

Ciboney Group Limited 1997

Auditors' Report

To the Members of
CIBONEY GROUP LIMITED

We have audited the financial statements as set out, and have obtained all the information and explanations which we required. These financial statements are the responsibility of the directors and management.

In preparing these financial statements, the directors and management are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, follow applicable accounting standards, and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business for the foreseeable future. The directors and management are responsible for maintaining proper accounting records, for safeguarding the assets of the company, and for the prevention and detection of fraud and other irregularities. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of Jamaica. Those standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

As more fully explained in notes 26 and 28, the financial statements have been prepared on a basis which contemplates continuation of the company and the group as going concerns. However, the company and the group have had successive years of operating losses and working capital deficit. In addition, as a consequence of certain events of default, the long-term lenders have demanded immediate repayment of outstanding loans, with which demands the group has been unable to comply, and one lender has appointed a receiver over certain of the group's assets and has indicated the possibility of disposing of certain assets on which its loan is secured. Accordingly, the ability of the company and the group to continue as going concerns depends upon their resolving the matters related to the demands for immediate repayment of loans by lenders and the attendant receivership, obtaining suitable long-term financing and rapidly returning to profitability.

As stated in note 28 (b), with effect from November 29, 1997, new directors ("successor board") and executive management were appointed as a consequence of changes in the ownership and control of the group arising from the succession agreement.

The successor board has, inter alia:

- . challenged the membership of the group; it claims that Caribbean Vacation Club Limited (CVC) is a subsidiary of the company, and Number Sixty Limited is a 50% associated company and not a subsidiary. It has also asserted that certain parties, with whom the group transacted business on the basis of their being unrelated, were indeed related parties;
- . with effect from prior years in some cases (see notes 19 and 22)
 - repudiated a claim by Neuson Limited which at balance sheet date would have been reported as \$345,117,284;
 - written off franchising rights not delivered by the party previously recorded as the seller, and franchising rights cancelled for lack of compliance with

the terms of the agreement covering the franchise; and

- excluded from the consolidated financial statements the sale of villas to CVC, including the previously reported gain of \$235,462,794;
- . written off project expenditure approximating \$287 million (see note 19).

All or some of these matters are the subject of disputes with certain former directors and others and may also be the subject of lawsuits. The outcome of these disputes/lawsuits is uncertain.

The consolidated financial statements include the unaudited financial position and results of operations of Luxury Resorts International Limited and its subsidiaries [(note 2(b))].

In our opinion, proper books of account have been kept by the company and the group and the financial statements are in agreement therewith. Because of the possible material effects on the financial statements of the uncertainties and other matters referred to in the preceding paragraphs, we are unable to express, and do not express, an opinion on whether the financial statements present a true and fair view of the state of affairs of the company and the group at May 31, 1997, or of the loss and cash flows of the group for the year then ended, or whether they are prepared in accordance with generally accepted accounting principles and the Companies Act.

KPMG Peat Marwick

October 22, 1998
