	-	19,049,545
Due to registered retirement savings plans holders	-	-	8,886,566	8,886,566
Total financial liabilities	21,602,045	-	24,185,630	45,787,675
Total interest sensitivity gap	9,066,778	2,039,315	22,729,132	33,835,225

3. Financial Risk Management ...continued

(a) Market risk ...continued

(ii) Interest rate risk ...continued

At December 31, 2010	0-5 years $	Over 5 years $	Non-interest bearing $	Total $
Financial assets				
Cash and cash equivalents	10,846,220	-	8,322,003	19,168,223
Financial assets held for trading	-	-	22,305,382	22,305,382
Trade and other receivables	15,810,449	-	1,010,392	16,820,841
Due by associates	240,000	-	4,149,513	4,389,513
Financial assets at fair value through profit and loss	-	-	218,275	218,275
Held-to-maturity investments	-	953,618	-	953,618
Loans due by associate	6,200,000	2,360,000	-	8,560,000
Total financial assets	33,096,669	3,313,618	36,005,565	72,415,852
Financial liabilities				
Trade and other payables	-	-	4,003,914	4,003,914
Due to associates	-	-	3,223,502	3,223,502
Due to affiliates	-	-	884,406	884,406
Fixed income certificates payable	19,553,956	-	-	19,553,956
Due to registered retirement savings plans holders	-	-	5,623,435	5,623,435
Total financial liabilities	19,553,956	-	13,735,257	33,289,213
Total interest sensitivity gap	13,542,713	3,313,618	22,270,308	39,126,639

(iii) Currency risk

The Group holds financial assets denominated in currencies other than Barbados dollars, the functional currency of the Group. Consequently, except where assets and liabilities are denominated in currencies fixed to the Barbados dollar, the Group is potentially exposed to currency risk. The Group has no significant exposure to currency risk as the foreign currencies within the Group do not fluctuate noticeably against the Barbados dollar. The Group's policy is not to enter into any hedging transactions to mitigate currency risk.

3. Financial Risk Management ...continued

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment entered into with the Group.

The maximum exposure of the Group to the credit risk is set out in the following table:

	2011 $	2010 $
Cash and cash equivalents	14,765,043	19,168,223
Trade and other receivables	18,702,900	16,820,841
Due by associates	9,813,333	4,389,513
Held-to-maturity investments	959,315	953,618
Loans due by associate	5,800,000	8,560,000
	50,040,591	49,892,195

Significant amounts of cash at bank and short-term deposits are maintained with CIBC FirstCaribbean International Bank.

All trade receivable customers are rated by credit management who assesses the credit quality of the customer, taking into account financial position, past experience and other factors. Individual risk limits are set based on internal or external information in accordance with limits set by the board. The utilisation of credit limits and payments on account are regularly monitored. Credit limits may be adjusted upwards if management is satisfied with account performance. Risk Management utilises sophisticated reporting to constantly monitor account performance minimising default loss. All impaired or possible doubtful amounts are provided for and no loss beyond these provisions is anticipated.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has delivered payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

The Group's exposure to individual counterparty credit risk on its significant amounts of cash and cash equivalents is set out below:

	2011 $	2010 $
Cash and cash equivalents		
CIBC FirstCaribbean International Bank (Unrated)	13,631,700	13,334,620
Morgan Stanley Private Wealth Management (A/A-1 by Standard and Poor's)	701,530	5,103,451
	14,333,230	18,438,071

3. Financial Risk Management ...continued

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close market positions.

The table below analyses the Group'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 below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amount, as the impact of discounting is not significant.

December 31, 2011	0-3 months $	4 months - 5 years $	Over 5 years $	Total $
Trade and other payables	5,036,194	-	-	5,036,194
Due to associates	8,039,737	-	-	8,039,737
Due to affiliates	2,223,133	-	-	2,223,133
Loan due to associate	-	659,200	-	659,200
Loans due to non-controlling interest	-	2,095,144	-	2,095,144
Fixed income certificates payable	-	20,478,261	-	20,478,261
Due to registered retirement savings plan holders	-	-	8,886,566	8,886,566
Dividend payable	1,839,405	-	-	1,839,405
	17,138,469	23,232,605	8,886,566	49,257,640

December 31, 2010	0-3 months $	4 months - 5 years $	Over 5 years $	Total $
Trade and other payables	4,003,914	-	-	4,003,914
Due to associates	3,223,502	-	-	3,223,502
Due to affiliates	884,406	-	-	884,406
Fixed income certificates payable	-	21,020,503	-	21,020,503
Due to registered retirement savings plan holders	-	-	5,623,435	5,623,435
Dividend payable	1,859,494	-	-	1,859,494
	9,971,316	21,020,503	5,623,435	36,615,254

3. Financial Risk Management ...continued

(c) Liquidity risk ...continued

Capital risk management

The Group's objectives when managing capital are to safeguard its 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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The gearing ratios at December 31, 2011 and December 31, 2010 were 5.68% and 0.32% respectively.

Fair value estimation

Effective January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset that are not based on observable market data (Level 3).

3. Financial Risk Management ...continued

Fair value estimation ...continued

The following table presents the Group's assets that are measured at fair value at December 31, 2011:

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets held for trading	13,549,687	15,850,242	-	29,399,929
Financial assets at fair value through profit and loss	-	-	182,380	182,380
	13,549,687	15,850,242	182,380	29,582,309

The following table presents the Group's assets that are measured at fair value at December 31, 2010:

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets held for trading	10,111,085	12,194,297	-	22,305,382
Financial assets at fair value through profit and loss	-	-	218,275	218,275
	10,111,085	12,194,297	218,275	22,523,657

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or industry group and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

There have been no transfers between Level 1 and Level 2 instruments during the year.

The following table presents the changes in Level 3 instruments for the year ended December 31, 2011. Level 3 instruments are financial assets designated at fair value through profit and loss at inception and represents the Group's investments in unquoted equity securities.

3. Financial Risk Management ...continued

Fair value estimation ...continued

	2011 $	2010 $
At the beginning of the year	218,275	206,372
Categorisation as Level 3	2,000	-
Gains and losses recognised in consolidated statement of comprehensive income	(37,895)	11,903
At the end of the year	182,380	218,275

In 2009, the Group categorised its investments in unquoted equity securities as Level 3 financial instruments. These investments are mainly in privately held entities whose valuation is not based on observable market inputs. The fair values of these financial assets at December 31, 2011 were revalued from their fair values at December 31, 2010 and an unrealised loss of $37,895 (2010 - gain of $11,903) was recognised in the consolidated statement of comprehensive income during the year (note 12).

4. Cash and Cash Equivalents

	2011 $	2010 $
Cash at bank and in hand	8,759,689	8,322,003
Short-term deposits	6,005,354	10,846,220
	14,765,043	19,168,223

Short-term deposits comprise deposits with a commercial bank and another financial institution.

The interest rate on short-term deposits with the commercial bank was 0.02% to 2.50% (2010 - 0.02% to 2.50%). These deposits have an average maturity of 14 days (2010 – 14 days). Short-term deposits with the financial institution were in a US daily dollar account with an interest rate of 0.05% to 0.20% (2010 – 0.05%). The funds in this account are used to invest in equity securities in foreign stock exchanges.

5. Financial Assets held for Trading

Included within financial assets held for trading of $29,399,929 (2010 - $22,305,382) is an amount of $15,350,242 (2010 - $12,194,297), which represents investment in mutual funds managed by a subsidiary.

Changes in fair values of financial assets held for trading are recorded in the consolidated statement of comprehensive income (note 27).

The fair value of all equity securities is based on their current bid prices on their respective Stock Exchanges at the year end.

A portion of financial assets held for trading of $8,886,566 (2010 - $5,623,435) is pledged to registered retirement savings plan holders (note 21).

6. Trade and Other Receivables and Prepayments

	2011 $	2010 $
Credit card receivables	19,643,846	18,399,795
Less: provision for impairment	(2,700,377)	(2,589,346)
Credit card receivables - net	16,943,469	15,810,449
Other receivables	1,605,336	903,516
Corporation tax recoverable	154,095	106,876
Prepayments	443,213	370,414
	19,146,113	17,191,255

Credit card receivables are purchased at a discount rate from merchants, including an associate.

As of December 31, 2011, trade receivables of $15,819,485 (2010 - $14,641,286) were fully performing.

Trade receivables arise through the issue of credit through the credit card operations. Credit is issued on a revolving basis and ageing of accounts is monitored with reference to the number of days the minimum payment is past due. As of December 31, 2011, trade receivables of $1,123,984 (2010 - $1,169,163) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 $	2010 $
Up to 3 months	1,087,578	1,018,487
3 to 6 months	10,527	126,779
Over 6 months	25,879	23,897
	1,123,984	1,169,163

As of December 31, 2011, trade receivables of $2,700,377 (2010 - $2,589,346) were impaired and fully provided for. The ageing of these receivables is as follows:

	2011 $	2010 $
Up to 3 months	19,709	5,066
3 to 6 months	244,756	221,232
Over 6 months	2,435,912	2,363,048
	2,700,377	2,589,346

6. Trade and Other receivables and Prepayments ...continued

Movements on the Group provision for impairment of trade receivables are as follows:

	2011 $	2010 $
Beginning of year	2,589,346	2,454,933
Provision for receivables impairment	1,361,207	1,288,431
Amounts recovered	(1,215,480)	(1,152,816)
Receivables written off during the year as uncollectible	(34,696)	(1,202)
End of year	2,700,377	2,589,346

The creation and release of provisions for impaired receivables have been included in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables are neither past due nor impaired.

The Group does not hold any material collateral as security.

7. Inventories

	2011 $	2010 $
Merchandise	3,308,944	2,975,798
Consignment	1,536,952	1,122,416
	4,845,896	4,098,214

The cost of inventories recognised as expense and included in 'cost of sales' amounted to $2,652,588 (2010 - $2,865,564).

8. Due by/to Associates

An amount of $3,000,000 (2010 - $240,000) included in due by associates bears interest at 4.27% (2010 - 4.27%) per annum. All other amounts are interest free, unsecured and have no stated terms of repayment.

During the year, an amount of $1,120,000 due by an associate was written back in the financial statements. In 2010, an amount of $1,120,000 due by the same associate was fully provided for. The amount was written back in the current year since the circumstances that resulted in the provision in 2010 were reversed.

Goods are purchased from associates on normal commercial terms and conditions.

9. Due to Affiliates

The amounts due to affiliates are interest free, unsecured and have no stated terms of repayment.

10. Trade and Other Payables

	2011 $	2010 $
Trade and other payables	3,499,242	2,881,498
Consignment payables	1,536,952	1,122,416
	5,036,194	4,003,914

During 2008, the Fortress Group established a staff share scheme for employees. Included in trade and other payables is a balance of $161,967 (2010 - $138,547) which relates to 288,177 (2010 - 254,798) non-voting redeemable shares in Fortress Staff Share Scheme issued to employees of that company.

11. Investments in Associates

Movement in investments in associates is as follows:	2011 $	2010 $
At the beginning of the year	66,757,003	70,891,102
Acquisitions	3,146,376	-
Proceeds from capital reduction in associate	-	(4,243,200)
Write down of investment	-	(5,988)
	69,903,379	66,641,914
Dividends received	(1,443,576)	(2,052,155)
Share of results before tax	2,302,262	2,267,877
Share of tax	(1,249,033)	(100,633)
Share of results, net of tax	1,053,229	2,167,244
At the end of the year	69,513,032	66,757,003

During the year, the Group purchased a 35% interest in Contonou Shores Ltd. for a total consideration of $3,002,376. The Group also made an additional investment in DGM Insurance Holdings Corporation for $100,000 and a 44% investment in Caribbean Trade Logistics Advisors for $44,000.

During 2010, the goodwill of $756,263 on the additional acquisition of GCS Limited was impaired and included in share of results before tax.

During 2008, the Company purchased a 40% interest in DGM Holdings (Canada) Inc. ("DGM"), an offshore investment bank, for $11,599,200. Included in this investment is goodwill of $4,456,687. The operations of DGM have been accounted for under the equity basis of accounting from September 1, 2008. The Company is committed to purchase another 20% of DGM after six years from September 1, 2008 at an agreed valuation formula as set out in the purchase agreement.

During 2010, the Company received $4,243,200 from the proceeds of a capital reduction in DGM.

The Group considers CS&C Joint Venture and The Sunset Joint Venture as associates as it has significant influence over these companies through representation on their Boards of Directors.

11. Investment in Associates ...continued

The Group's interest in its principal associates, all of which are unlisted, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss) after tax	% Interest held
		$	$	$	$	
2011						
Duty Free Caribbean (Holdings) Ltd.	Barbados	87,006,218	47,685,939	102,363,535	(577,705)	40%
Bridgetown Cruise Terminals Inc.	Barbados	1,203,266	278,370	1,243,919	338,617	20%
GCS Limited	Barbados	1,374,558	1,963,743	2,916,001	(589,185)	40%
CSGK Finance (Holdings) Limited	Barbados	64,095,438	55,471,434	6,554,812	669,691	40%
CS&C Joint Venture	Barbados	11,750,762	3,274,731	1,053,610	789,712	16%
The Sunset Joint Venture	Barbados	1,466,166	659,785	127,424	84,122	16%
DGM Holdings (Canada) Inc.	Canada	31,051,694	23,626,071	3,753,492	299,011	40%
Franchise Services Corp/ The Perfect Time Ltd.	Barbados	1,496,734	8,568	-	63,406	25%
Contonou Shores Ltd.	Bahamas	3,002,376	-	-	-	35%
Other		210,426	175,965	114,737	(24,440)	
		202,657,638	133,144,606	118,127,530	1,053,229	
2010						
Duty Free Caribbean (Holdings) Ltd.	Barbados	81,037,115	41,139,122	92,789,477	(1,975,646)	40%
Bridgetown Cruise Terminals Inc.	Barbados	1,400,305	314,026	1,223,626	241,127	20%
GCS Limited	Barbados	1,867,278	1,867,278	2,987,061	(333,800)	40%
CSGK Finance (Holdings) Limited	Barbados	62,659,247	54,704,934	6,502,063	1,299,935	40%
CS&C Joint Venture	Barbados	11,499,671	3,813,352	1,024,320	715,679	16%
The Sunset Joint Venture	Barbados	1,349,021	626,762	160,353	90,912	16%
DGM Holdings (Canada) Inc.	Canada	34,426,372	27,079,760	3,671,140	612,852	40%
Franchise Services Corp/ The Perfect Time Ltd.	Barbados	2,076,602	28,266	1,905,790	1,528,652	25%
Other		32,032	17,140	-	(12,467)	
		196,347,643	129,590,640	110,263,830	2,167,244	

12. Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit and loss comprise the following:

	2011 $	2010 $
At the beginning of the year	218,275	206,372
Acquisitions	2,000	-
Revaluation to market	(37,895)	11,903
At the end of the year	182,380	218,275

Financial assets at fair value through profit and loss are fair valued annually.

The Group's financial assets at fair value through profit and loss at the end of 2011 mainly comprise its investment in privately held entities. These were revalued to their fair value at year end and the resulting loss of $37,895 (2010 - gain of $11,903) was recognised in the consolidated statement of comprehensive income.

13. Intangible Assets and Goodwill

Details of intangible assets and goodwill are as follows:

	Management Contracts $	Goodwill $	Total $
At December 31, 2010			
Cost	8,444,000	-	8,444,000
Accumulated amortisation and impairment	(2,181,367)	-	(2,181,367)
Net book value	6,262,633	-	6,262,633
At December 31, 2011			
Cost	8,444,000	-	8,444,000
Accumulated amortisation and impairment	(3,025,767)	-	(3,025,767)
Net book value	5,418,233	-	5,418,233

13. Intangible Assets and Goodwill ...continued

Movement of intangible assets and goodwill is as follows:

	Management Contracts $	Goodwill $	Total $
Beginning of year - December 31, 2009	7,107,033	5,396,691	12,503,724
Amortisation of intangible asset	(844,400)	-	(844,400)
Impairment of goodwill	-	(5,396,691)	(5,396,691)
End of year - December 31, 2010	6,262,633	-	6,262,633

	Management Contracts $	Goodwill $	Total $
Beginning of year - December 31, 2010	6,262,633	-	6,262,633
Amortisation of intangible asset	(844,400)	-	(844,400)
End of year - December 31, 2011	5,418,233	-	5,418,233

Management contracts included in intangible assets relate to contracts held by Fortress Fund Managers Limited in the various Funds. These intangibles are being amortised over a period of ten years. Amortisation during the year was $844,400 (2010 - $844,400), of which $337,760 (2010 - $337,760) relates to the share of non-controlling interest.

During 2010, Colombian Emeralds International Limited in Tortola continued to incur losses and based on future projections, it was expected that the value-in-use would not exceed the carrying amount of the goodwill. Consequently, goodwill in the amount of $4,196,631 was impaired during 2010.

During 2010, Franchise Services Corporation sold the intellectual property marks and rights of the "Colombian Emeralds International" brand to the Duty Free Caribbean (Holdings) Group for US$7,000,000. As a result of this sale, Franchise Services Corporation has ceased operations and consequently the Group impaired its goodwill in the amount of $1,200,060.

13. Intangible Assets and Goodwill ...continued

Impairment test for goodwill

- Relating to Colombian Emeralds International Limited and Franchise Services Corporation.
  Goodwill is allocated to the Company's cash generating units (CGUs) identified according to operating segments. At the end of 2010, the Group assessed the goodwill and charged $5,396,691 to impairment of goodwill in the consolidated statement of comprehensive income.

14. Investment Property

	2011 $	2010 $
At the beginning of the year	2,560,000	2,560,000
Disposals	(2,560,000)	-
At the end of the year	-	2,560,000

During the year, the Company sold its investment in a Coral Cove condominium for a total consideration of $2,875,750 realising a gain on disposal of $315,750 which has been included in consolidated statement of comprehensive income (note 28).

During the year, rental income from the Coral Cove Condominium was $Nil (2010 - $Nil) and expenses were $9,873 (2010 – $25,562).

During 2010, the Group received compensation of $1,253,758 for the compulsory acquisition of Galba Lodge that had occurred in a prior year. This has been included as a gain on disposal of investment property in the consolidated statement of comprehensive income (note 28).

Notes To The Consolidated Financial Statements

December 31, 2011

Expressed in Barbados dollars

15. Property, Plant and Equipment

	Furniture & Equipment	Motor Vehicles	Total
At January 1, 2010			
Cost	4,365,503	899,612	5,265,115
Accumulated depreciation	(2,690,150)	(534,048)	(3,224,198)
Net book value	1,675,353	365,564	2,040,917
Year ended December 31, 2010			
Opening net book value	1,675,353	365,564	2,040,917
Additions	79,888	90,734	170,622
Disposals	(7,926)	(33,235)	(41,161)
Depreciation charge	(764,379)	(120,438)	(884,817)
Closing net book value	982,936	302,625	1,285,561
At December 31, 2010			
Cost	4,399,226	949,348	5,348,574
Accumulated depreciation	(3,416,290)	(646,723)	(4,063,013)
Net book value	982,936	302,625	1,285,561
Year ended December 31, 2011			
Opening net book value	982,936	302,625	1,285,561
Additions	144,761	146,557	291,318
Disposals	(273)	(45,264)	(45,537)
Depreciation charge	(404,875)	(114,052)	(518,927)
Closing net book value	722,549	289,866	1,012,415
At December 31, 2011			
Cost	4,508,502	835,046	5,343,548
Accumulated depreciation	(3,785,953)	(545,180)	(4,331,133)
Net book value	722,549	289,866	1,012,415

16. Loans due by Associate

During 2008, the Group advanced $10,400,000 to the Duty Free Caribbean group for the purchase of the operations and to assist with the working capital of Colombian Emeralds' distribution and logistics centre in Ft. Lauderdale, USA. The loans are unsecured, bear interest at 4.27% (2010 – 4.27%) and are repayable at varying amounts between 2011 and 2017. During 2010, $1,600,000 of these loans were repaid by the Duty Free Caribbean group. The current portion of the loans amounting to $3,000,000 (2010 - $240,000), has been included in Due by Associates in current assets on the consolidated balance sheet (note 8).

17. Pension Plan Surplus

The Group has established two types of pension schemes: a contributory defined benefit pension plan and a defined contribution plan. The assets of the defined benefit pension plan are primarily invested in a mutual fund managed by Fortress Fund Managers Limited. This pension plan is valued by independent actuaries every three years using the Projected Unit Credit Method. There is an interim valuation carried out by independent actuaries every year.

The plan is integrated with the National Insurance Scheme (NIS) and will provide a member retiring after 38 years of pensionable service with a pension of two-thirds of their final three years average pensionable earnings when combined with the NIS pension.

The amounts recognised in the consolidated balance sheet are as follows:

	2011 $	2010 $
Fair value of plan assets	12,196,391	12,586,622
Present value of funded obligations	(9,150,634)	(9,252,691)
	3,045,757	3,333,931
Unrecognised actuarial gains	(309,401)	(386,752)
Unrecognised asset	(1,831,164)	(2,043,937)
Asset in the consolidated balance sheet	905,192	903,242

The unrecognised asset of $1,831,164 (2010 - $2,043,937) has not been recognised in the consolidated balance sheet because in accordance with IAS 19, this asset can only be recognised if it can be utilised by the Company.

17. Pension Plan Surplus ...continued

The movement in the defined benefit obligation is as follows:

	2011 $	2010 $
Present value of funded obligations at start of year	9,252,691	9,469,359
Interest cost	655,287	647,242
Current service cost	92,549	95,197
Past service cost - vested benefits	504	-
Benefits paid	(613,604)	(636,493)
Actuarial gain on obligation	(236,793)	(322,614)
Present value of funded obligations at end of year	9,150,634	9,252,691

The movement in the fair value of plan assets is as follows:

	2011 $	2010 $
Fair value of plan assets at start of year	12,586,622	13,188,267
Expected return on plan assets	891,272	901,820
Contributions - total	27,172	26,230
Benefits paid	(613,604)	(636,493)
Actuarial loss on obligation	(695,071)	(893,202)
Fair value of plan assets at end of year	12,196,391	12,586,622

Breakdown of plan assets are as follows:

	2011	2010
Equity instruments	84%	80%
Debt instruments	16%	20%

The Plan assets are entirely invested in shares of the Company and units of funds of an affiliate.

17. Pension Plan Surplus ...continued

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	2011 $	2010 $
Current service cost	65,377	68,968
Interest costs	655,287	647,242
Expected return on plan assets	(891,272)	(901,820)
Net actuarial losses recognised in the year	380,928	473,900
Reduction in unrecognised asset	(212,270)	(563,883)
Net amount recognised in the consolidated statement of comprehensive income in payroll costs	(1,950)	(275,593)
Actual return on plan assets	196,201	8,618

The movement in the asset recognised in the consolidated balance sheet is as follows:

	2011 $	2010 $
Net asset - beginning of year	903,242	627,649
Net credit recognised in the consolidated statement of comprehensive income	1,950	275,593
Net asset - end of year	905,192	903,242

Principal actuarial assumptions used for accounting purposes are as follows:

	2011	2010
Discount rate	7.25%	7.25%
Expected return on plan assets	7.25%	7.25%
Future salary increases - inflationary	3.75%	3.75%
Future salary increases - promotional	2.50%	2.50%
Future pension increases	2.75%	2.75%
Proportion of employees opting for early retirement	0.00%	0.00%
Future changes in NIS ceiling	3.75%	3.75%
Mortality	GAM94	GAM94

Expected contributions to post-employment benefit plans for the year ending December 31, 2012 amount to $26,792.

17. Pension Plan Surplus ...continued

The amounts for the current and previous four periods are as follows:

	2011 $	2010 $	2009 $	2008 $	2007 $
Defined benefit obligations	(9,150,634)	(9,252,691)	(9,469,359)	(9,692,131)	(10,338,666)
Plan assets	12,196,391	12,586,622	13,188,267	13,399,724	14,498,946
Surplus	3,045,757	3,333,931	3,718,908	3,707,593	4,160,280
Experience adjustments on plan liabilities	236,793	310,526	359,528	778,468	(747,970)
Experience adjustments on plan assets	(695,071)	(893,202)	(536,106)	(1,397,268)	874,815

18. Fixed Income Certificates Payable

The Fixed Income Certificates Payable will mature on June 30, 2013, bear interest at 5.00% to 5.25% (2010 – 5.00% to 5.25%) per annum and have the option of being renewed at the end of June 2012 for a further two years.

19. Loans Due to Non-controlling Interest

Loans due to non-controlling interest are unsecured, have no stated terms of repayment and bear interest at a rate of 9.55% per annum. This represents amounts due to the minority shareholders of a subsidiary.

20. Loan Due to Associate

During the year, the Group borrowed $640,000 from DGM Bank & Trust Inc. This loan is unsecured, bears interest at a rate of 3.0% per annum and is repayable in full on March 31, 2014.

21. Due to Registered Retirement Savings Plan Holders

The amount due to registered retirement savings plan holders is set out below:

	2011 $	2010 $
Fortress Select Fund Option	2,504,279	1,272,659
Fortress Managed Option	6,382,287	4,350,776
	8,886,566	5,623,435

These liabilities are secured by 'Financial Assets held for Trading' of $8,886,566 (2010 - $5,623,435), (note 5).

22. Bank Overdraft Facilities

The Group has an overdraft facility of $3.5 million which at the balance sheet date was not utilised. Debentures stamped to cover $15.7 million have been given as security to cover the bank overdraft facility.

23. Deferred Taxation

The deferred tax liability on the balance sheet consists of the following:

	2011 $	2010 $
Accelerated tax depreciation	5,361	1,875

Deferred tax assets of $1,059,264 (2010 - $1,223,855) are not recognised for tax loss carry-forwards in some Group companies as the realisation of the related tax benefits through future taxable profits is not probable.

Tax loss carry-forwards amounting to $6,074,730, which have expiry dates ranging between 2012 and 2019, have not been recognised in these consolidated financial statements.

24. Share Capital

	2011		2010	
	No. of shares	$	No. of shares	$
Authorised				
The Company is authorised to issue an unlimited number of common shares of no par value				
Issued				
Beginning of year	18,558,985	39,113,043	18,782,728	39,584,581
Repurchased during the year	(200,887)	(423,370)	(223,743)	(471,538)
End of year	18,358,098	38,689,673	18,558,985	39,113,043

During the year, the Company repurchased 200,887 (2010 - 223,743) shares for a total consideration of $926,965 (2010 - $910,877) of which $503,595 (2010 - $439,339) was eliminated against the retained earnings and $423,370 (2010 - $471,538) against share capital.

Notes To The Consolidated Financial Statements

December 31, 2011

Expressed in Barbados dollars

25. Share Based Payment

During 2009 the shareholders approved an Employee Share Option Plan (ESOP) for key management employees within the Group. The Plan covers the issue of up to 900,000 shares over five years. During the year, share options were granted. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. The options are exercisable in three equal tranches with the first tranch being immediately upon being granted, the second tranch after one year and the third tranch after two years from the date of grant. The options have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2011		2010	
	Average excercise price per share option	Options	Average exercise price per share option	Options
Outstanding at beginning of year	-	-	-	-
Granted	4.48	151,000	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of year	4.48	151,000	-	-
Exercisable at end of year	4.48	100,667	-	-

Out of the 151,000 outstanding options (2010- Nil options), 100,667 options (2010 - Nil) were exercisable. There were no options exercised during the year.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

			Shares	
Grant-vest	Expiry date	Exercise price	2011	2010
2011-2011	2016	4.48	100,667	-
2011-2012	2017	4.48	50,333	-
			151,000	-

The weighted average fair value of options granted during the period determined using the Binomial Pricing model was $0.52 per option (2010 - Nil). The significant inputs into the model were weighted average share price of $4.48 (2010 - Nil) at the grant date, exercise price shown above, volatility of 15% (2010 - Nil), dividend yield of 3% (2010- Nil) per annum, an expected option life of 4.5 years (2010 - Nil) and an annual risk-free interest rate of 5.5% (2010 - Nil) per annum. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last five years. A total expense of $52,506 (2010 - Nil) is recognised in the consolidated statement of comprehensive income for share options granted during the year.

Notes To The Consolidated Financial Statements

December 31, 2011

Expressed in Barbados dollars

26. Retained Earnings

	2011 $	2010 $
Parent company	29,185,566	28,756,117
Subsidiary companies	4,049,596	7,781,267
Associated companies	38,274,263	38,089,548
	71,509,425	74,626,932

27. Revenue from Operations

	2011 $	2010 $
Sales from retail operations	4,619,860	4,937,174
Finance income	3,561,909	3,474,685
Write down of investments	-	(5,988)
Gain/(loss) on disposal of financial assets held for trading and at fair value through profit and loss	835,333	(1,028,794)
Unrealised (loss)/gain on financial assets held for trading and at fair value through profit and loss	(2,540,642)	2,048,110
Dividend income	134,705	90,039
Commissions	1,969,835	1,539,317
Management fees	7,121,713	6,633,263
Miscellaneous	136,068	100,138
	15,838,781	17,787,944

28. Other Gains

	2011 $	2010 $
Gain on disposal of investment property (note 14)	315,750	1,253,758
(Loss)/gain on disposal of property, plant and equipment	(537)	45,587
	315,213	1,299,345

29. Payroll Costs

Payroll costs comprised:

	2011 $	2010 $
Salaries	3,917,315	3,895,075
National insurance, group health and life	279,078	277,447
Pension - defined benefit plan costs	(1,950)	(275,593)
Pension - defined contribution plan costs	145,248	131,629
Employee share option expenses (note 25)	52,506	-
Medical	137,983	180,846
Other personel expenses	319,668	172,908
	4,849,848	4,382,312
No. of employees	45	46

30. Gain on Disposal of Investment in Associate

On September 30, 2000, the Group sold its interest in Emerald Distributors Ltd. to the Duty Free Caribbean Group for $12 million realising a gain on sale of $5 million. Under the terms of this sale, the purchase price on the transaction is dependent on the consolidated results of Duty Free Caribbean Emeralds (St. Lucia) Ltd. maintaining a certain level of earnings before depreciation, amortisation and interest but after taxes. Under the terms of this agreement, the Group is entitled to receive no further gain as 2010 was the final year of the agreement. During 2010, Duty Free Caribbean Emeralds (St. Lucia) Ltd. did not earn the level of income required to generate the amount due to the Group under the terms of the sale agreement. As a result, no gain was recorded in the consolidated statement of comprehensive income in 2010.

31. Income Tax Expense

The income tax expense is comprised of the following:

	2011 $	2010 $
Current tax on profits for the year	990,452	953,369
Deferred tax charge/ (release)	3,486	(8,809)
	993,938	944,560

The tax on the loss before tax differs from the theoretical amount that would arise using the basic rate of corporation tax as follows:

	2011 $	2010 $
Profit/(loss) before taxation	2,878,944	(764,587)
Corporation tax calculated at 25.0% (2010 - 25.0%)	719,736	(191,147)
Effect of lower tax rate in other countries	148,717	(15,282)
Deferred tax asset not recorded	(107,227)	457,264
Tax effect of items not allowed in determining taxable profit	232,712	693,725
Tax charge	993,938	944,560

32. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of common shares in issue during the year.

	2011 $	2010 $
Net profit/(loss) attributable to the equity holders of the parent	1,073,788	(2,572,137)
Weighted average number of ordinary shares issued	18,474,849	18,769,403
Basic and diluted earnings per share	$0.06	($0.14)

There are no financial instruments that could dilute the basic earnings per share.

33. Net Cash Generated from Operations

The reconciliation of profit/(loss) before taxation to net cash generated from operations is as follows:

	2011 $	2010 $
Cash flows from operating activities		
Profit/(loss) before taxation	2,878,944	(764,587)
Adjustments for:		
Depreciation (note 15)	518,927	884,817
Share of results of associates (note 11)	(1,053,229)	(2,167,244)
Amortisation of intangible assets (note 13)	844,400	844,400
Impairment of goodwill (note 13)	-	5,396,691
Write down of investment	-	5,988
(Gain)/loss on disposal of financial assets held for trading and at fair value through profit and loss (note 27)	(835,333)	1,028,794
Unrealised loss/(gain) on financial assets held for trading and at fair value through profit and loss (note 27)	2,540,642	(2,048,110)
Gain on disposal of investment property (note 28)	(315,750)	(1,253,758)
Loss/(gain) on disposal of property, plant and equipment (note 28)	537	(45,587)
Pension plan credit (note 17)	(1,950)	(275,593)
Employee share option plan expense (note 25)	52,506	-
Dividend income (note 27)	(134,705)	(90,039)
Interest expense	1,213,484	1,103,849
Operating profit before working capital changes	5,708,473	2,619,621
Net change in non-cash working capital items related to operations:		
- Trade and other receivables and prepayments	(1,954,858)	387,804
- Inventories	(747,682)	507,032
- Due by associates	(2,663,820)	885,127
- Trade and other payables	1,032,280	1,089,999
- Due to associates	4,816,235	829,911
- Due to affiliates	1,338,727	422,149
Cash generated from operations	7,529,355	6,741,643
Corporation taxes paid	(1,024,696)	(1,229,162)
Interest paid	(1,213,484)	(1,103,849)
Net cash generated from operations	5,291,175	4,408,632

34. Contingent Liabilities

The Company is contingently liable to the extent of $250,000 (2010 - $250,000) as guarantor of the bank overdraft of an associate. At the balance sheet date, the bank overdraft was Nil (2010 - $84,808). Subsequent to the year end, this guarantee was cancelled.

35. Related Party Transactions

The following transactions were carried out with associates in the normal course of business:

	2011 $	2010 $
Interest earned	380,980	388,904
Management fees received	7,121,713	6,633,263
Factoring fees earned	773,683	729,160
Merchandise purchased	3,185,226	2,483,216
Processing fees paid	350,375	273,154
License fees paid	93,770	99,198

Key Management Compensation:

	2011 $	2010 $
Salaries	1,279,405	1,227,684
NIS	24,847	31,553
Medical	16,798	7,436
Pension, Group Life	69,723	77,095
Share Option Plan	20,863	-

In addition to disclosures on related party balances in Notes 8, 9 and 16, the following Fixed Income Certificates were due to related parties:

	2011 $	2010 $
Directors and Key Management - at interest rates of 5.00% to 5.25% (2010 - 5.00% to 5.25%)	2,325,282	2,380,438

	2011 $	2010 $
Directors fees	68,000	75,500

36. Segmental Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board allocates resources and assesses performance of the business from the perspective of two operating segments - retail and other services. Retail includes mainly the sale of merchandise in the Caribbean. Other services include financial, rental of property, commissions on credit card operations and management fees earned.

The Board assesses the performance of the operating segments based on a measure of operating results of the segments. Investment income and net finance income are not allocated to segments.

There are no sales or other transactions between the operating segments. Segment assets consist primarily of investment property, property, plant and equipment, trade and other receivables and prepayments, inventories, balances due by associates and operating cash and excludes financial investments and pension plan surplus.

Segment liabilities comprise operating liabilities and balances due to associates and affiliates. Capital expenditure comprises additions to property, plant and equipment.

Revenue from external customers primarily arise in Barbados except for sales from retail operations of $4,619,860 (2010 - $4,937,174) that originated in Tortola, BVI. Non-current assets reside mainly in Barbados.

Notes To The Consolidated Financial Statements

December 31, 2011

Expressed in Barbados dollars

36. Segmental Information ...continued

The segment information provided to the Board for the reportable segments for the years ended December 31, 2011 and December 31, 2010 is as follows:

	Retail		Services		Total	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Revenue						
Segment revenue	4,619,860	4,937,174	9,227,079	8,318,305	13,846,939	13,255,479
Finance income (note 27)					3,561,909	3,474,685
Investment income					(1,254,854)	2,357,125
Total Revenue					16,153,994	19,087,289
Results						
Segment results	(552,444)	(850,608)	2,179,544	(843,686)	1,627,100	(1,694,294)
Share of results of associates	(1,103,484)	(780,794)	2,156,713	2,948,038	1,053,229	2,167,244
Finance income (net)					2,348,425	2,370,836
Employee benefits					(50,556)	275,593
Dividend income (note 27)					134,705	90,039
Investment income (net)					(2,233,959)	(3,974,005)
Profit/(loss) before taxation					2,878,944	(764,587)
Income tax expense					(993,938)	(944,560)
Net profit/(loss) for the year					1,885,006	(1,709,147)
Non-controlling interest					(811,218)	(862,990)
Net profit/(loss) attributable to equity holders of the Company					1,073,788	(2,572,137)

Notes To The Consolidated Financial Statements

December 31, 2011

Expressed in Barbados dollars

36. Segmental Information ...continued

	Retail		Services		Total	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
OTHER INFORMATION						
Operating assets	12,944,758	11,964,340	42,438,042	45,288,426	55,382,800	57,252,766
Intangible assets and goodwill					5,418,233	6,262,633
Investment in associates	40,219,260	41,946,320	29,293,772	24,810,683	69,513,032	66,757,003
Unallocated corporate assets					31,446,816	24,380,517
Consolidated Corporate Assets					161,760,881	154,652,919
Operating liabilities	833,862	1,229,546	17,017,702	6,882,276	17,851,564	8,111,822
Unallocated corporate liabilities					30,424,668	27,716,795
Consolidated Corporate Liabilities					48,276,232	35,828,617
Capital Expenditure	-	20,790	291,318	149,832	291,318	170,622
Depreciation	62,168	395,238	456,759	489,579	518,927	884,817
Amortisation of intangible assets	-	-	844,400	844,400	844,400	844,400
Impairment of goodwill	-	4,196,631	-	1,200,060	-	5,396,691

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment.

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

37. Contingencies

The Company, together with its venture partner, has provided a letter of comfort to its associate, GCS Ltd., to provide financial and technical support.

38. Commitments

There are no significant capital expenditures contracted for at the balance sheet date but not yet incurred. There are no other significant commitments at the balance sheet date.

Additional Information as required in accordance with the Barbados Stock Exchange Listing Agreement

SUBSIDIARY COMPANIES

Name	Capital	Principal Country of Operation
Cave Shepherd Inc.	Equity $100,000 - 100% owned Loan Capital NIL	United States
Cave Shepherd (Cayman) Ltd.	Equity $20,000 - 100% owned Loan Capital NIL	Cayman
Cave Shepherd SRL	Equity $5,050,000 - 100% owned Loan Capital NIL	Barbados
Fortress Fund Managers Limited	Equity $9,352,500 - 75% owned Loan Capital NIL	Barbados
Fortress Fund Advisors Limited	Equity $2,000 - 75% owned Loan Capital NIL	St. Lucia
Fortress Insurance Company Limited	Equity $3,000,000 - 75% owned Loan Capital NIL	Barbados
Fortress Staff Share Scheme Inc.	Equity $1,000 - 75% owned Loan Capital NIL	Barbados
Fortress Advisory & Investment Services Ltd.	Equity $2,000 - 75% owned Loan Capital $400,000	Barbados
Fortress Global Value Fund	Equity $NIL - 75% owned Loan Capital NIL	British Virgin Islands (BVI)
Cayco Ltd.	Equity $1,000,000 - 100% owned Loan Capital $6,100,000	Cayman
Colombian Emeralds International Limited	Equity $200 - 100% owned Loan Capital NIL	British Virgin Islands (BVI)

Additional Information as required in accordance with the Barbados Stock Exchange Listing Agreement

ASSOCIATED COMPANIES (20% - 50% HELD)

Duty Free Caribbean (Holdings) Ltd.	40% owned	Barbados
Duty Free Caribbean Limited	40% owned	Barbados
DFC Services Corp	40% owned	United States
Duty Free Caribbean Emeralds (St. Lucia) Ltd.	40% owned	St. Lucia
Duty Free Caribbean (Grenada) Ltd.	40% owned	Grenada
Ashworth Limited	40% owned	Bahamas
Duty Free Caribbean (Cayman) Holdings Ltd.	40% owned	Cayman
CS (Cayman) Ltd.	16% owned	Cayman
Emerald Distributors Limited	40% owned	Cayman
Duty Free Caribbean (TCI) Ltd.	40% owned	Turks & Caicos Islands
Duty Free Caribbean (Jamaica) Ltd.	40% owned	Jamaica
Duty Free Caribbean (Curacao) N.V.	40% owned	Curacao
Colombian Emeralds International N.V.	40% owned	Aruba
Colombian Emeralds International Limited	40% owned	St. Lucia
CEI Limited	40% owned	Antigua
Deltamar N.V.	40% owned	St. Maarten
DFC (USVI) Ltd.	40% owned	St. Thomas, USVI
DFC Investments Ltd.	40% owned	Barbados
Amoro Holdings Ltd.	20% owned	Barbados
Caribworld Inc.	20.4% owned	St. Lucia
Caribworld (Trinidad) Ltd.	20.4% owned	Trinidad
Carib Home Shopping Ltd.	20.4% owned	Jamaica
J. C. S. Sunglasses Limited	50% owned	Barbados
Bridgetown Cruise Terminals Inc.	20% owned	Barbados
DGM Holdings (Canada) Inc.	40% owned	Canada
DGM Bank & Trust Inc.	40% owned	Barbados
DGM Trust Corporation	40% owned	Barbados
DGM Insurance Holdings Corporation	40% owned	Barbados
DGM Insurance Corporation	40% owned	Barbados
DGM Securities Limited	40% owned	Barbados
Fowling Overseas Limited	40% owned	British Virgin Islands (BVI)
GCS Limited	40% owned	Barbados
CSGK Finance (Holdings) Limited	40% owned	Barbados
Signia Financial Group Inc.	40% owned	Barbados
CS&C Joint Venture	16% owned	Barbados
The Sunset Joint Venture	16% owned	Barbados
Franchise Services Corporation	25% owned	Barbados
The Perfect Time Ltd.	25% owned	Barbados
Contonou Shores Ltd.	35% owned	Bahamas
Caribbean Trade Logistics Advisors Inc.	44% owned	Barbados
FSSB Inc.	15% owned	Barbados

Additional Information as required in accordance with the Barbados Stock Exchange Listing Agreement

DIRECTORS' INTERESTS (all beneficial)

Name	No. of Shares held
R. G. Cave	5,838,534
R. M. Cave	313,633
M. D. Davis	79,184
M. G. Taylor	54,034
R. G. Simpson	68,618
R. M. Harvey-Read	62,465
H. E. Tryhane	50,000
J. M. B. Williams	50,000

Note: There was no change in directors' interests between the period January 1, 2012 and March 13, 2012.

SUBSTANTIAL INTEREST OTHER THAN DIRECTORS HOLDING MORE THAN 5% OF THE ISSUED SHARES

Landview Limited	2,193,517
Aerie Limited	2,148,649

Management Proxy Circular

Cave Shepherd & Co. Ltd.
Company No. 21716

Management is required by the Companies Act Cap. 308 of the Laws of Barbados (hereinafter called "the Companies Act") to send with the notice convening the meeting, a form of proxy. By complying with the Act, management is deemed to be soliciting proxies within the meaning of the Act.

This Management Proxy Circular accompanies the notice of the forty-first annual meeting of shareholders of Cave Shepherd & Co. Limited (hereinafter called "the Company") to be held on Thursday, April 26, 2012 at 5:30p.m. (hereinafter called "the meeting") and is furnished in connection with the solicitation by the management of the Company of proxies for use at the meeting, or any adjournment thereof. It is expected that the solicitation will primarily be by mail. The cost of the solicitation will be borne by the Company.

Proxies

A shareholder who is entitled to vote at a meeting of shareholders has the right, by means of the enclosed form of proxy, to appoint a person to represent him by inserting the name of such person in the space indicated on the form of proxy.

Proxies given by shareholders for use at the meeting may be revoked by the shareholder giving such proxy at any time prior to their use. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by the shareholder or by his attorney in writing; if the shareholder is a company, executed under its corporate seal or by any duly authorised officer or attorney thereof, and deposited at the office of the Company, 1st Floor, # 24 Broad Street, Bridgetown, Barbados at any time up to and including two business days preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or adjournment thereof, and upon either of such deposits, the proxy is revoked.

Record Date, Notice of Meeting & Voting Shares

The directors of the company have fixed Thursday, March 29, 2012 as the record date for determining the shareholders who are entitled to receive notice of the meeting and have given notice thereof by advertisement as required by the Companies Act. Only shareholders of record at the close of business on Thursday, March 29, 2012 will be entitled to receive notice of the meeting.

Only such registered holders of common shares of the company will be entitled to vote at the meeting. Each holder is entitled to one vote for each share held. As at the date hereof there are 18,358,098 common shares without par value of the Company issued and outstanding.

Election of Directors

The Board of Directors consists of members who retire in rotation annually. On March 13, 2012, there are ten (10) Members. The number of directors of the Company to be elected at the meeting is five (5). Following are the names of the persons proposed as nominees for election as directors of the Company, and for whom it is intended that votes will be cast for their election as directors pursuant to the form of proxy enclosed herewith:

Nominee for Director	Present Principal Occupation
Mr. John M. B. Williams	Business Executive
Mr. Roger M. Cave	Business Executive
Mr. Robert M. Harvey-Read	Business Executive
Mr. Edward J. L. Ince	Business Executive
Mr. M. Grantley Taylor	Retired Executive

Management Proxy Circular

With respect to the first three persons nominated, the term of office for each person so elected will expire at the close of the third annual meeting of the shareholders of the Company following his election or until his successor is elected or appointed. Each of the first three nominees is now a director of the Company and will retire at the close of the forty-first annual meeting in accordance with the provisions of the by-laws of the Company, but being qualified, is eligible for re-election. Mr. John M. B. Williams, Mr. Roger M. Cave and Mr. Robert M. Harvey-Read were elected as directors at the shareholders meeting held on April 23, 2009. These three nominees are being recommended in accordance with paragraphs 3.09 and 3.10 of the revised by-laws.

It is proposed that Mr. Edward J. L. Ince be appointed to fill a casual vacancy as a result of the retirement of Mr. Harold E. Tryhane. Mr. Edward J. L. Ince is being proposed for election and is being recommended by the Board in accordance with paragraph 3.6(a) of the revised by-laws.

The remaining nominee is a current director of the Company and is being proposed for election as a non-executive director. This nominee, having attained the age of 72, is being recommended by the Board in accordance with paragraph 3.10 of the by-laws.

The management of the Company does not contemplate that any persons named above will, for any reason, become unable or be unwilling to serve as a director.

Appointment of Auditor

It is proposed to nominate the firm of PricewaterhouseCoopers SRL, the present auditor of the consolidated financial statements of the Company, as auditor of the Company to hold office until the next annual meeting of shareholders.

Discretionary Authority

Management knows of no matter to come before the meeting other than the matters referred to in the notice of meeting enclosed herewith. However, if any other matters which are not now known to management should properly come before the meeting or any adjournment thereof, the shares represented by proxies in favour of management nominees will be voted on any such matter in accordance with the best judgement of the proxy nominee.

Similar discretionary authority is conferred with respect to amendments to the matters identified in the notice of the meeting. The contents of this Management Proxy Circular and the sending thereof to the holders of common shares of the Company have been approved by the directors of the Company.

No directors' statement is submitted pursuant to Section 71 (2) of the Companies Act.

No auditors' statement is submitted pursuant to Section 163 (1) of the Companies Act.

No shareholder's proposal and/or statement is submitted pursuant to Sections 112 (a) and 113 (2) of the Companies Act.

Notes

Notes

Proxy Form

PROXIES: A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him/her and such proxy need not be a member of the Company. For the convenience of members who may be unable to attend, a form of proxy is given below and, if used, it should be lodged at the Registered Office of the Company no later than April 23, 2012.

The distribution of this Proxy is made in compliance with the requirements of the Companies Act and is not meant to be a solicitation for proxies for or on behalf of the Management of the Company.

CAVE SHEPHERD & CO. LIMITED
COMPANY NO: 21716
PROXY
FORTY-FIRST ANNUAL GENERAL MEETING

I/We _____
(name)

shareholder(s) in the Company appoint

_____ of
(name)

_____ or
(address)

_____ of
(name)

_____
(address)

to be my / our proxy at the annual meeting
to be held on April 26, 2012 and at any adjournment(s) thereof.

Signed: _____

Date: _____ 2012

Cave Shepherd & Co. Ltd.

Cave Shepherd & Co, Ltd,
#24 Broad Street, Bridgetown, St. Michael, BB11000
www.caveshepherd.com