

PROSPECTUS



# FORTRESS

CARIBBEAN PROPERTY FUND



**Fortress Property Fund Limited** is launching a further issue of a minimum of 6.75 million Class A mutual fund Shares, and a maximum of 12.5 million at Barbados \$1.20 per Share. The fund is a closed-end mutual fund which is traded on the Junior Market of the Barbados Stock Exchange.

# FORTRESS

CARIBBEAN PROPERTY FUND



SECONDARY ISSUE  
OF  
CLASS 'A' COMMON PROPERTY FUND SHARES  
AT AN OFFERING PRICE OF:  
\$1.20 PER SHARE  
PAYABLE IN FULL ON APPLICATION  
MINIMUM OFFERING 6,750,000 SHARES (\$ 8,100,000), A MAXIMUM OF 12,500,000 SHARES  
(\$ 15,000,000)

IN  
FORTRESS  
CARIBBEAN PROPERTY FUND LIMITED

Opening Date: October 15, 2001      Closing Date: October 30, 2001

A copy of this document has been filed with the Registrar of Companies in Barbados on 2001 in accordance with the provisions of the Companies Act Cap. 308 and The Mutual Funds Act, 1998, and has also been filed with the Barbados Stock Exchange under the Securities Act. The Registrar of Companies and The Barbados Stock Exchange take no responsibility as to the validity or the veracity of the contents of this prospectus and have neither approved nor disapproved the issue of any of the securities herein mentioned.

It is not the intention of the offeror at this time to file a copy of this document or to register any of the securities herein mentioned with any regulatory authority or agency in any territory outside of Barbados, except for Trinidad & Tobago where an application has been made for registration with the Securities Commission and the Trinidad & Tobago Stock Exchange.

No person receiving a copy of this document in any territory may treat this document as constituting an invitation to him or her to purchase or subscribe for any shares

nor should he/she in any event purchase or subscribe for any shares unless in the relevant territory such an invitation could lawfully be made to him or her without the offeror complying with any registration or other legal requirements. Any person wishing to subscribe for shares should satisfy himself or herself that, in doing so, he or she complies with the laws of any relevant territory, and that he or she obtains any requisite governmental or other consents and observes any other applicable formalities.

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## DEFINITIONS

In this document, where the context permits, the expressions set out below bear the following meanings:

- "the Company"** Fortress Caribbean Property Fund Limited
- "the Fund"** Fortress Caribbean Property Fund
- "Fund Shares" or "the Shares"** Class "A" Common Property Fund Shares
- "the Directors"** The Directors of the Company
- "the Manager"** Fortress Fund Managers Ltd.
- "Investment Adviser"** Alleyne, Aguilar & Altman Ltd.
- "Property Manager"** Property Consultancy Services Inc.
- "Independent Valuer"** Terra Caribbean (a division of Ernst & Young Caribbean)
- "BSE"** Barbados Stock Exchange (formerly the Securities Exchange of Barbados)
- "\$", "dollars" and "cents"** The currency of Barbados
- "NAV"** Net Asset Value being the net value of the assets of the Fund.
- "Warrants"** Warrants issued to initial purchasers of Class "A" Shares.
- "Central Bank"** Central Bank of Barbados
- "CWBET"** Cable & Wireless BET Limited
- "the Partnership"** Joint venture Partnership formed to purchase CWBET Building
- "RMB"** Royal Merchant Bank and Finance Company Limited



## KEY INFORMATION

This summary is qualified by the detailed information appearing elsewhere in this Prospectus.

### Terms of the Offer

The list of applications for Shares will be opened at 8.30 a.m. on October 15, 2001 and will close at 4.00 p.m. on October 30, 2001.

Shares are offered at an initial price of \$1.20 per Share and applications must be for a minimum of 1,000 shares initially and thereafter in multiples of 100 shares.

### Fortress Caribbean Property Fund Limited

Fortress Caribbean Property Fund Limited is a Barbados-based close-ended mutual fund company which provides an avenue for portfolio investment in real estate properties and other securities in the Caribbean and internationally.

A closed ended Mutual Fund is an investment company that issues a fixed number of shares which it does not generally redeem (buy back) on an ongoing basis. Shares of closed ended Mutual Funds are traded in securities markets through brokers at prices determined by supply and demand. As a result the share price can differ from the Net Asset Value (NAV).

The Fund's shares are listed on the Junior Market of the Barbados Stock Exchange and commenced trading in October 1999. The purchase and sale of Shares can be made through any broker who is registered with the Barbados Stock Exchange. An application has also been made to list the shares on the Trinidad and Tobago Stock Exchange.

The Fund represents an investment opportunity that allows everyone, from the large financial institution to the small individual investor, to participate in the rapidly growing real estate market in Barbados and the Caribbean.

### Purpose of the offering

The main purpose of the offering is to fund the acquisition of a majority interest in a joint venture partnership (the partnership) to be formed to purchase the CWBET Building in Wildey, St. Michael.

The Partnership will acquire the freehold of the Wildey property for \$26 million. Based on the information and estimates currently available the costs associated with the completion of the transaction and the registration of the lease including property taxes, legal and financing fees are not expected to exceed \$ 2 million.

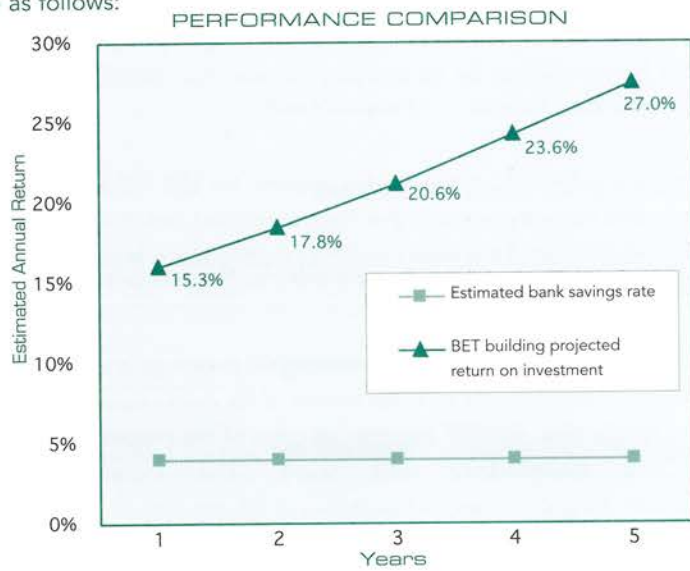
CWBET has agreed to lease the Wildey property, including all buildings and the sports playing field, back from the Partnership for an initial period of 15 years under a triple net lease. A triple net lease means that CWBET assumes all costs of the property including insurance, repairs and maintenance and taxes. The initial rent is \$3.1 million per annum with annual reviews and increases of 5% per annum.

The financing of the transaction will be on the following basis:

THE PARTNERSHIP	%	\$ Million
<b>Equity</b>		
Fortress Caribbean Property Fund	56.67	5.67
National Insurance Fund	33.33	3.33
Life Of Barbados	10.00	1.00
	<u>100.00</u>	<u>10.00</u>
<b>Debt</b>		
Royal Merchant Bank- 10 Yr Bond 8.85 %		<u>18.00</u>
	<b>Total Financing</b>	<u>28.00</u>



The net returns on equity for this investment during the first five years are estimated to be as follows:



### Secondary purposes

The Fund intends to further diversify its portfolio by using a portion of the proceeds from this offer to expand into the tourism and commercial sectors through the following developments;

### Lower Estate

The Fund owns a 45,000 square foot plot of commercial land at Lower Estate, St. Michael. The Fund intends to use \$1.3 million of the proceeds of this Offer to develop strategically located mini-warehouses on this site. With easy access to the ABC highway, the location and size of these warehouses are expected to appeal to the distribution sector, in particular entrepreneurs.



Ten acre CWBET Property, Wildey, St. Michael



### Tobago Plantations -Villa Lot

The Fund owns a substantial sized lot at the Tobago Plantations development in Tobago. The Fund intends to use \$500,000 of the proceeds from this Offer to construct a luxury 3,000 square foot villa on this lot. The overall Plantations development, which includes the Hilton Hotel, will provide the Fund with excellent international opportunities to find tenants or purchasers for its villa.

### Other future investment opportunities

The Fund maintains a residual amount of liquid funds, such as marketable securities, to allow it to take advantage of opportunities as they arise. The Fund is currently in discussions with a local company to enter into a joint venture development project in the Bridgetown area. As such, \$500,000 of the proceeds from the Offer is intended for the purchase of short term marketable securities until these opportunities are realised.

Following is a summary of how the proceeds of the Offer is to be utilised:

### Benefits to Investors

Within the equity investment environment of Barbados the Directors believe that the Fund offers an unrivalled combination of benefits to investors;

- 25% total return since launch in 1999
- Regular flow of income in the form of annual dividends;
- Risk management through a diversified portfolio of Real Estate holdings;
- Taxation benefits of the Fund, which include no corporation tax on income designated for the shareholders;
- Up to a \$17,500 reduction in taxable income for individual shareholders resident in Barbados;
- Professional management and investment advice from reputable firms;
- Ability to invest in foreign currency denominated assets outside of Barbados of up to \$250,000 per quarter ,and,
- Exchange control benefits for CARICOM shareholders.

### Calculation & Publication of The Net Asset Value (NAV)

The net asset value of the Fund is calculated on a monthly basis and adjusted thereafter based on appraisals made by the independent valuers every six months. The NAV is published in the local newspapers, on the Internet at [www.fortressfund.com](http://www.fortressfund.com) and through the Lipper Overseas Fund Table.

### Expenses

There is an initial commission of 1% for registered brokers of the regional stock exchanges, for selling Shares in the Fund. This expense will be borne by the Fund. Annual management fees are 0.75% per annum of the net assets of the Fund. Investment Advisory fees are 0.75% per annum of the net assets of the Fund.

### Accounting Period and Shareholder Statements

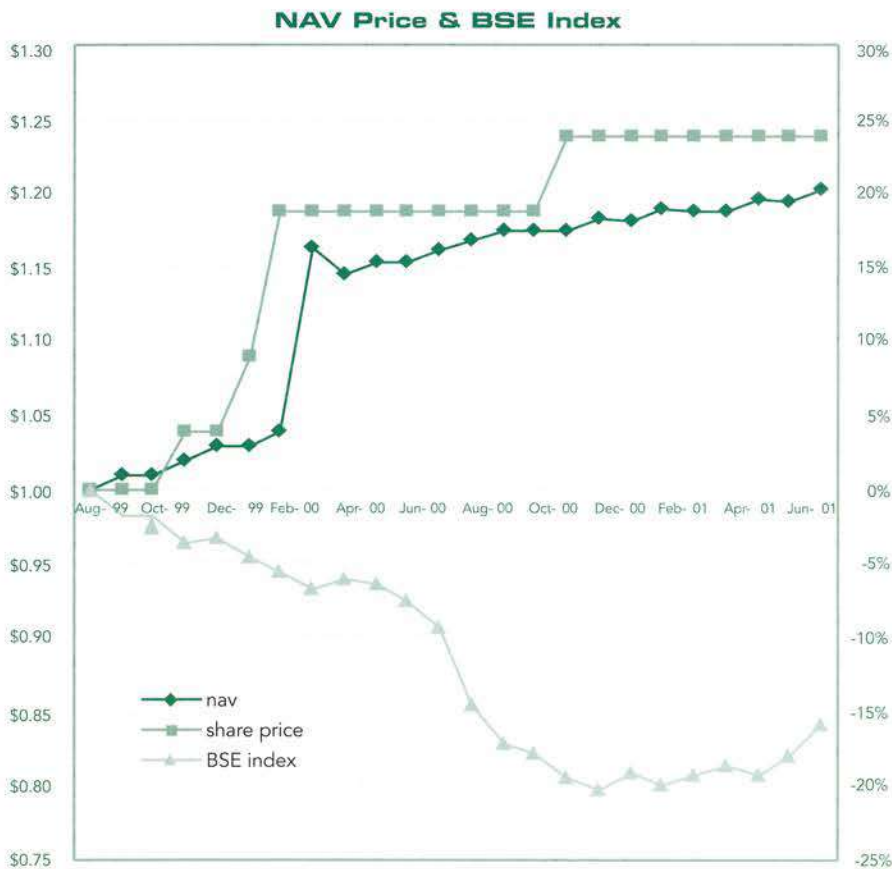
The year end of the Fund is September 30th. Statements of the number of Shares held and the net asset value per Share will be mailed to Shareholders at six-monthly intervals.

	\$ Million
The Partnership	5.67
Lower Estate - Mini Warehousing	1.30
Tobago Plantations – Villa on Lot	0.50
Other future investment opportunities	0.50
Issue costs	0.13
<b>Total proceeds</b>	<u>8.10</u>



## Fund performance

The chart noted below shows the performance of the Fund on a monthly basis from its inception in August 1999 (base month) to July 2001. The Net Asset Value of the Fund is compared to its ending share price and The Barbados Stock Exchange (index). It was assumed that \$1 had been invested in the BSE at August 1999 and this movement is shown below.



Since its launch in August 1999 the Fund has significantly outperformed the Barbados Stock Exchange. In stark contrast to the BSE index, which has fallen by 13% during the period from August 1999 to July 2001, the Fund has experienced a total return of 25% over the corresponding period. The table below highlights how the Fund has surpassed the projections set out in the initial prospectus, dated July 19, 1999:

	Initial Prospectus (Projected Sept 2001)	Actual (unaudited)
Net Asset Value (pre-div)	\$1.20	<b>\$1.26 as at Aug 2001</b>
Dividend	\$0.03	<b>\$0.05 declared</b>



## PROJECTED FINANCIAL INFORMATION

Projected Financial Information  
As at September 30

	2002	2003	2004	2005
Projected Net Asset Value (\$'000)	\$31,393	\$34,838	\$38,912	\$41,403
Number of shares ('000)***	24,804*	26,220*	27,990*	27,990
<b>Net Asset Value per share</b> (before dividend)	\$1.32	\$1.40	\$1.47	\$1.57
Dividends per share	\$0.05	\$0.07	\$0.08	\$0.09
<b>Net Asset Value per share</b> (after dividend)	\$1.27	\$1.33	\$1.39	\$1.48
<b>Annual shareholder returns</b>	9.1%**	10.2%	10.5%	12.9%
Fully diluted earnings per share	\$0.08	\$0.11	\$0.13	\$0.14

\* - The increase in the numbers of shares between 2002 and 2004 is due to the exercising of the warrants issued with the initial offer of shares in the Fund.  
 \*\* - The annual return for the year ending September 30, 2002 reflects the expected reduction in rental income whilst the Funds major asset, Carlisle House, is redeveloped.  
 \*\*\* - Assumes no new share issues in following years through 2005

This document includes projected financial information, the outcome of which may or may not be realised. The projection is based on assumptions that, to the belief of the Fund and its Directors, are likely to be attained, but unknown factors may cause the actual results to vary from such projections. Neither the Fund nor its Directors accept any responsibility in respect of any unforeseen variations.

Over the next five years the Directors of the Fund are estimating an increase in its Net Asset Value from \$22.1 million as at July 2001 to \$41.4 million as at September 30, 2005. It is estimated that Net Asset Value per share will increase to \$1.57 during that same period. Projected earnings per share are anticipated to grow to 14 cents per share by September 30, 2005 which would provide an estimated annual return of 12.9%.

### Taxation benefits of the Fund

#### Income:

The Fund is not subject to corporation tax on the income or profits derived from its investments, provided it designates all of such income or profits arising in an income year to be the income of the shareholders.

#### Capital Gains:

There is no capital gains tax in Barbados and, therefore, capital gains realised by the Fund are not subject to tax.

#### Dividends:

The Fund is exempt from tax in respect of dividends received from investments in companies located in countries within the Caribbean Community (CARICOM), which have ratified the CARICOM Double Taxation Agreement.

#### Taxation of Shareholders

##### Property Transfer Tax and Stamp Duty:

Investors in the Fund will be exempt from property transfer tax and stamp duty in respect of transfers of their shares in the Fund.

#### Dividends:

Any dividends paid by the Fund to individual residents in Barbados will be subject to a final withholding tax of 12.5%. Dividends paid by the fund to a Barbadian corporation or to a non-resident shareholder are exempt from withholding taxes.

#### Capital Gains:

There is no capital gains tax in Barbados.

Investors in other territories outside of Barbados are advised to confirm the laws with their respective tax authorities.

#### Exchange Control

Since the shares of the Fund are listed on the Barbados Stock Exchange, CARICOM resident shareholders will be permitted to purchase and sell shares of the Fund in the amount of up to US\$ 1.5 million per transaction without prior approval from the Central Bank.

#### Tax Incentives - Barbadian individuals

- Up to \$10,000 per annum for investments in a mutual fund may be deducted from taxable income.
- Individuals working for a company that pays a bonus but does not offer shares to its employees, can receive 75% of their annual bonus, up to a limit of \$7,500, free of tax by converting that portion of the bonus into shares of a mutual fund.

#### Restrictions on The Tax Incentives

In the initial offer period, the Fund will qualify for the tax incentives as either a mutual fund or as new shares in a public company. Once the issue has been closed, the shares are freely traded in the secondary market as a listed security on the BSE. Therefore a person purchasing shares through the BSE will not be entitled to tax incentives on those shares.

## THE FORTRESS CARIBBEAN PROPERTY FUND

The Fortress Caribbean Property Fund is a close-ended mutual fund registered under the Mutual Funds Act of Barbados 1998. The Fund provides a practical and efficient route for individuals and institutions to invest in a diversified portfolio of real estate investments in Barbados and the Caribbean.

### CORPORATE INFORMATION

#### BANKER

Barclays Bank PLC  
Broad Street  
Bridgetown  
Barbados

#### INDEPENDENT AUDITORS

PricewaterhouseCoopers  
Bishop's Court Hill  
St. Michael  
Barbados

#### DIRECTORS

Mr. Geoffrey Cave B.C.H. - Chairman  
Mr. Paul Altman B.C.H.  
Dr. Trevor Carmichael Q.C. GCM  
Mrs. Maureen Davis  
Sir Stephen Emtage  
Mr. Terry Hanton

#### ATTORNEYS AT LAW

Sir Henry Forde, Q.C.  
Juris Chambers  
Fidelity House  
Willey Business Park  
St. Michael  
Barbados

#### MANAGER, SECRETARY, REGISTRAR & TRANSFER AGENT

Fortress Fund Managers Ltd  
2nd Floor Cave Shepherd  
Broad Street  
Bridgetown  
Tel No: 246-431-2198  
Toll Free: 1-800-450-6461  
Fax No: 246-431-0514  
Internet: fortressfund.com  
E-Mail: caverc@caribsurf.com

#### INVESTMENT ADVISER

Alleyne, Aguilar & Altman Ltd  
Derricks  
St. James  
Barbados  
Tel. No: 246-432-0840  
Fax No.: 246-432-2147  
E-mail: altman@caribsurf.com

#### REGISTERED OFFICE

Top Floor Cave Shepherd  
10-14 Broad Street  
Bridgetown  
Barbados

#### PROPERTY MANAGER

Property Consultancy Services Inc.  
Derricks  
St. James  
Barbados

#### INDEPENDENT VALUER

Terra Caribbean  
(a division of Ernst & Young Caribbean)  
"The Courtyard"  
Hastings  
Christ Church  
Barbados

#### AGENT- TRINIDAD & TOBAGO

West Indies Stock Brokers Ltd  
23A Chacon Street  
Port Of Spain  
Trinidad  
Tel. 868- 625 9473  
Fax 868 627 5002  
Email: wiseltd@tstt.net.tt





## THE FORTRESS CARIBBEAN PROPERTY FUND

### The Fund Objective

The objective of the Fund is to achieve long-term total returns through a diversified portfolio of real estate, shares in other property companies or funds and Government Securities predominantly in the Caribbean. The returns will be made up of capital appreciation of the underlying assets plus rental income, dividends and interest

### Fund Manager

The Manager of the Fund is Fortress Fund Managers Ltd. FFM is a Barbados based investment management company which successfully launched and manages the Fortress Caribbean Growth Fund. The Caribbean Growth Fund is the first regional equity fund investing across the Caribbean and it has grown to BDS \$48 million in assets. FFM is a licensed Fund administrator under the Mutual Funds Act of Barbados. The company is backed by a number of leading companies with solid reputations, and a wealth of experience in business in the Caribbean and internationally. The shareholders include Barbados Shipping & Trading Co. Ltd., Cave Shepherd & Co. Ltd. and The Nation Corporation.

### Roger Cave, CA, CFA

Roger Cave is the Investment Manager and a Director of FFM, being one of the founding shareholders and holds the designation of Chartered Financial Analyst (CFA). The CFA is a program sponsored by the Association of Investment Management & Research (AIMR) in the U.S.A. Before joining Fortress, Mr. Cave gained four years of professional accounting experience with

Coopers & Lybrand in Toronto and Price Waterhouse in Barbados. He has also worked with the Commonwealth Development Corporation and Cave Shepherd. He is a Director of the Barbados Stock Exchange.

### Investment Adviser

The Investment Adviser is Alleyne, Aguilar & Altman Ltd., a Barbados based Real Estate firm. Alleyne Aguilar & Altman has been one of the leading real estate firms in Barbados for the past 20 years and is the exclusive affiliate of Christie's Great Estates, based in the U.S.A. The firm offers a full range of estate agency services including:

- Real estate sales and rentals reservations
- Villa management
- Commercial property management
- Owner accounting
- Consultancy services

The company employs 35 persons. Properties managed by Alleyne Aguilar & Altman include in excess of 80 luxury West Coast villas, Settlers Beach Hotel and the Chelston Park and Enfield House office buildings.

### Property Manager

The Property Manager is Property Consultancy Services Inc., a subsidiary of Alleyne, Aguilar & Altman Ltd. which offers a range of business services to the firm's clients. These include:

- Hotel consultancy
- Business and property valuations
- Real estate development and conceptualisation
- Project management

The developments which are project managed by the firm include the Sugar Hill master planned community in St. James.

### Investment Committee

The Investment Committee has been established by the Board. At present, the members of this committee are Mr. Geoffrey Cave, Sir Stephen Emtage and Dr. Trevor Carmichael. A quorum for meetings of the Investment Committee is a majority of its members. The Investment Committee is responsible for reviewing all investment recommendations made by the Manager and, where appropriate, recommending their approval by the Board. The Investment Committee also has oversight responsibility for monitoring existing investments and recommending investment policies and procedures to the Board for approval.

### Registrar, Secretary & Transfer Agent

Fortress Fund Managers Ltd acts as Registrar, Secretary & Transfer Agent. Share certificates will not be issued to shareholders. Ownership of the shares will be in non-certificated form and maintained in electronic form in the Central Securities Depository (CSD) a subsidiary of the BSE.

### Independent Valuers

Terra Caribbean (a division of Ernst & Young Caribbean) performs semi-annual independent valuations of the properties in accordance with the procedures set by the Fund's Board of Directors and subject to the approval of the BSE.



## THE FORTRESS CARIBBEAN PROPERTY FUND

### Board Of Directors

The Fund has a Board of Directors who offer a range of business and professional skills, particularly with respect to real estate investment and management, and who possess numerous contacts in the real estate industry. The Articles of Incorporation provide that the Board of Directors of the Fund will be comprised of a minimum of three (3) and a maximum of nine (9) Directors. Set out below are the names, residences, offices and principal occupation of each of the Directors of the Fund:

Name and Residence	Position with the Fund	Principal Occupation
Mr. Geoffrey Cave, B.C.H.(1) "Windermere" Brittons Hill St. Michael	Chairman and Director	Business Executive
Mr. Paul Altman, B.C.H. "Mallows" Sandy Lane St. James	Director	Real Estate Broker
Dr. Trevor Carmichael, Q.C.GCM (1) Staple Grove House St. Davids Christ Church	Director	Attorney-at-Law
Mrs. Maureen Davis Walkers Plantation St. George	Director	Business Executive
Sir Stephen Emtage (1) "Three Acres" Navy Gardens Christ Church	Director	Investment Manager
Mr. Terry Hanton, ACA "Sanctuary" Upper Halcyon Heights St. James (1) Member of the Investment Committee	Director	Chartered Accountant & Real Estate Analyst

## THE FORTRESS CARIBBEAN PROPERTY FUND



The following is a brief biographical description, including principal occupation for the last five years, of each of the directors and officers of the Fund:

**Mr. Geoffrey Cave, B.C.H.**  
Chairman  
Cave Shepherd & Co. Ltd.

Mr. Geoffrey Cave is the Chairman & Managing Director of Cave Shepherd & Co. Ltd. a public company listed on the BSE. Mr. Cave, who holds a B.Comm. from McGill University in Canada, has been the Chairman & Managing Director of Cave Shepherd for the past 25 years. Mr. Cave has had a distinguished career in business in Barbados being involved as Director and Chairman of several of the leading public companies in Barbados.

Mr. Cave received the Caribbean Master Entrepreneur of the Year Award for the year 2000. In the same year, he was also awarded the Barbados Centennial Honour by the Prime Minister of Barbados.

**Mr. Paul Altman, B.C.H.**  
Managing Director  
Alleyne, Aguilar & Altman Ltd.

Mr. Paul Altman has been involved in real estate for 27 years as Managing Director of Alleyne, Aguilar & Altman Ltd. He has been at the forefront of developments in the luxury residential market in recent years and was instrumental in the highly successful Royal Westmoreland golf residential community where he held the post of Deputy Chairman. He is also a director of Sugar Hill, a tennis based residential community. Mr. Altman is a graduate of the University of Miami with a B.B.A. Degree.

In addition to the luxury property market,

Mr. Altman is involved in urban renewal programs in Speightstown, where he is Chairman of the Task Force and in Bridgetown through his directorship with Barbados Shipping and Trading Co. Ltd. He is immediate past President of the Barbados National Trust.

Mr. Altman was awarded the Barbados Centennial Honour by the Prime Minister in 2000.

**Dr. Trevor A. Carmichael, Q.C., GCM**  
Principal  
Chancery Chambers

Dr. Trevor Carmichael was born in Barbados and was called to the United Kingdom Bar as a member of the Middle Temple in London and the Barbados Bar. He is a member of the International Bar Association, the Inter-American Bar Association and a Committee Member of the Inter-American Bar Foundation as well as an associate member of the Canadian Bar Association. He holds membership in the International Tax Planning Association and the International Fiscal Association, and he is the Barbados Country Chairman of the International Litigation Committee on Business Law of the International Bar Association, as well as the Deputy Secretary-General of that association.

Dr. Carmichael is the Principal of Chancery Chambers, a Barbados law firm engaged primarily in international and domestic law, international tax consulting, and charities.

**Mrs. Maureen Davis**  
Chief Development Officer  
Duty Free Caribbean

Mrs. Davis is a senior member of the man-

agement team of Duty Free Caribbean, an associated company of Cave Shepherd & Co. Ltd. where she has worked for the past 18 years. She has been instrumental in the growth and development of Cave Shepherd & Co. Ltd. and Colombian Emeralds International. Mrs. Davis has also been the driving force behind the Company's activities in raising awareness of environmental issues.

**Sir Stephen Emtage**  
Senior Vice President & Deputy CEO  
Life of Barbados Ltd.

Sir Stephen Emtage is a Graduate of the Universities of London, Oxford, and Sussex. He joined Life of Barbados in 1987 after serving as the Director of Finance and Planning in the Ministry of Finance and Planning in Barbados from 1973 to 1987. In May 1998 he was appointed Senior Vice President and Deputy Chief Executive Officer of Life of Barbados.

**Mr. Terry Hanton, ACA**  
Managing Director  
Property Consultancy Services Inc.

Mr. Terry Hanton is a UK trained Chartered Accountant specialising in consultancy services in the real estate and hospitality sectors. From 1984 to 1996 he was Finance Director of St. James Beach Hotels Plc, a Barbados based hotel group which was traded on the London and Barbados exchanges. He is currently the Managing Director of Property Consultancy Services Inc., a subsidiary of Alleyne, Aguilar and Altman Ltd.



## THE INVESTMENT OPPORTUNITY

### Why invest in a Real Estate Mutual Fund?

The Fund represents an investment opportunity that allows everyone, from the large financial institution to the small individual investor, to participate in the rapidly growing real estate market in Barbados and the Caribbean.

Barbadians have historically viewed real estate as a secure investment. There have been cyclical downturns in the real estate markets in the world's major economies, but Barbados does not usually experience the same levels of decline that have been characteristic in other countries.

Because real estate investment is generally considered to be less volatile than stocks and bonds it has traditionally attracted steady rates of return, with spectacular returns only occurring in niche markets. Recently, Barbados has encountered these kinds of returns especially in beachfront property and the master planned communities, which have sprung up on the West Coast in the last five to ten years.

The increase in property prices in Barbados over the last twenty years has been measured by the housing price index, which forms part of the retail price index and during that time increases have far exceeded inflation and the relatively "risk-free" return associated with savings rates.

In the opinion of the Investment Adviser several other Caribbean islands also offer excellent potential for growth in income and capital values of real estate holdings. The following section outlines some of the investment opportunities that the Fund will consider.

### Commercial Space

Investment in commercial space is often beyond the reach of the typical investor because of the size of the investment necessary. However, this type of investment can be very attractive because, in addition to the appreciation of the value of the building, cash returns are generated over the course of the investment through rental income.

Two categories of commercial space that are particularly attractive are office space and retail space. Although retail space has the potential of attracting significantly higher rents per square foot than office space, it is also a more risky investment due to its more direct relationship with the health of the local economy.

There are other investment opportunities in real estate which have the potential to offer higher returns than those in investments in land and commercial space. These investments, however, also carry a proportional increase in risk to the investor.

### Residential

There are two types of residential investments that the Fund may consider. Investment in luxury villas and investment in smaller residential projects such as condominiums or townhouses. The luxury villa market in Barbados has exhibited significant returns recently. The Investment Adviser recently compared the current sale prices of a pool of properties to the initial purchase prices over an average hold period of 5 years. It was found that the average compounded annual rate of return of capital appreciation exceeded 15%.

Fortress Caribbean Property Fund Limited

Although this calculation did not consider property transfer tax, commissions, and other transfer costs, which would reduce the returns to the investor, neither was the potential rental income considered, which could be significant for this type of property. In the event that the Fund were to invest in this type of asset, every effort would be made to optimise rental income.

As with all of its investments, the Fund will evaluate each opportunity carefully and conduct the appropriate level of due diligence before proceeding with an investment with this risk profile. The diversification of the Fund's portfolio will also tend to mitigate these risks.

### Land

Investment in land is the most simple form of real estate investment and is an investment that many can participate in. Notwithstanding the impressive growth trends displayed in the value of land, there are other forms of real estate investment that offer the potential for even more attractive returns which have been described above and which will all form part of the Fund's Portfolio as described in the section entitled "Investment Portfolio".



## REAL ESTATE AS AN ASSET CLASS

### Background

The real estate market existed centuries before the securities market but it only recently became recognised as an asset class in the investment portfolio context. Research studies show that 95% of the returns of a portfolio are determined by the asset allocation decisions among stocks, bonds, real estate, commodities etc. and only 5% by actual selection of individual securities.

Up until the mid 70's, real estate holdings made up only a small percentage (3 - 4%) of total pension fund portfolios in the U.S. The periods of high inflation during the 70's and the changes in the tax laws resulted in increased popularity for real estate investment trusts ("REITS") as both stocks and bonds suffered declines due to the high interest rates. Real estate offers important risk reduction characteristics when added to a portfolio dominated by stocks and bonds. The advent of modern portfolio theory and the new methods of evaluating assets on a risk/return basis together with their impact on the overall portfolio as a whole increased the levels of holdings in real estate held by institutional investors.

### Why Real Estate Is An Attractive Investment

A typical real estate investment (other than undeveloped or "raw" land) offers a total return, which consists of both an income element and capital appreciation. A typical commercial rental property is similar in some respects to a bond investment in that the net cash flows are fixed for lease terms and are based largely on current interest rates and the capital cost of the property. The unique difference is that the

income payments will usually be much higher than a bond because of the liquidity risk of the property and the fact that rental incomes normally will increase over time. In addition to this, the value of the property is typically expected to increase in value over time. These two unique characteristics make the returns on real estate closer to those of equities by offering potential for growth, whereas most bonds have a principal component that does not appreciate and a fixed coupon payment, which does not change with inflation.

### Impact Of Real Estate On A Portfolio Of Stocks, Bonds & Bills

The returns on real estate are not perfectly correlated with those of stocks, bonds or bills and therefore investing some percentage of a portfolio in real estate assets will have a diversification impact which should serve to lower the level of risk for any given level of return.

Adding real estate investments to a portfolio of stocks, bonds, and bills, can actually enhance the overall returns while reducing the risk (volatility) of the portfolio.

### Real Estate Portfolios

Traditionally real estate investments were made on an ad hoc property-by-property basis with little regard to their impact on risk and return of the real estate portfolio. The same portfolio approach, which is typically applied, to stocks and bonds by diversifying the risk of specific investments by spreading the holdings into different companies, industries and countries also applies to real estate.

A significant amount of the individual

property risk in real estate can be managed through diversification of (a) property type and (b) geographic location. The main property types include office, retail, industrial, residential, hotel and development land. Holding a portfolio of these different types of properties in different countries significantly reduces the risk of loss from any one property.

A disciplined and professional portfolio management and performance appraisal approach will not only reduce the risk of loss but will also provide the opportunity for significantly higher returns.

### Risk Factors of Real Estate Investments

The higher returns generally associated with real estate are due to the inherent risks in the investment itself. The primary risk is that of reduced liquidity due to the size of the transactions where a transaction can take months or even years to be executed. The market in which real estate assets trade is not well established and defined, there are often few participants and limited information. In addition, the valuation of properties is often subjective where appraisals are based on several assumptions including estimates of replacement costs, similar market values and future rental incomes and costs and future discount rates.

The mitigating factor for the above risks is time. Performance and returns from real estate investments can only be gained over long periods of time and hence this asset class is most suitable for long-term investors.



## INVESTMENT GUIDELINES & INVESTMENT PORTFOLIO

The investment of the Fund will be directed towards properties, which provide sound income returns and/or potential for medium or long-term capital appreciation. These may include land, office and retail space, luxury villas, or smaller residential developments.

The Fund will invest in mature properties and development projects having regard to the unique characteristics, which make them sound investments. The Fund may also partner with developers by investing in listed and unlisted securities of property development funds or companies, which are considered to have significant capital growth potential.

The Fund may balance its exposure to fluctuations in property values by also investing in marketable securities such as equities and government bonds, both locally and internationally.

Foreign currency received by subscription will, in whole or in part, be invested in such securities traded on international markets. Wherever the Directors consider that the long-term returns on such investments exceed those attributable to property, the Fund may also invest substantially in them.

### Investment Size and Return

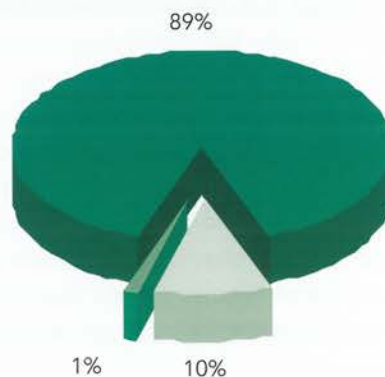
The Fund will not normally invest in property with a value of less than \$500,000 as the cost of managing small investments reduces the yield to be earned from them. In order to ensure portfolio diversification, the directors of the Fund will also not normally invest in any single property with a value in excess of 40% of the value of the Fund's assets.

The Fund will seek to participate in projects that demonstrate a return commensurate with investment risk. Although the Fund will consider a range of investments, each with a different expected return, the Fund will not invest in projects with a projected internal rate of return of less than 10%.

### CURRENT INVESTMENT PORTFOLIO

One of the most attractive features of this Fund, is that it combines a portfolio management approach from an investment management firm, with the Investment Advisers who possess expertise and knowledge in the area of real estate and property management. The principals have put together a fund structure and model portfolio which offers the potential investor the opportunity for better returns with less risk than they might otherwise achieve themselves.

#### Portfolio Asset Allocation



Real Estate	89%
Caribbean Listed Securities	1%
Cash & Government Securities	10%

- Real Estate
- Cash & Government Securities
- Caribbean Listed Securities



## CURRENT REAL ESTATE PORTFOLIO

The mix of different property types and different properties provides the Fund with a level of diversification, and reduces the impact of loss from any one type. Each of the property types held has its unique risk/return characteristics.

The Fund holds properties located in some of the best sites in Barbados and the Caribbean:



### CARLISLE HOUSE

SQUARE FEET; 45, 000

APPRAISED VALUE: \$ 9.5 million

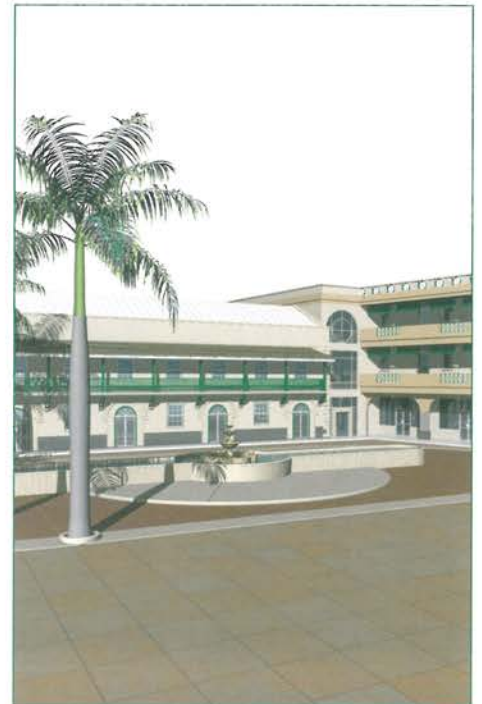
OCCUPANCY: Property under renovation

Carlisle House is located on the wharf-side in Bridgetown, Barbados opposite the Pier Head, and is immediately adjacent to the new boardwalk. When renovations are completed it should become one of the most sought after locations on the island for retail and office use.

Major renovations with a projected cost of \$2.7 million were commenced in 2001 to upgrade and refurbish the property. This resulted in a significant reduction in rental income. The first phase of the redevelopment

should be completed by the end of October 2001 and it is expected that the property will be fully tenanted during the year ending September 30, 2002. As a result of the improvements in occupancy and rental rates total gross annual rental income is expected to increase to approximately \$1.5 million.

The commencement of the second phase of the development is planned for 2002. This involves the construction of a pedestrian plaza which will house cafés and entertainment areas. It will be located between the wharf and the southern face of the existing building. This phase of the project has just received planning approval and it should enhance the desir-



ability of the rental space. The location of this property at the end of the board walk, and at the entrance to the Careenage has tremendous potential for the future for tourism related activities, including shopping, restaurants and cafes. The property is located on one of the busiest access roads through Bridgetown. It has good visibility and car parking both to the East and the West of the property. The current rental rates are well below those being achieved on other parts of Bridgetown and the Directors are of the view that this property has great potential for significantly higher returns as Bridgetown is redeveloped.



## CURRENT REAL ESTATE PORTFOLIO



### BROAD STREET

SQUARE FEET: 14,119

APPRAISED VALUE: \$ 6 million

OCCUPANCY: 100%

Number 24 Broad Street is a prominent three storey building located in the centre of commercial activity in Barbados. This building was acquired in 1999 and is leased to Cave Shepherd & Company Limited who sublet the ground floor to Colombian Emeralds International.

Total gross rental income is approximately \$600,000 per annum.



### CHATTEL VILLAGE

SQUARE FEET: 6,000

APPRAISED VALUE : \$ 2.1 million

OCCUPANCY: 100%

The Chattel Village is a long-term lease of retail space designed using traditional Barbadian architecture and is arranged as a pedestrianised village. The complex consists of 12 brightly coloured wooden chattel houses and is located in the hub of tourist activity on the West Coast. The Chattel Village is fully occupied and there is ongoing interest from a waiting list of potential new tenants. Total gross rental income is approximately \$400,000 per annum.

## NEW INVESTMENTS



### CWBET BUILDING

CWBET's headquarters are located in Wildey, St. Michael. This property represents the main opportunity of this second share offering. The total cost of the property including various fees and other costs are expected to be \$28 million.

#### The Property

The property comprises approximately 10 acres of land and is located in Wildey, St. Michael, adjacent to the ABC Highway. Although the area has mainly been developed for commercial purposes including the island's main sports complex and gymnasium, there are also good quality residential communities. The central location is ideal, with easy links to Bridgetown, the Airport and the West Coast of Barbados. The site itself is highly visible from one of the island's

busiest roads.

The property is comprised of a Building & parking area. The building is approximately 85,000 square feet and includes offices and equipment space. There is also a Sports Playing Field, which is approximately 200,000 square feet in size.

#### Opportunity

Over the past few years, Wildey has developed as an important office and industrial location. At present a large proportion of the property is currently used as a sports complex and thus presents a great opportunity for further commercial and other development.

#### The Tenant

CWBET was incorporated in 1984, when it acquired the assets of Cable & Wireless (West Indies) Limited. It is the sole provider

of international communications in Barbados. CWBET is a public company listed on the BSE with 85% of its shares held by Cable & Wireless (West Indies) Limited and the remaining 15% by the Barbadian public. The ultimate holding company is Cable & Wireless Plc, a company incorporated in England. Cable & Wireless Plc is one of the world's leading providers of international communications services with an assigned debt rating of A2 by Moody's Investment Services.



## THE JOINT VENTURE

Fortress Caribbean Property Fund Ltd. will enter into a joint venture agreement (i.e. the partnership) with two local institutional investors for the purchase of the building. The particulars of the partnership are as follows:

THE PARTNERSHIP	%	\$ Million
<b>Equity</b>		
Fortress Caribbean Property Fund	56.67	5.67
National Insurance Fund	33.33	3.33
Life of Barbados	10.00	1.00
	<u>100.00</u>	<u>10.00</u>
<b>Debt</b>		
Royal Merchant Bank – 10 Yr Bond 8.85 %		<u>18.00</u>
	<b>Total Financing</b>	<u>28.00</u>

## DEBT

The Partnership will enter into an agreement with Royal Merchant Bank & Company Limited (RMB) to issue a series of bonds totalling BDS\$18 million dollars, at a fixed interest rate over the period of the loan of 8.85%. The loan is secured by a first mortgage on the property and the partners will each be liable for their proportionate share of the loan. This loan is to be repaid from the rental income received by the Partnership in respect of the lease on the CWBET Building. The loan is expected to be repaid over ten years, after such time the CWBET Building is expected to be unencumbered by debt.

## THE LEASE

The Tenant (CWBET) has agreed to lease the Wildey property, including all buildings and the sports playing field, back from the Partnership for an initial period of 15 years under a triple net lease in which CWBET assumes all costs of the property including insurance, repairs and maintenance and taxes. The initial total rent is \$ 3.1 million per annum with annual reviews and increases of 5% per annum. There is no exit clause for the tenant. In addition, CWBET has agreed to provide a renewable Letter of Credit, over a period of ten years, to the value of one year's rent.



## INVESTMENT RETURNS

The following tables highlight the key projected financial information in the Partnership over the next five years;

### The Partnership Projected Financial Highlights – Return On Initial Investment

('000)	2002	2003	2004	2005	2006
Total Equity Investment	\$10,000				
Net Rental Income	\$3,100	\$3,255	\$ 3,418	\$ 3,589	\$ 3,768
Less:					
Operating Expenses	\$(10)	\$(10)	\$(10)	\$(10)	\$(10)
Interest Expenses	\$(1,560)	\$(1,465)	\$(1,352)	\$(1,218)	\$(1,058)
Net Income	\$1,530	\$1,780	\$2,056	\$2,361	\$2,700
<b>Return On Initial Investment</b>	<b>15.3 %</b>	<b>17.8 %</b>	<b>20.6 %</b>	<b>23.6 %</b>	<b>27.0 %</b>

The returns continue to appreciate each year as the interest on the debt declines. The loan will be fully repaid by the end of the tenth year, at which time the Fund's share of the net rental income is expected to be over \$ 2.2 million per annum.

### The Partnership – Projected Loan Amortization and Cash Flow Coverage

('000)	2002	2003	2004	2005	2006
Net Rental Income	\$ 3,100	\$ 3,255	\$ 3,418	\$ 3,589	\$ 3,768
Less:					
Operating Expenses	\$(10)	\$(10)	\$(10)	\$(10)	\$(10)
Interest Expenses	\$(1,560)	\$(1,465)	\$(1,352)	\$(1,218)	\$(1,058)
Principal Repayments	\$(1,000)	\$(1,200)	\$(1,400)	\$(1,700)	\$(2,000)
Net Cash Flow (Dividends)	\$530	\$580	\$656	\$661	\$700

The table above demonstrates that the cash flows from the CWBET property fully cover the total debt service on the RMB loan including both principal and interest. The interest rate is fixed at 8.85 % for the 10 year period of the loan. The net cash flow will be distributed to the partners on an annual basis.

### The Partnership – 56.67% Share – Fortress Caribbean Property Fund Limited

(\$'000)	2002	2003	2004	2005	2006
Share Of Net Income	868	1,009	1,165	1,338	1,530
Share Of Net Annual Cash Flow	301	329	372	375	397

The above table shows the impact of the 56.67% share of the Partnership to the Fortress Caribbean Property Fund. This has been accounted for in the financial statements of the Fund under the equity method of accounting. The cash flows demonstrate that the property is fully self-financing and that the debt will not impact on the Fund's ability to continue to pay dividends and grow its portfolio.





### TOBAGO PLANTATIONS

SQUARE FEET: 27,000

APPRAISED VALUE OF LAND: \$ 800,000

The Fund owns a substantially sized lot at the prestigious new Tobago Plantations development in Tobago. This development expands over 750 acres and comprises a 200 room Hilton Hotel, an 18 hole golf course, condominiums, homes and home sites. Later development will include a village and a marina. The development is owned by Angostura, CLICO and Guardian Life, three of Trinidad's leading conglomerates.

The Fund intends to use \$500,000 of the proceeds from this Offer to construct a 3,000 square foot villa on this parcel of land with the intention of renting it from the 2002/2003 Winter season.



### LOWER ESTATE

SQUARE FEET: 45,000

APPRAISED VALUE OF LAND: \$ 732,000

In order to ensure that the portfolio remains diversified, the Fund acquired a commercial site at Lower Estate, St. Michael. The site is located within one mile of the ABC Highway, the main highway in Barbados. The Fund intends to use \$ 1.3 million of the Offer proceeds to develop this site as rental warehouse space. The construction of the mini-warehouses will commence shortly, with the aim to have them completed by September 30, 2002.

The rental on the property is expected to be in excess of \$380,000 per annum.



## OTHER FUTURE INVESTMENT OPPORTUNITIES

As this is a closed-ended fund, the Fund maintains a residual amount of liquid funds, such as marketable securities, to allow it to take advantage of opportunities as they arise. The Fund is currently in discussions with a local company to enter into a joint venture development project in the Bridgetown area. As such, \$500,000 of the proceeds from the Offer is intended for the purchase of short term marketable securities until these opportunities are realised.

### Performance Review of the Fund

The Fund has undergone a period of consolidation over the past year recording net income for the 10 month period July 31,

2001 of \$730,000 compared to \$1,590,000 for the period ended September 30, 2000.

In accordance with the Funds expectations, the results for the 10 month period to July 31, 2001 reflect the reduction in rental revenue brought about by the planned redevelopment of the Fund's largest investment, Carlisle House. In addition, the prior period's net income figure reflects a large gain on the sale of short-term securities which did not reoccur in the current year.

The reduction in rental income is expected to be short term and is largely tied to the redevelopment of Carlisle House. This project is a major redevelopment and

although it is within budget; the reduction in rental income has affected the financial year ended September 2001 and it will also impact the financial year ended September 2002. Once completed however, it is anticipated to produce strong returns for the Fund in the future as illustrated in the projections for 2003 and onwards.

Total assets have increased from \$21.70 million at September 30, 2000 to \$22.77million as at July 31, 2001. In the corresponding period, the Fund's NAV has increased by 3.3% and its share price by 4.17%, which is significantly better than the BSE market as a whole, which in the same period increased by only 1.63%.





## ONGOING FEES AND EXPENSES

### The Manager

The Manager is paid a fee of 0.75% of the total net assets of the Fund per annum. The fee is calculated on the total net assets of the Fund based on the semi-annual valuation and monthly adjustments that take into account revenues and expenses of the Fund. The fee is paid monthly and adjusted retroactively at the semi-annual valuation date to take into account any significant changes in the total net assets.

### The Investment Adviser

The Investment Adviser is paid a fee that is equivalent to 0.75% of the total net assets of the Fund per annum. The fee is calculated on the total net assets of the Fund based on the semi-annual valuation and monthly adjustments that take into account revenues and expenses of the Fund. The fee is paid monthly and adjusted retroactively at the semi-annual valuation date to take into account any significant changes in the total net assets.

### The Independent Valuer

The Independent Valuer is paid a fee that is calculated on the appraised values of the specific properties being valued. The fee for all new properties added to the Fund will be 0.2% of the appraised value. Subsequently each property will be valued twice per year and the fee shall be 0.035% of the appraised value of the property. Any property that undergoes substantial redevelopment may be subject to a full valuation fee of 0.2% but this shall depend on the extent of the redevelopment.

### Transaction Costs

When the Fund sells real estate it will pay a sales commission to real estate agents who introduce a purchaser. Where a purchaser is introduced by the Investment

Adviser, Alleyne, Aguilar & Altman Ltd., the commission will be at a rate of 3% of the value of the transaction. Where the purchaser is introduced by another agent, the rate of commission will be negotiated up to a maximum of 5%.

Divestment of the Fund's assets will attract stamp duty of 1% and legal fees based on a sliding scale, the maximum rate being 1.5%, as outlined in the Legal Profession Act CAP 370A S.I. 1997 no. 55 (Attorney-at-Law Remuneration for Non-contentious Business Rules 1997).

### CONFLICTS OF INTEREST

When the Manager or Investment Adviser proposes an investment or when the Fund reviews a proposal, there is potential for conflicts of interest to arise. The Fund proposes to deal with such potential conflicts as follows:

- All Directors of the Fund and the Manager and Adviser have entered into various non-disclosure, confidentiality and non-competition agreements to preserve the confidentiality and commercial potential of prospective investments.

- The Manager and Investment Adviser may not during the term of the Management Agreement and the Investment Adviser Agreement manage or provide advice in relation to other fund(s) or investment companies, the principal objectives of which are to invest in real estate assets in Barbados and the Caribbean, and which significantly compete directly with the Fund in business, geographical coverage or in any other way unless either at least 75 per cent of the Fund's capital is invested or committed for investment in real estate assets or the Board of the Fund comprising directors independent of the Manager or Investment Adviser have approved such appointment.

- The Fund may not invest in assets owned, advised or managed by the Manager or Investment Adviser or any subsidiaries or affiliates of the Manager or Investment Adviser until these interests have been disclosed to the Board of the Fund.

- The Manager and Investment Adviser will ensure that the Fund has the opportunity to participate in investment opportunities which are consistent with the Investment Guidelines and which are known to them during the term of the Management and Investment Adviser Agreement.

- Where a Board member, the Manager or the Investment Adviser has any involvement in a proposed investment or in a related competing business, such as is likely to affect their judgement of the proposal, the involvement will be declared to the Board of Directors. The Board will decide by simple majority whether the involvement is sufficient to preclude the party concerned from further involvement in the investment decision. The disclosure and further considerations will be recorded in the minutes of the relevant meeting.

- Where the Investment Adviser is representing a third party vendor to the Fund, the involvement will be declared to the Board of Directors. The Board will decide by simple majority whether to preclude the Investment Adviser concerned from further involvement in the investment decision. The disclosure and further considerations will be recorded in the minutes of the relevant meeting.

### Reports and Meetings

Unaudited reports are mailed to all shareholders on a semi-annual basis. Audited financial statements are sent to all Shareholders within 90 days of the Fund's financial year-end.



## THE INVESTMENT PROCESS

### Investment Sourcing

The Board of Directors of the Fund, the Fund Manager, and the Investment Adviser leverage their extensive network of contacts in the real estate industry to identify potential investment opportunities. In addition, the Fund develops working relationships with intermediaries, such as real estate agents, bankers, accountants, and lawyers, as well as the business community in Barbados and the Caribbean in order to create a referral base from which investment opportunities will be generated.

### Investment Evaluation

The Investment Adviser is responsible for evaluating all investment opportunities that fall within the Investment Guidelines of the Fund. The Investment Adviser works with the Fund Manager to prepare investment recommendations on each potential opportunity to be presented to the Fund's Investment Committee for approval.

The Investment Adviser conducts a detailed appraisal on each investment it recommends to the Fund. These appraisals include technical and market evaluation, country risk assessment, evaluation of potential partners or principals, financial analysis, legal due diligence, and assessment of environmental issues.

The Investment Adviser works with the Fund Manager to recommend the most appropriate structure and terms and conditions of the investment that would best protect the interests of the Fund.

### Property Management and Monitoring

The Property Manager is responsible for monitoring the real estate investments of the Fund pursuant to the Property Management Agreement. The Property Manager manages all aspects of the ongoing operation of the Fund's real estate assets and their responsibilities include: the collection of rents and other income; payment of expenses relating to normal operating expenses; leasing of space as it becomes available for rent including advertising where necessary; hiring, supervising, and administration of payroll for onsite personnel; co-ordination of all necessary maintenance; and, preparation of annual budgets and reporting of the financial performance of the properties on a monthly basis including a summary of operations, a record of income, a record of disbursements, and a narrative report of operations including budget variances and their causes.

In the event that a property that is acquired by the Fund has an existing relationship with a property manager, the manager will be retained to provide the services as outlined above provided that the property manager can demonstrate to the Fund's satisfaction that it has the experience and expertise to provide these services in an efficient and effective manner.

The property management fees will be on contract basis for each individual property and the costs will be borne out of the revenues of the individual properties. The property management fees will be at a competitive rate as determined by the Fund Manager and approved by the Board of Directors.

### Divestment

The Investment Adviser will be responsible for evaluating all divestment opportunities and will present to the Board detailed recommendations on such opportunities taking into consideration market conditions, economic returns, and future potential of the asset.

### Valuation Policy

The assets of the Fund will be valued semi-annually, or more frequently if the Directors decide the circumstances warrant it. The net asset value (NAV) per share will be calculated monthly and the Fund's share price reported by the BSE and any other market on which the shares are traded.

Whilst the Fund is closed-ended, the primary purposes of regular valuations are to monitor the performance of the Investment Adviser, provide information to the market, and calculate ad valorem fees and expenses.

The Articles empower the Directors to value unlisted assets and adjust the prices of quoted securities in circumstances where they believe latest quoted prices do not fairly reflect the prices at which securities can be traded.

The fair market value of the real estate assets will be determined by the independent valuer. Fair market value is defined as:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.*



Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer & seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interest;
3. a reasonable time is allowed for exposure on the open market;
4. payment is made in terms of cash or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions by any one associated with the sale.

In determining the fair market value the independent valuer will consider the following three methods of valuation. Each of the methods offer an indication of the value.

- (a) *Income Approach: Present value of its net operating income plus the present value of the residual value of the assets using an appropriate 'Going Out' capitalisation rate, plus the intrinsic value of any non income generating assets.*
- (b) *Replacement Cost Approach: Based on the existing construction, labour & other costs, the amount needed to replace the property if built at the valuation date.*
- (c) *Market Value Approach: Based on the going market rates for similar properties using actual recent transaction prices.*

The independent valuer may engage the services of a professional quantity surveyor in order to assist with the replacement cost approach.

## DEALING IN THE FUND'S SHARES

Fortress Caribbean Property Fund is a closed ended mutual fund. Investors wishing to liquidate their investment in whole or in part, can sell their shares through a broker on the BSE. Shares cannot be redeemed at the offices of the Manager as is the case with an open ended mutual fund. Similarly an investor wishing to make an additional investment in the Fund's shares should place an order through a broker on the BSE. There can be no guarantee that on any trading day there will be buyers and sellers for the Fund's shares.

As supply and demand for the Fund's shares will fluctuate with the market conditions, it is likely that the Fund's shares will trade at a premium or discount to the net asset value of the Fund. If shares trade at a premium for a consistent period of time, additional tranches may be issued. If shares trade regularly at a significant discount, consideration will be given to the Manager buying back shares, either for onward sale or cancellation with the aim of enhancing shareholders' value. The maximum amount of shares that the Fund is allowed to buy back in a year's time is 15% of the outstanding shares. The benefits of purchasing shares for cancellation will accrue to the Fund.





## RISK FACTORS

One of the larger investments of the Fund, and the main investment underlying this share offering is the purchase of the CWBET building. The building is being leased to a single tenant and as such there is an element of tenancy risk. If the tenant should sell its business and leave the island this could prove costly as the building is currently configured for their use. Although the building could be reconfigured for another tenant or even for multiple use, they may require different terms and additional expenses may be incurred as a result.

Provision has been made within the lease agreement for a letter of credit for the lease payments to be paid for twelve months and this would provide a buffer in the event of default. This risk is further mitigated by the reputation of the current tenant and the potential to re-let the building given its excellent location.

The purchase of the CWBET building is to be partially financed via a debt issue. This has introduced an element of leverage and hence increased the level of risk of the fund.

Real estate investments tend to have a greater level of operational risk than other types of asset classes such as stocks and bonds. Several of the investment properties held may represent large value transactions for which there may be a limited potential market of buyers and sellers. Transactions involving real estate properties can take several months to complete resulting in a significant liquidity risk.

The properties purchased are valued by an independent valuer subsequent to purchase, at six monthly intervals as at September 30th and March 31st. An "independent valuation" has not yet been performed on the CWBET property but the Investment Adviser has provided "An Opinion On Value". The semi-annual independent valuations are largely based on forward-looking assumptions using historical and current market data and conditions for inflation, interest rates, building costs, vacancy rates, demographic trends, income levels and growth, regulatory and town planning approvals etc. While these ongoing assumptions will be made periodically using the most up to date and accurate data combined with independent professional judgement, it is likely that future events will be different from those expected and therefore appraised values could vary from the actual realisable values for such properties.

The Fund's shares will be listed and the share price quoted on the BSE. The BSE is an emerging stock market and may have a greater level of risk and volatility than more established stock markets. The average transaction sizes are small and the market is typically less liquid than larger more established markets.

Currency fluctuations, exchange controls, tax and other regulations currently applicable or which may be introduced in the future may affect the value and marketability of the Fund's investments and income derived therefrom. Financial supervision and regulation is currently at a less developed stage in the Caribbean than other more developed capital markets.

The capital and appraised values of the investments held can go down as well as up, as interest rates and other economic conditions change. This will be reflected in the quoted share price of the Fund's Shares.

Fortress Caribbean Property Fund Limited is a closed-ended Fund and as such, investors may only purchase new or additional shares through subsequent share offers or on the open market on the BSE. Similarly investors may only sell shares on the open market on the BSE. When selling Fund shares, there can be no guarantee that there will be willing buyers or that the offered prices will reflect the NAV of the Fund.

This Prospectus makes reference to actual rates of return experienced in various forms of real estate investment in Barbados in recent years. There can be no guarantee that such rates of return will continue into the future. Accordingly, the performance of the Fund is not ensured nor is the performance guaranteed by Fortress or any other authority. Investments made in the Fund are at the sole risk of the investor.



## INVESTMENT RESTRICTIONS & BORROWING POWERS

The Directors of the Fund have approved the following investment restrictions and borrowing powers. These may be varied from time to time by the Directors, once notice of any impending changes has been given to Shareholders.

- Borrowings will be restricted to 40% of the appraised value of the Fund's assets.
- The Fund will not make loans.
- The Fund will not lend its portfolio assets.
- The Fund will not invest in mortgages or other debt instruments secured by real estate.
- The Fund will be empowered to invest in real estate, listed and unlisted shares of companies whose primary business relates to the development, ownership, management or rental of properties.
- Liquid investments will be in the form of Government & commercial debt, bank deposits & shares of open-ended mutual funds.

### DESCRIPTION OF SHARE CAPITAL OF THE FUND

The authorised capital of the Fund consists of an unlimited number of Class 'A' Common Property Fund Shares and 10 Class 'B' Shares. The Fund currently has 17,700,000 Class 'A' shares and 10 Class 'B' shares in issue.

The following is a summary of the material provisions attached to the shares of the Fund.

#### Class 'A' Shares

Liquidity:

Holders of Class 'A' Shares can trade their shares on the BSE. Class 'A' Shares are not redeemable by the Fund, and accordingly investors have no guarantee of liquidity with respect to their investment in the Fund. The Fund has no obligation to make a market for its shares.

Dividends:

Holders of Class 'A' Shares are entitled to receive dividends at the discretion of the Board.

Voting Rights:

Holders of Class 'A' Shares are entitled to receive notice of and attend all meetings of Shareholders of the Company but not to vote at any such meeting except on the following matters:

- i. the liquidation of the Fund; or
- ii. the winding up of the Company.
- iii. the reconstruction of the Company, and/or the amalgamation of the Company and/or the Fund with any other company or mutual fund.

Dissolution:

Upon liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company for the purpose of winding up its affairs, the holders of the Class 'A' Shares shall be entitled to receive, after payment of all liabilities of the Company and the then stated capital of Class 'B' Shares, any remaining assets of the Company to be divided amongst the Class 'A' Shares.

#### Class 'B' Shares

(Held by the Manager & Investment Adviser)

Issue:

The Class 'B' Shares may be issued only to

the Manager and Investment Adviser.

Dividends:

Holders of Class 'B' Shares are not entitled to receive dividends.

Voting Rights:

Holders of Class 'B' Shares are entitled to the right to receive notice of and attend all meetings of Shareholders of the Fund; the right to vote at any such meeting. Each Class 'B' share entitles the holder to one vote per Share.

#### Warrants

As at September 30, 2001 there were 3,540,000 warrants outstanding. Each warrant entitles the holder to purchase one Class 'A' Share at a subscription price of \$1.00 per share on the exercise date.

Warrants may be exercised as at October 1, 2001, October 1, 2002, or October 1, 2003 or, if these are not business days, on the next business day following these dates.

The warrants shall expire and all rights to purchase Class 'A' Shares thereunder cease and become null and void after October 1, 2003, or, if this is not a business day, on the next business day thereafter.

#### INITIAL COMMITMENTS

Initial commitment(s) have been received from a regional financial institution, to purchase \$ 6 million of the shares.



## **INVESTMENT BY FORTRESS CARIBBEAN GROWTH FUND**

In accordance with its aim of seeking good investment returns through a diversified portfolio of investments, Fortress Caribbean Growth Fund may invest up to 10% of its net assets in the Fund. Any such investment will be limited to 15% of the shares and warrants of the Fund. In the event that Fortress Caribbean Growth Fund holds shares in the Fund, the rate of management fees it receives from the Fund will be offset against the rate of management fees charged to Fortress Caribbean Growth Fund to eliminate double charging of management fees by Fortress Fund Managers Limited.

## **DIVIDEND POLICY**

The Board of Directors of Fortress Property Fund Limited may declare, from time to time, such cash dividends, out of monies legally available for dividends, as it may consider advisable. It is the policy of the fund to distribute 30% to 65% of its net income to shareholders. The Fund has proposed a dividend of \$0.05 a share, for a total of \$885,000, which will be due to shareholders of record on September 30, 2001. Remaining surpluses were reinvested in assets in accordance with the Investment Guidelines.

## **TAXATION OF THE FUND**

The Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 1998 in Barbados. Consequently, the Fund will not be subject to corporation tax on the income or profits derived from its investments provided it designates all of such income or profits arising in an income year to be the income of the Shareholders.

In addition there is presently no capital gains tax in Barbados and, therefore, capital gains realised by the Fund will not be subject to tax.

The Fund will be exempt from tax in respect of dividends received from investments in companies located in countries within the Caribbean Community (CARICOM) which have ratified the CARICOM Double Taxation Agreement (i.e. Antigua, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and Trinidad and Tobago).

## **TAXATION OF THE SHAREHOLDERS**

### *Dividends*

The investors in the Fund will not be subject to tax in Barbados on the income arising from the Fund which is designated by the Fund to be the income of the investors and which is not actually distributed to them. Any dividends paid by the Fund to individual residents in Barbados will be subject to a final withholding tax of 12.5%. Under the Income Tax Act of Barbados 1998, dividends paid by the Fund to a Barbadian corporation, or to a non-resident shareholder are exempt from withholding taxes.

### *Capital Gains*

There is presently no capital gains tax in Barbados. Therefore, investors will not be subject to tax in Barbados on capital gains derived on realisation of their investment in the fund.

### *Property Transfer Tax and Stamp Duty*

Under the Mutual Funds Act, 1998, an investor in the fund will be exempt from Property Transfer Tax and Stamp Duty in

respect of transfers of their shares in the fund.

## **FOREIGN EXCHANGE CONTROL**

Barbados has a regime of exchange control regulations administered by the Central Bank. These regulations require that residents convert foreign currency receipts to Barbados dollars and purchase their foreign currency requirements for goods and services from the commercial banks who have delegated authority to sell foreign exchange on behalf of the Central Bank. Since 1975, Barbados has maintained a fixed exchange rate of BDS\$ 2.00 to US\$ 1.00.

As the shares of the Fund are listed on the BSE, CARICOM resident Shareholders will be permitted to purchase and sell shares of the Fund up to US\$ 1.5 million per transaction without prior approval from the Central Bank.

As an Authorised Mutual Fund, the Fund will be able to make investments in assets outside of Barbados denominated in foreign currency. The Fund can apply to the Central Bank for permission to invest up to a maximum of \$250,000 per quarter outside of the Caribbean. In addition, the Fund can also invest an amount equal to all foreign currency raised through the issuance of shares in assets outside of Barbados denominated in foreign currency.



## EXPENSES AND NET PROCEEDS OF THE OFFERING

The expenses of the sale of the Offered Shares are to be borne by the Fund and are not expected to exceed 1.5% of the funds raised.

## USE OF PROCEEDS

The proceeds of this offering, after payment of any sales commissions and related initial expenses will be invested by the Fund in appropriate real estate investments in accordance with the objective of achieving income and long-term capital appreciation for the Fund's Shareholders. Pending investment in appropriate properties, the Fund's capital will be invested in liquid investments. Any capital gains, interest and other investment income earned on such investments will accrue to the benefit of the Fund.

Following is a summary of how the proceeds of the Offer will be utilised:

	\$ Million
The Partnership	5.67
Lower Estate	1.30
Tobago Plantations – Villa Lot	0.50
Other future investment opportunities	0.50
Issue costs	0.13
<b>Total proceeds</b>	<b>8.10</b>

In the event that the share offer is not fully subscribed the proceeds will be prioritised to the Partnership. Should the Offer exceed the minimum, then proceeds will also be allocated to additional projects as noted above.

## MATERIAL CONTRACTS

The Fund has entered into the following contracts which are material to investors prior to the date of this offering:

- the Management Agreement;
- the Investment Adviser Agreement;
- Independent Valuer Agreement;
- the Property Management Agreement;
- the Purchase Agreement for the CWBET Property; and
- the Partnership Agreement.

Copies of the foregoing will be available for inspection during regular business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the Fund's registered office at 10-14 Broad Street, Bridgetown, Barbados from the opening date of the share issue, until the closing date.

Copies will also be available for inspection at the office of the Agent, **West Indies Stockbrokers Limited, 23A Chacon Street, Port of Spain, Trinidad.**

## CONSENTS

The following have given and have not withdrawn their written consent in connection with the inclusion in the Prospectus of the information they provided in the form and context in which it is included;

- Alleyne, Aguilar & Altman Ltd.
- Barclays Bank PLC
- Cable & Wireless BET
- Fortress Fund Managers Limited
- Juris Chambers
- Life of Barbados Limited
- National Insurance Fund
- PricewaterhouseCoopers
- Property Consultancy Services Inc.
- Royal Merchant Bank and Finance Company Limited
- Terra Caribbean (a division of Ernst & Young Caribbean)
- West Indies Stockbrokers Limited

Copies of these consents have been lodged with the Registrar of Companies as required pursuant to section 292 of the Companies Act.

**PricewaterhouseCoopers**  
The Financial Services Centre  
Bishop's Court Hill  
P.O. Box 111  
St. Michael  
Barbados, W.I.  
Telephone (246) 431-2700  
(246) 436-7000  
Facsimile (246) 429-3747  
(246) 436-1275

October 3, 2001

## Review Report

### To the Directors of Fortress Caribbean Property Fund Limited

We have reviewed the unaudited balance sheet of **Fortress Caribbean Property Fund Limited** as of July 31, 2001 and the related unaudited statements of income, changes in equity and cash flows for the period from October 1, 2000 to July 31, 2001. These financial statements are the responsibility of the fund's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standards.



**Chartered Accountants**

Antigua Donald B. Ward Charles W. A. Walwyn Robert J. Wilkinson  
Barbados Anthony G. Ellis Wayne I. Fields William StC. Hutchinson Marcus A. Hatch Philip St. E. Atkinson Michael R. Boyce (Principal) R. Michael Bynoe  
Joyce E. Dear Maurice A. Franklin Geoffrey R. Gregory Stephen A. Jardine Graham A. Kirby J. Andrew Marryshow Lindell E. Nurse  
Brian D. Robinson Maria E. Evelyn-Robinson Christopher S. Sambrano Paul Tadros R. Charles D. Tibbits  
Grenada Colin W. Dathorne  
St. Lucia Anthony D. Atkinson Richard N. C. Peterkin



Fortress Caribbean Property Fund Limited  
Unaudited Balance Sheet

(expressed in Barbados dollars)

	July 31, 2001 \$	September 30, 2000 \$
<b>Assets</b>		
Investment properties (note 3)	20,377,451	18,892,800
Investment in securities (note 4)	<u>1,710,255</u>	<u>1,511,308</u>
	<u>22,087,706</u>	<u>20,404,108</u>
<b>Other assets</b>		
Cash and short-term deposits (note 5)	470,597	995,840
Accounts receivable and prepaid expenses	209,574	150,315
Deferred expenses	<u>-</u>	<u>149,174</u>
	<u>680,171</u>	<u>1,295,329</u>
<b>Total assets</b>	<u>22,767,877</u>	<u>21,699,437</u>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Security deposits	114,938	121,463
Accounts payable and accrued expenses	197,460	151,574
Loan (note 6)	<u>400,000</u>	<u>-</u>
<b>Total liabilities</b>	<u>712,398</u>	<u>273,037</u>
<b>Shareholders' equity</b>		
Stated capital (note 7)	17,700,010	17,700,010
Revaluation reserve (note 3)	2,035,819	2,135,819
Retained earnings	<u>2,319,650</u>	<u>1,590,571</u>
<b>Total shareholders' equity</b>	<u>22,055,479</u>	<u>21,426,400</u>
<b>Total liabilities and shareholders' equity</b>	<u>22,767,877</u>	<u>21,699,437</u>
<b>Net asset value per share (note 9)</b>	<u>1.25</u>	<u>1.21</u>

Approved by the Board of Directors



Director



Director

Fortress Caribbean Property Fund Limited

Unaudited Statement of Changes in Equity

For the period from October 1, 2000 to July 31, 2001

(With comparative figures for the period from May 7, 1999, the date of incorporation, to September 30, 2000)

(expressed in Barbados dollars)

	Stated capital	Revaluation reserve	Retained earnings	Total
	\$	\$	\$	\$
Issue of shares	17,700,010	-	-	17,700,010
Surplus on revaluation of investment properties	-	2,135,819	-	2,135,819
Net income for the period	-	-	1,590,571	1,590,571
Balance - September 30, 2000	17,700,010	2,135,819	1,590,571	21,426,400
Deficit on revaluation of investment properties	-	(100,000)	-	(100,000)
Net income for the period	-	-	729,079	729,079
Balance - July 31, 2001	17,700,010	2,035,819	2,319,650	22,055,479



Fortress Caribbean Property Fund Limited  
Unaudited Statement of Income

For the period from October 1, 2000 to July 31, 2001

(With comparative figures for the period from May 7, 1999, the date of incorporation, to September 30, 2000)

(expressed in Barbados dollars)

	2001	2000
	\$	\$
<b>Revenue</b>		
Net rental income (note 8)	1,115,608	1,851,493
Interest	135,193	116,902
Gain on sale of investment property	51,154	-
Dividends	1,555	16,685
Other income	10,091	-
	<hr/>	<hr/>
	1,313,601	1,985,080
<b>Expenses</b>		
Management fees	268,674	316,915
Audit and other professional fees	48,620	63,552
Write off of deferred expenses	149,174	38,350
Advertising and printing	26,045	26,432
Office and administrative expenses	72,342	34,407
Interest and bank charges	1,302	5,790
Exchange loss	-	762
Listing fees	1,475	1,918
License fees	4,708	12,031
Director's fees	10,000	13,000
	<hr/>	<hr/>
	582,340	513,157
<b>Net income from operations</b>	<hr/>	<hr/>
	731,261	1,471,923
<b>Realised and unrealised gain on securities</b>		
Realised gain on sale of securities	-	126,251
Unrealised loss on securities (note 4)	(2,182)	(7,603)
	<hr/>	<hr/>
<b>Net (loss)/gain on securities</b>	(2,182)	118,648
<b>Net income for the period</b>	<hr/>	<hr/>
	729,079	1,590,571
 Earnings per share (note 12)		
- basic	<hr/>	<hr/>
	0.04	0.09
- diluted	<hr/>	<hr/>
	0.03	0.07

Fortress Caribbean Property Fund Limited

Unaudited Statement Cash Flows

For the period from October 1, 2000 to July 31, 2001

(With comparative figures for the period from May 7, 1999, the date of incorporation, to September 30, 2000)

	2001 \$	2000 \$
Cash flows from operating activities		
Net income for the period	729,079	1,590,571
Adjustments for:		
Unrealized loss on securities	2,182	7,603
Write off of deferred expenses	149,174	38,350
Realised (loss)/gain on sale of securities	-	(126,251)
Gain on sale of investment property	(51,154)	
	829,281	1,510,273
Operating income before working capital changes		
Increase in accounts receivable and prepaid expenses	(59,259)	(150,315)
Decrease/(increase) in deferred expenses	-	(187,524)
Decrease/(increase) in security deposits	(6,525)	121,463
Increase in accounts payable and accrued expenses	45,886	151,574
	809,383	1,445,471
Net cash generated from operating activities		
Cash flows from investing activities		
Purchase of investment properties	(2,069,670)	(16,756,981)
Purchase of securities	(212,129)	(1,977,120)
Proceeds on sale of securities	11,000	584,460
Proceeds on sale of investment property	536,173	-
	(1,734,626)	(18,149,641)
Cash flows from financing activities		
Issue of shares	-	17,700,010
Proceeds from loan	400,000	
	400,000	17,700,010
Net decrease in cash and cash equivalents	(525,243)	995,840
Cash and cash equivalents - beginning of period	995,840	-
Cash and cash equivalents - end of period	470,597	995,840



Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

**1 Principal activities**

Fortress Caribbean Property Fund Limited (the Fund) was incorporated on May 7, 1999 and is registered under the Mutual Funds Act of Barbados as an authorised mutual fund. It commenced operations on August 20, 1999. The Fund maintains its registered office at 10-14 Broad Street, Bridgetown, Barbados.

The investment objective of the Fund is to achieve income and capital appreciation over the long-term from a portfolio of real estate property and other securities in the Caribbean and internationally.

**2 Significant accounting policies**

The financial statements are prepared in accordance with International Accounting Standards (IAS). Significant accounting policies are as follows:

**Basis of preparation**

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of investments.

**Use of accounting estimates**

The financial statements are prepared in conformity with International Accounting Standards. In certain cases, the company's management is required to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from estimates made by management.

**Revenue recognition**

Rental income is recognised on an accrual basis in accordance with the relevant rental agreements. Rental income is shown net of the expenses incurred in managing the properties and VAT.

Other revenues earned by the company are recognised on the following bases:

Interest income	–	as it accrues unless collectability is in doubt.
Dividend income	–	when received.

**Investments**

i) Securities

Marketable securities are carried at market value determined on a portfolio basis. Market value is calculated by reference to Stock Exchange quoted selling prices at the close of business on the balance sheet date. Securities not listed on an official exchange are carried at cost. Unrealized gains or losses on the carrying value of the portfolio are credited/charged to the income statement.

On disposal of a security, the differences between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

Fixed income securities are carried at amortized cost. No provision is made for any decline in the market value of fixed income securities as these securities, if held to maturity, will realise their fair value.

Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

ii) Investment properties

Investment properties are treated as long term investments and carried at market value determined semi-annually by external independent valuers. Investment properties are not subject to depreciation. Increases in their carrying amount are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the statement of income.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement; any amounts in the revaluation reserve relating to that investment are transferred to retained earnings.

**Management fees**

Fortress Fund Managers Limited serves as manager and registrar of the fund. As a result of providing investment advisory, management and registrar services, Fortress Fund Managers Limited receives a management fee based on the average net asset value of the fund, calculated monthly and payable in arrears, at the rate of 0.75%.

Alleyne, Aguilar & Altman Ltd. serve as investment advisor. As a result of providing investment advisory services, Alleyne, Aguilar & Altman Ltd. receives a management fee based on the average net asset value of the fund, calculated monthly and payable in arrears, at the rate of 0.75%.

**Taxation**

The fund is authorised to carry on business under the Mutual Funds Act, 1998 of Barbados. Consequently, the fund will not be subject to corporation tax on income or profits derived from its investments provided it designates all of such income or profits arising in an income year to be the income of the shareholders.

It is the Fund's intention to designate this year's income to be the income of the shareholders and to declare its first dividend at the end of its second financial year, September 30, 2001.

**Accounting for leases**

Leases of assets by the fund under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

**Deferred expenses**

Initial expenses were amortised at a rate of 0.2% of average net assets for the year, not to exceed five years from the date of launch. During the period the company adopted International Accounting Standard 38 which required the writing off of all the deferred expenses.

**Foreign currencies**

Assets and liabilities expressed in foreign currencies are translated into Barbados dollars at rates of exchange prevailing at the balance sheet date. Transactions arising during the year involving foreign currencies are converted at the rates of exchange prevailing on the dates of the transactions. Differences arising from fluctuations in exchange rates are included in the Statement of Income.



Fortress Caribbean Property Fund Limited

Notes to Unaudited Financial Statements

July 31, 2001

**3 Investment properties**

	2001			2000		
	Cost	Adjustment	Revalued amount	Cost	Adjustment	Revalued amount
	\$	\$	\$	\$	\$	\$
Carlisle House	8,603,307	896,693	9,500,000	8,603,307	896,693	9,500,000
Renovation work on Carlisle House	1,155,416	-	1,155,416	-	-	-
No. 24 Broad Street	5,566,846	433,154	6,000,000	5,566,846	433,154	6,000,000
The Chattel Village	1,549,918	550,082	2,100,000	1,549,918	650,082	2,200,000
Tobago Plantations Villa	644,110	155,890	800,000	644,110	155,890	800,000
Deposits on investment properties	90,000	-	90,000	392,800	-	392,800
Lower Estate Land	732,035	-	732,035	-	-	-
	<b>18,341,632</b>	<b>2,035,819</b>	<b>20,377,451</b>	16,756,981	2,135,819	18,892,800

In March 2001, the investment properties were appraised by an external valuer at \$18,400,000. The excess of this current valuation over book value, amounting to \$2,035,819, was credited to the revaluation reserve.

**4 Investment in securities**

**Summary of investments:**

	2001		2000	
	Cost	Carrying value	Cost	Carrying value
	\$	\$	\$	\$
Equity securities	178,615	168,830	89,109	81,506
Fixed income securities	1,541,425	1,541,425	1,429,802	1,429,802
	<b>1,700,040</b>	<b>1,710,255</b>	1,518,911	1,511,308

Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

4 Investment in securities cont'd

	2001			2000		
	No. of shares	Cost	Carrying value \$	No. of shares \$	Cost \$	Carrying value \$
<b>Conglomerate</b>						
Barbados Shipping & Trading Limited	3,184	9,600	10,189	3,184	9,600	10,348
Goddard Enterprise Limited	106	639	657	106	639	604
	<b>3,290</b>	<b>10,239</b>	<b>10,846</b>	3,290	10,239	10,952
<b>Retail and distribution</b>						
Cave Shepherd & Co. Limited	33,000	104,325	102,300	1,000	3,819	3,250
<b>Life insurance</b>						
Life of Barbados Limited	1,800	5,879	4,590	1,800	5,879	5,490
<b>Utilities</b>						
Light & Power Holdings Limited	420	4,432	3,612	420	4,432	3,822
<b>Telecommunication</b>						
Cable & Wireless BARTEL Ltd.	3,101	39,268	36,282	3,101	39,268	36,592
<b>Tourism</b>						
Almond Resorts Inc.	8,000	14,472	11,200	8,000	14,472	10,400
	<b>49,611</b>	<b>178,615</b>	<b>168,830</b>	17,611	78,109	70,506
<b>Other security</b>						
Southern Golf & Country Club Limited	-	-	-	10,000	11,000	11,000
	<b>49,611</b>	<b>178,615</b>	<b>168,830</b>	27,611	89,109	81,506

The unrealized loss on the portfolio of equity securities of \$2,182 (2000 - \$7,603) has been charged to the income statement.



Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

**4 Investment in securities** cont'd

**Fixed income securities:**

	2001		2000	
	Cost \$	Market value \$	Cost \$	Market value \$
Government of Jamaica				
- US\$ Bond, 10%, maturity flexible	1,541,425	1,541,425	1,429,802	1,429,802

**5 Cash and short-term deposits**

	2001 \$	2000 \$
Cash at bank	470,597	65,840
Short-term deposits	-	930,000
	470,597	995,840

**6 Loan**

The loan is unsecured and repayment is due on October 18, 2001. The interest rate is fixed at 4.5% per annum for a period of three months.

**7 Stated capital**

	No. of shares	\$
<b>(a) Class "B" shares</b>		
Authorised		
A maximum of 10 Class "B" shares		
Issued		
Issued and outstanding	10	10
<b>(b) Class "A" common property fund shares</b>		
<b>Authorised</b>		
An unlimited number of Class "A" shares of no par value		
Issued		
Issued and outstanding	17,700,000	17,700,000
<b>Total stated capital</b>	17,700,010	17,700,010

Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

**7. Stated Capital** continued

**Class "B" shares**

The Class "B" shares are held equally by the Investment Advisor and the Fund Manager and no Class "B" share can be transferred to any person other than another investment advisor or fund manager. The holder of Class "B" shares have broad voting rights. Each Class "B" share entitles the holder to one (1) vote per share. The holders of Class "B" shares are not entitled to receive dividends.

**Class "A" common property fund shares**

The holders of Class "A" common property fund shares have an interest in the undivided portion of assets of the fund. These shares secure an equal share in distribution of net income and net capital gains and participate equally in all other respects.

The holders of Class "A" common property fund shares are entitled to vote only in respect of:

- the liquidation of the fund;
- the winding up of the company;
- the reconstruction of the company;
- the amalgamation of the company with any other company or mutual fund.

Common property fund shares may not be redeemed by the Class "A" shareholders, but may be traded on the Securities Exchange of Barbados Stock Exchange.

**Class "A" share purchase warrants**

On the initial issue, 3,540,000 warrants or one (1) warrant for every five (5) Class "A" shares was issued. Each warrant will entitle the holder thereof to purchase one (1) Class "A" share at a subscription price of \$1 per share on the exercise date. Warrants may be exercised on October 1, 2001, October 1, 2002 or October 1, 2003 or on the next business day following these dates.

**8 Rental income**

Included in net rental income is an amount of \$491,558 (2000 - \$595,833) earned from a related company.

**9 Net asset value per common property fund shares**

The net asset value per common property fund Class "A" shares is a derivative of net assets and the number of common property fund Class "A" shares.

**10 Financial instruments**

Financial assets of the company include cash, short-term deposits, investment in securities and trade receivables. Financial liabilities of the company include trade payables and security deposits.

**Fair value**

Investments are shown at their market value as disclosed in Note 4. The carrying values of other financial assets and liabilities are a reasonable estimate of their fair value because of the short maturity of these instruments.

**Credit risk**

Cash is placed with an international bank with a high credit rating. Short-term deposits are placed with a reputable public company.



Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

**11 Commitments**

**Capital commitments**

Capital expenditure contracted for but not recognised at the balance sheet date amounts to \$1,529,040, in respect of renovation work on Carlisle House.

**Operating lease commitments - where the fund is the lessee**

The future minimum lease payments under operating leases are as follows:

Not later than 1 year	-	58,710
Later than 1 year and not later than 5 years	-	234,840
Later than 5 years	-	572,422

**Operating lease commitments - where the fund is the lessor**

The future minimum lease payments receivable under operating leases are as follows:

Not later than 1 year	-	1,309,454
Later than 1 year and not later than 5 years	-	1,826,494
Later than 5 years	-	7,000

**12 Earnings per share**

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

	2001 \$	2000 \$
Net profit attributable to shareholders	729,079	1,590,571
Weighted average number of ordinary shares in issue	17,700,010	17,700,010
Basic earnings per share	0.04	0.09

For the diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The company has one (1) category of dilutive potential ordinary shares - Class "A" share warrants.

Fortress Caribbean Property Fund Limited  
Notes to Unaudited Financial Statements  
July 31, 2001

<b>12 Earnings per share</b> continued	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>
Net profit attributable to shareholders	729,079	1,590,571
Weighted average number of ordinary shares in issue	17,700,010	17,700,010
Adjustment for exercise of Class "A" share warrants	3,540,000	3,540,000
Weighted average number of ordinary shares for diluted earnings per share	21,240,010	21,240,010
Diluted earnings per share	0.03	0.07

**13 Post balance sheet event**

On August 16, 2001 the Fund paid a \$2.6 million deposit in respect of the purchase of Cable and Wireless (BET) Limited's land and buildings at Wildey, Barbados. On October 1, 2001 a joint venture partnership was created between the Fund (56.67%), National Insurance Board (33.33%) and Life of Barbados (10%) for the purpose of completing the \$28 million purchase of the Wildey property on October 31, 2001.

**14 Directors' Interest (all beneficial)**

<b>Name</b>	<b>No. of Class "A" shares held</b>
Mr. Paul Altman	250,000
Dr. Trevor Carmichael, Q.C.	15,000
Sir Stephen Emtage	13,000
Mr. Geoffrey Cave	10,000
Mrs. Maureen Davis	10,000
<b>Interest of persons other than Directors holding more than 5% of the issued shares</b>	<b>\$</b>
Barbados Shipping & Trading Company Limited	5,604,000
Barclays Bank Trustee Branch	1,414,715



September 25, 2001

**PricewaterhouseCoopers**  
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(246) 436-1275

## Report on Financial Projections

### To the Directors of Fortress Caribbean Property Fund Limited

We have examined the accompanying projected balance sheets of the **Fortress Caribbean Property Fund Limited** as of September 30, 2001, 2002, 2003, 2004 and 2005 and the related projected statements of income and cash flows for the years then ending, in accordance with International Standards on Auditing applicable to the examination of prospective financial information. Management is responsible for the projection including the assumptions set out in Notes 1 to 7 on which they are based.

These projections have been prepared for inclusion in a prospectus. The projections have been prepared using a set of assumptions that include the raising of capital through the prospectus offer and acquisition of the Cable & Wireless (BET) Limited building through a joint venture partnership. Consequently, readers are cautioned that these projections may not be appropriate for purposes other than described above.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projections. Further, in our opinion, the projections are properly prepared on the basis of the assumptions and are presented in accordance with International Accounting Standards except that the investment in the Joint Venture is not consolidated as required by IAS 27.

Actual results are likely to be different from the projections since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether these projections will be achieved.



### Chartered Accountants

Antigua	Donald B. Ward	Charles W. A. Walwyn	Robert J. Wilkinson						
Barbados	Anthony G. Ellis	Wayne I. Fields	William StC. Hutchinson	Marcus A. Hatch	Philip St. E. Atkinson	Michael R. Boyce (Principal)	R. Michael Bynoe	Joyce E. Dear	Maurice A. Franklin
		Geoffrey R. Gregory	Stephen A. Jardine	Graham A. Kirby	J. Andrew Marryshow	Lindell E. Nurse		Brian D. Robinson	María E. Evelyn-Robinson
		Christopher S. Sambrano	Paul Tadros	R. Charles D. Tibbits					
Grenada	Colin W. Dathorne								
St. Lucia	Anthony D. Atkinson	Richard N. C. Peterkin							

## FORTRESS CARIBBEAN PROPERTY FUND LIMITED

### Balance Sheet

As at September 30

	Actual <----->			Projected <----->		
	2000	2001	2002	2003	2004	2005
<b>Assets</b>						
Investment Properties (Note 3)	18,892,800	20,420,618	24,132,360	26,615,007	28,147,307	28,710,253
Investment in Joint Venture Partnership (Note 5)	0	0	6,550,671	7,554,351	8,677,839	9,977,930
Investment in Securities	1,511,308	1,719,846	1,719,846	1,719,846	3,719,846	4,719,846
	<u>20,404,108</u>	<u>22,140,464</u>	<u>32,402,877</u>	<u>35,889,204</u>	<u>40,544,992</u>	<u>43,408,029</u>
<b>Other assets</b>						
Cash and short-term deposits	995,841	517,632	301,027	803,610	548,850	401,871
Accounts receivable & prepaid expenses	150,315	274,367	274,367	274,367	274,367	274,367
Deferred expenses	149,174	0	0	0	0	0
	<u>1,295,330</u>	<u>791,999</u>	<u>575,394</u>	<u>1,077,977</u>	<u>823,217</u>	<u>676,238</u>
<b>Total assets</b>	<b><u>21,699,438</u></b>	<b><u>22,932,463</u></b>	<b><u>32,978,271</u></b>	<b><u>36,0967,181</u></b>	<b><u>41,368,209</u></b>	<b><u>44,084,267</u></b>
<b>Liabilities and shareholders' equity</b>						
<b>Liabilities</b>						
Security deposits	121,463	114,938	114,938	114,938	114,938	114,938
Accounts payable and accrued liabilities	151,574	579,571	179,571	179,571	179,571	179,571
Dividends payable	0	885,000	1,290,637	1,834,332	2,161,744	2,386,860
	<u>273,037</u>	<u>1,579,509</u>	<u>1,585,146</u>	<u>2,128,841</u>	<u>2,456,253</u>	<u>2,681,369</u>
<b>Shareholders' equity</b>						
Stated capital (Note 4)	17,700,010	17,700,010	26,154,010	27,570,010	29,340,010	29,340,010
Revaluation reserve (Note 6)	2,135,819	2,035,819	2,761,565	3,567,892	4,430,346	5,330,049
Retained earnings	1,590,572	1,617,125	2,477,550	3,700,438	5,141,600	6,732,839
Total shareholders' equity	<u>21,426,401</u>	<u>21,352,954</u>	<u>31,393,271</u>	<u>34,838,340</u>	<u>38,911,956</u>	<u>41,402,898</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>21,699,438</u></b>	<b><u>22,932,463</u></b>	<b><u>32,978,271</u></b>	<b><u>36,967,181</u></b>	<b><u>41,368,209</u></b>	<b><u>44,084,267</u></b>
<b>Net asset value per share</b>	<b><u>1.21</u></b>	<b><u>1.21</u></b>	<b><u>1.27</u></b>	<b><u>1.33</u></b>	<b><u>1.39</u></b>	<b><u>1.48</u></b>
<b>Annual shareholder return (Change in NAV plus dividends)</b>		<b><u>4.1%</u></b>	<b><u>9.1%</u></b>	<b><u>10.2%</u></b>	<b><u>10.5%</u></b>	<b><u>12.9%</u></b>



## FORTRESS CARIBBEAN PROPERTY FUND LIMITED

### Statement of Income

For the year ending September 30

	Actual<-----	-----Projected----->				
	2000	2001	2002	2003	2004	2005
<b>Revenue</b>						
Net rental income - Fund property (Note 3)	1,851,493	1,373,910	1,844,257	2,536,085	2,811,925	2,967,646
Share of income from the Partnership (Note 5)	0	0	867,107	1,008,851	1,165,018	1,337,706
Investment income from securities 8.5%	133,587	237,592	146,187	146,187	316,187	401,187
	<u>1,985,080</u>	<u>1,611,502</u>	<u>2,857,551</u>	<u>3,691,123</u>	<u>4,293,130</u>	<u>4,706,539</u>
<b>Expenses</b>						
Management fees - Manager 0.750%	151,682	160,698	216,915	236,389	260,805	275,627
Management fees - Advisor 0.750%	151,682	160,698	216,915	236,389	260,805	275,627
Management fees - Valuer 0.067%	13,550	14,356	14,306	21,033	23,342	26,071
Professional fees	63,552	58,344	30,000	30,600	31,212	31,836
Amortization of deferred expenses	38,350	149,174	130,000	0	0	0
Office and administrative expenses	34,407	80,437	35,000	35,700	36,414	37,142
Advertising and printing expenses	26,432	31,254	20,000	20,400	20,808	21,224
Listing fees 0.1%	1,918	21,426	21,353	31,393	34,898	38,912
Directors' fees	13,000	12,000	12,000	12,000	12,000	12,000
License fees	12,031	10,000	10,000	10,000	10,000	10,000
Interest and bank charges	5,790	1,562	0	0	0	0
Exchange loss	762	0	0	0	0	0
	<u>513,156</u>	<u>699,949</u>	<u>706,489</u>	<u>633,904</u>	<u>690,224</u>	<u>728,0439</u>
Net investment income	<u>1,471,924</u>	<u>911,553</u>	<u>2,151,062</u>	<u>3,057,219</u>	<u>3,602,906</u>	<u>3,978,100</u>
<b>Realised and unrealised gains on securities</b>						
Realised gain on sale of securities	126,251	0	0	0	0	0
Unrealised (loss) on securities	(7,603)	0	0	0	0	0
	<u>118,648</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net income for the year	<u>1,590,572</u>	<u>911,553</u>	<u>2,151,062</u>	<u>3,057,219</u>	<u>3,602,906</u>	<u>3,978,100</u>
Retained earnings, beginning of year	0	1,590,572	1,617,125	2,477,550	3,700,438	5,141,600
Dividends - Pre-prospectus/share \$0.05	0	(885,000)	0	0	0	0
Dividends - Annually % of NI 60%	0	0	(1,290,637)	(1,834,332)	(2,161,744)	(2,386,860)
Retained earnings, end of year	<u>1,590,572</u>	<u>1,617,125</u>	<u>2,477,550</u>	<u>3,700,438</u>	<u>5,141,600</u>	<u>6,732,839</u>
<b>Earnings per share</b>						
Basic	<u>\$0.09</u>	<u>\$0.05</u>	<u>\$0.09</u>	<u>\$0.12</u>	<u>\$0.13</u>	<u>\$0.14</u>
Diluted	<u>\$0.07</u>	<u>\$0.04</u>	<u>\$0.08</u>	<u>\$0.11</u>	<u>\$0.13</u>	<u>\$0.14</u>
Dividends	<u>\$0.00</u>	<u>\$0.05</u>	<u>\$0.05</u>	<u>\$0.07</u>	<u>\$0.08</u>	<u>\$0.09</u>

## FORTRESS CARIBBEAN PROPERTY FUND LIMITED

### Statement of Cash flow

For the year ended September 30

	Actual<-----	-----Projected----->				
	2000	2001	2002	2003	2004	2005
<b>Cash flows from operating activities</b>						
Net income for the year	1,590,572	911,553	2,151,062	3,057,219	3,602,906	3,978,100
Share of income from the Partnership (Note 5)	0	0	(867,107)	(1,008,851)	(1,165,018)	(1,337,706)
Amortisation of deferred expenses	38,350	149,174	130,000	0	0	0
Unrealised loss on securities	7,603	0	0	0	0	0
Realised gain on sale of securities	(126,251)	0	0	0	0	0
	<u>1,510,274</u>	<u>1,060,727</u>	<u>1,413,955</u>	<u>2,048,368</u>	<u>2,437,888</u>	<u>2,640,394</u>
Change in non-cash working capital	(64,802)	297,420	(530,000)	0	0	0
	<u>1,445,472</u>	<u>1,358,147</u>	<u>883,955</u>	<u>2,048,368</u>	<u>2,437,888</u>	<u>2,640,394</u>
<b>Cash flows used in investing activities</b>						
Purchase of investment properties	(16,756,981)	(1,627,818)	(3,303,330)	(2,000,000)	(1,000,000)	0
Dividend from the Partnership	0	0	300,440	328,851	371,684	374,372
Investment in the Partnership	0	0	(5,666,670)	0	0	0
Purchase of securities	(1,977,120)	(208,538)	0	0	(2,000,000)	(1,000,000)
Proceeds on disposal of securities	584,460	0	0	0	0	0
	<u>(18,149,641)</u>	<u>(1,836,356)</u>	<u>(8,669,560)</u>	<u>(1,671,149)</u>	<u>(2,628,316)</u>	<u>(625,628)</u>
<b>Cash flows from financing activities</b>						
Proceeds on issue of shares	17,700,010	0	8,100,000	0	0	0
Dividends paid	0	0	(885,000)	(1,290,637)	(1,834,332)	(2,161,744)
Proceeds on exercise of warrants	0	0	354,000	1,416,000	1,770,000	0
	<u>17,700,010</u>	<u>0</u>	<u>7,569,000</u>	<u>125,363</u>	<u>(64,332)</u>	<u>((2,161,744))</u>
Net increase (decrease) in cash	995,841	(478,209)	(216,605)	502,582	(254,760)	(146,978)
Cash and short-term deposits, beginning of year	0	995,841	517,632	301,027	803,610	548,850
Cash and short-term deposits, end of year	<u>995,841</u>	<u>517,632</u>	<u>301,027</u>	<u>803,610</u>	<u>548,850</u>	<u>401,871</u>

## FORTRESS CARIBBEAN PROPERTY FUND LIMITED

### NOTES & ASSUMPTIONS

Notes and assumptions-As at September 30

#### 1 Principal Activities

Fortress Caribbean Property Fund Limited (the Fund) was incorporated on May 7, 1999 and is registered under the Mutual Funds Act of Barbados as an authorised mutual fund. It commenced operations on August 20, 1999. The fund maintains its registered office at 10-14 Broad Street, Bridgetown, Barbados

The investment objective of the Fund is to achieve income and capital appreciation over the long-term from a portfolio of real estate property and other securities in the Caribbean and internationally.

#### 2 Significant accounting policies and assumptions in preparation of financial projections

The financial statements are prepared in accordance with International Accounting Standards (IAS). Significant accounting policies and assumption in preparation of financial projections are as follows;

##### *Basis of preparation*

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of investments.

##### *Use of accounting estimates*

The financial statements are prepared in conformity with International Accounting Standards. In certain cases, the company's management is required to make estimates that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period presented. Actual results could differ from estimates made by management.

##### *Revenue recognition*

Rental income is recognised on an accrual basis in accordance with the relevant rental agreements. Rental income is shown net of expenses incurred in managing the properties and VAT.

Other revenues earned by the company are recognised on the following bases:

Interest income - as it accrues unless collectibility is in doubt

Dividend income - when received

Income projected from the joint ventures - accrual basis

##### *Investments*

###### (i) Securities

Marketable securities are carried at market value determined on a portfolio basis. Market value is calculated by reference to Stock Exchange quoted selling prices at the close of business on the balance sheet date. Securities not listed on an official exchange are carried at cost. Unrealised gains or losses on the carrying value of the portfolio are credited/charged to the income statement.

On disposal of a security, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

Fixed income securities are carried at amortized cost. No provision is made for any decline in the market value of fixed income securities, as these securities, if held to maturity, will realise their fair value. Investment income from securities has been assumed at 8.5%.

###### (ii) Investment properties

Investment properties are treated as long-term investments and carried at market value determined semi-annually by external independent valuers. Investment properties are not subject to depreciation. Increases in their carrying amount are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the statement of income.



**FORTRESS CARIBBEAN PROPERTY FUND LIMITED**  
**NOTES & ASSUMPTIONS**

(iii) *Investment in joint venture*

The investment in the joint venture property is accounted for on the equity basis. As such, the fund's share of the joint venture's net income is recorded in revenue and actual distributions from the joint venture reduce the investment carrying value. In addition, the fund records its share of the property's appraisal excess in the revaluation reserve as disclosed in notes 5 and 6.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement any amounts in the revaluation reserve relating to that investment are transferred to retained earnings.

*Management fees*

Fortress Fund Managers Limited serves as manager and registrar of the fund. As a result of providing investment advisory, management and registrar services, Fortress Fund Managers Limited receive a management fee based on the average net asset value of the fund, calculated monthly and payable in arrears, at the rate of 0.75%.

Alleyne, Aguilar & Altman Ltd serves as investment advisor. As a result of providing investment advisory services, Alleyne, Aguilar & Altman Ltd receives a management fee based on the average net asset value of the fund, calculated monthly and payable in arrears, at the rate of 0.75%.

*Taxation*

The fund is authorised to carry on business under the Mutual Funds Act, 1998 of Barbados. Consequently, the fund will not be subject to corporation tax on income or profits derived from its investments provided it designates all of such income or profits arising in an income year to be the income of the shareholders.

It is the Fund's intention to designate its income to be income of the shareholders and to declare its dividends in accordance with the established dividend policy of the company.

*Accounting for leases*

Lease of assets by the Fund under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

*Deferred expenses*

Initial expenses for setting up the fund are amortised at a rate of 0.2% of average net assets for the year, over a period not to exceed five years. Initial expenses include incorporation and prospectus preparation costs, as well as listing and professional fees. During the year the company adopted International Accounting Standard 38 which required the writing off of all deferred expenses.

*Foreign currencies*

Assets and liabilities expressed in foreign currencies are translated into Barbados dollars at rates of exchange prevailing at the balance sheet date. Transactions arising during the year involving foreign currencies are converted at the rates of exchange prevailing on the dates of the transactions. Differences arising from fluctuations in exchange rates are included in the Statement of Income.

*Inflation*

In preparation of the financial projections inflation has been assumed at 2% per annum and applied to all revenue and expense items under no fixed contractual or statutory rate.

**FORTRESS CARIBBEAN PROPERTY FUND LIMITED**

**NOTES & ASSUMPTIONS**

	Actual<-----			-----Projected>		
	2000	2001	2002	2003	2004	2005
<b>3 Investment Properties</b>						
Carlisle House	8,603,307	9,891,890	10,891,890	11,391,890	11,391,890	11,391,890
No. 24 Broad Street	5,566,846	5,566,846	5,566,846	5,566,846	5,566,846	5,566,846
The Chattel Village	1,549,918	1,549,918	1,549,918	1,549,918	1,549,918	1,549,918
Lower Estate	0	732,035	2,032,035	2,032,035	2,032,035	2,032,035
Tobago Plantations	644,110	644,110	1,144,110	1,144,110	1,144,110	1,144,110
Other properties	392,800	0	503,330	2,003,330	3,003,330	3,003,330
	<u>16,756,981</u>	<u>18,384,799</u>	<u>21,688,129</u>	<u>23,688,129</u>	<u>24,688,129</u>	<u>24,688,129</u>
Surplus on revaluation	2,135,819	2,035,819	2,444,231	2,926,878	3,459,178	4,022,124
	<u>18,892,800</u>	<u>20,420,618</u>	<u>24,132,360</u>	<u>26,615,007</u>	<u>28,147,307</u>	<u>28,710,253</u>

It is assumed that the investment properties will justify an annual growth of 2% in value.

**Net rental income**

Carlisle House	1,028,618	609,361	979,751	1,165,890	1,233,428	1,228,224
No. 24 Broad Street	595,833	573,643	602,110	626,194	651,242	677,292
The Chattel Village	227,042	190,906	262,396	312,563	308,941	329,589
Lower Estate	0	0	0	306,105	367,980	432,208
Tobago Plantations	0	0	0	0	0	0
Other properties	0	0	0	125,333	250,333	300,333
	<u>1,851,493</u>	<u>1,373,910</u>	<u>1,844,257</u>	<u>2,536,085</u>	<u>2,811,925</u>	<u>2,967,646</u>

Net rental income is projected based on contracted leases other than new properties, which have been assumed to yield the minimum threshold rate of 10%.

**4 Shareholders' Equity**

Class "B" shares	10	10	10	10	10	10
Equity \$	10	10	10	10	10	10
Class "A" shares						
Balance, beginning of year	0	17,700,000	17,700,000	24,804,000	26,220,000	27,990,000
New issue during the year	17,700,000	0	6,750,000	0	0	0
Warrants exercised	0	0	354,000	1,416,000	1,770,000	0
Balance, end of year	<u>17,700,000</u>	<u>17,700,000</u>	<u>24,804,000</u>	<u>26,220,000</u>	<u>27,990,000</u>	<u>27,990,000</u>
Equity \$	<u>17,700,000</u>	<u>17,700,000</u>	<u>26,154,000</u>	<u>27,570,000</u>	<u>29,340,000</u>	<u>29,340,000</u>
Total shareholders' equity	<u>17,700,010</u>	<u>17,700,010</u>	<u>26,154,010</u>	<u>27,570,010</u>	<u>29,340,010</u>	<u>29,340,010</u>

On the initial issue, 3,540,000 warrants or 1 warrant for every 5 Class "A" shares was issued. Each warrant will entitle the holder thereof to purchase 1 Class "A" share at a subscription price of \$1 per share on the exercise date. Warrants may be exercised on October 1, 2001, October 1, 2002 or October 1, 2003 or, if those dates are not business days, on the next business day following.

## FORTRESS CARIBBEAN PROPERTY FUND LIMITED

### NOTES & ASSUMPTIONS

#### 4 Shareholders' Equity continued

these dates. For the purposes of these projections, the outstanding warrants are assumed to be exercised as follows:

October 1, 2001	354,000	10%
October 1, 2002	1,416,000	40%
October 1, 2003	1,770,000	50%
	<u>3,540,000</u>	<u>100%</u>

#### 5 Investment in Joint Venture Partnership

		Actual <----->		Projected <----->			
		2000	2001	2002	2003	2004	2005
Original Investment		0	0	5,666,670	5,666,670	5,666,670	5,666,670
Share of partnership profits							
Balance, beginning of year		0	0	0	566,667	1,246,667	2,040,001
Income for the year	56.67%	0	0	867,107	1,008,851	1,165,018	1,337,706
Distribution	56.67%	0	0	(300,440)	(328,851)	(371,684)	(374,372)
Balance, end of year		0	0	566,667	1,246,667	2,040,001	3,003,335
Share of uplift on Market Value of property							
Balance, beginning of year		0	0	0	317,334	641,014	971,168
Share of uplift for the year	56.67%	0	0	317,334	323,680	330,154	336,757
Balance, end of year		0	0	317,334	641,014	971,168	1,307,925
Total investment		0	0	6,550,671	7,554,351	8,677,839	9,977,930

For full projected balance sheet, profit and loss and cash flow for the years ending September 2002 to 2006 see page 52.

#### 6 Revaluation reserve

Fund properties	Note 3	2,135,819	2,035,819	2,444,231	2,926,878	3,459,178	4,022,124
Investment in CW property	Note 5	0	0	317,334	641,014	971,168	1,307,925
		<u>2,135,819</u>	<u>2,035,819</u>	<u>2,761,565</u>	<u>3,567,892</u>	<u>4,430,346</u>	<u>5,330,049</u>



## BET BUILDING PARTNERSHIP

### 7. The Partnership projected financial statements

#### (i) Balance Sheet

As at September 30

	Opening <-----> Balance	-----Projected----->				
		2002	2003	2004	2005	2006
<b>Assets</b>						
Investment Properties	28,000,000	28,560,000	29,131,200	29,713,824	30,308,100	30,914,262
<b>Liabilities and shareholders' equity</b>						
Long-term loan	18,000,000	17,000,000	15,800,000	14,400,000	12,700,000	10,700,000
<b>Shareholders' equity</b>						
Stated capital	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Appraisal excess	0	560,000	1,131,200	1,713,824	2,308,100	2,914,262
Retained earnings	0	1,000,000	2,200,000	3,600,000	5,300,000	7,300,000
Total shareholders' equity	10,000,000	11,560,000	13,331,200	15,313,824	17,608,100	20,214,262
Total liabilities and shareholders' equity	28,000,000	28,560,000	29,131,200	29,713,824	30,308,100	30,914,262

#### (ii) Statement of Income

For the years ending September 30

	-----Projected----->				
	2002	2003	2004	2005	2006
<b>Revenue</b>					
Net rental income	3,100,000	3,255,000	3,417,750	3,588,638	3,768,069
<b>Expenses</b>					
Interest and bank charges	1,559,813	1,464,675	1,351,838	1,217,981	1,057,575
Other expenses - transfer agent costs	10,000	10,000	10,000	10,000	10,000
	1,569,813	1,474,675	1,361,838	1,227,981	1,067,575
Net income for the year	1,530,188	1,780,325	2,055,913	2,360,656	2,700,494
Retained earnings, beginning of year	0	1,000,000	2,200,000	3,600,000	5,300,000
Dividends/Drawings	(530,188)	(580,325)	(655,913)	(660,656)	(700,494)
Retained earnings, end of year	1,000,000	2,200,000	3,600,000	5,300,000	7,300,000

#### (iii) Statement of Cash flow

For the years ending September 30

	-----Projected----->				
	2002	2003	2004	2005	2006
<b>Total cash inflows from operating activities</b>					
Net income for the year	1,530,188	1,780,325	2,055,913	2,360,656	2,700,494
<b>Total cash outflows from financing activities</b>					
Distribution to partners	(530,188)	(580,325)	(655,913)	(660,656)	(700,494)
Long-term loan repayments	(1,000,000)	(1,200,000)	(1,400,000)	(1,700,000)	(2,000,000)
	(1,530,188)	(1,780,325)	(2,055,913)	(2,360,656)	(2,700,494)

## TERMS & CONDITIONS OF THE OFFERING

The list of applications for Shares will be opened at 8.30 a.m. on October 12, 2001 (the "Opening Date") and will close at 4.00 p.m. on October 15, 2001 (the "Closing Date").

The minimum subscription required in order to close this offering will be \$8.1 million. No allotment of shares may be made unless the minimum subscription has been subscribed and the sum payable on application for the shares has been received by the Company pursuant to subsection (2) of section 302 of the Companies Act. In the event that the minimum subscription has not been subscribed, all monies received from applicants will be repaid without interest within 10 days of the Closing Date.

The full purchase price is payable on application. Applications will be received at Fortress Fund Managers Limited, Top Floor Cave Shepherd, 10-14 Broad Street, Bridgetown, and local registered brokers and must be accompanied by the full purchase price of the Shares for which application is made. Cheques should be made payable to "Fortress Caribbean Property Fund Limited - Shares" and may be presented for payment upon receipt.

Applications will be considered at the sole discretion of the Transfer Agent on behalf of the Fund and must be for a minimum of 1,000 shares and thereafter in multiples of 100 shares and will be irrevocable. No allotment will be made for any amount less than 1,000 shares. In the case of a partial allotment, the surplus will be refunded.

Ownership of Shares will be in non-certificated form and the record of title of ownership will be maintained in electronic form by the company secretary and the

Barbados Central Securities Depository. Therefore, it is not the intention to issue share certificates to Shareholders.

Copies of the Prospectus and Application Forms may be obtained from:

Fortress Fund Managers Limited,  
Top Floor Cave Shepherd,  
10-14 Broad Street, Bridgetown;

and any registered member of the Barbados Stock Exchange.

Persons who are not residents of Barbados and companies which are owned or controlled by such persons, are eligible to apply for and hold Shares.

The foregoing together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities being distributed by this prospectus.

### Director's Certificate

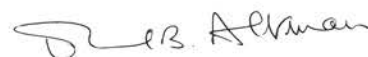
This document contains particulars given in compliance with the regulations of the Board of the Barbados Stock Exchange, the Barbados Securities Commission, the Trinidad and Tobago Stock Exchange Limited and the Trinidad and Tobago Securities Exchange Commission for the purpose of giving information to the public with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information given and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of

which would make any statement herein misleading.

This prospectus is dated October 15, 2001.



Mr. Geoffrey Cave, B.C.H.



Mr. Paul Altman, B.C.H.



Dr. Trevor Carmichael, Q.C.



Mrs. Maureen Davis



Sir Stephen Emtage



Mr. Terry Hanton



## CONDITIONS OF ALLOTMENT

The basis for allotment will be announced within three days following the Closing Date. In the event that the offer is oversubscribed applicants may receive fewer shares than applied for. If oversubscribed, the Directors of the fund intend to allot the shares to achieve the widest distribution among applicants and therefore preference will be given to applications for 10,000 shares or less.

The Transfer Agent is authorised to issue a letter of confirmation for the number of Shares for which the Application is accepted and/or a cheque for any money returnable by post at the Applicant's risk to the address of the person named (or the first-named person) on the Application Form and to ensure that the Applicant's name and the names of any other joint applicants are placed on the register of Shareholders of the Company in respect of such Shares to which the Applicants are entitled.

Letters of Allotment are not transferable or assignable.

### THIS APPLICATION IS TO BE COMPLETED IN ACCORDANCE WITH THE FOLLOWING INSTRUCTIONS

1. Each Application must be for a minimum of 1,000 shares (BDS\$1,200 or US\$600) and multiples of 100 shares in excess thereof. Each Application must be completed in full.
2. In the case of an application under a Power Of Attorney, a certified copy of the relevant Power Of Attorney must accompany the application.
3. Payment in respect of the total purchase money due should be attached to the application form.
4. Payment should be made by cheque or banker's draft made payable to "Fortress Caribbean Property Fund Limited-Shares".

### TERMS AND CONDITIONS OF APPLICATION

5. Kindly refer to the Prospectus for a full statement of the terms and conditions of application and allotment.

### ADDITIONAL INFORMATION FOR YOUR GUIDANCE

6. In the case of joint applications, all communications will be addressed and refunds made payable to the applicant whose name appears first on this form.
7. Illegible or incomplete application forms or failure to submit the proper remittance as required shall be cause for rejection in whole or in part of this application within the discretion of the Company.
8. Your cheque or banker's draft and completed application form should be returned to the selling agent or broker from whom this Application Form was obtained. Any applications received after the time and Closing shall not be entitled for consideration.
9. A separate cheque or banker's draft must accompany each application form. Your cheque or banker's draft may be presented for payment on receipt. No receipt will be issued for payment on application but a confirmation of the number of shares allotted will be forwarded within thirty (30) days in respect of the number of shares for which the application is accepted.
10. A refund for any moneys refundable will be issued, no later than (10) days after the Closing Date.



**APPLICATION FORM**

APPLICATION FOR THE PURCHASE OF CLASS A SHARES  
IN FORTRESS CARIBBEAN PROPERTY FUND LIMITED AT \$1.20 PER SHARE

**To: Fortress Caribbean Property Fund**

I/We hereby apply to purchase the stated number of Class A Shares in the Box in Fortress Caribbean Property Fund Limited, at price of BDS \$1.20 per share as per the terms and conditions set out in a Prospectus dated the 15th day of October 2001.

Shares: 1

I/We attach a cheque or banker's draft for the amount in this box.

BDS \$: 2  
USD \$:

Date:

Signature: 3

FILL IN this Box where there is one application, PLEASE USE BLOCK CAPITALS.

Mr / Mrs / Ms / Miss / or title / Christian / Forename(s) (in full): 4  
Surname / Corporation Name: National Registration Number / Company Number:  
Address (in full):  
Telephone Number: Are you a resident of Barbados? Yes No

FILL IN this box only when there is more than one applicant. The first or sole applicant should complete Box 4. Insert in Box 5 only the name and address of the other joint applicants, each of whose signatures is required in Box 5.

Mr / Mrs / Ms / Miss / or title / Christian / Forename(s) (in full): 5  
Surname / Corporation Name: Residential Address (in full):  
Signature: Are you a resident in Barbados? Yes No  
Mr / Mrs / Ms / Miss / or title / Christian / Forename(s) (in full):  
Surname / Corporation Name: Residential Address (in full):  
Signature: Are you a resident in Barbados? Yes No

If application is made through a broker, affix broker's stamp here:



Fortress Fund Managers Limited

2nd Floor • Cave Shepherd • Broad Street • Bridgetown • Tel: 246 431 2198 • Fax: 246 431 0514

Call Toll Free: 1 800 450 6461 • email • [caverc@caribsurf.com](mailto:caverc@caribsurf.com)

Alleyne Aguilar & Altman Ltd.

Rosebank • Derricks • St. James • Tel: 246 432 0840 • Fax: 246 432 2147

[www.fortressfund.com](http://www.fortressfund.com)