

Ciboney Group Limited 2000

Auditors' Report

We have audited the financial statements as set out and, except as noted in the antepenultimate paragraph below, have obtained all the information and explanations which we required. The financial statements are the responsibility of the directors and management. In preparing the 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 apply 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 the 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 management, and evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully explained in note 2, the financial statements have been prepared on a basis that 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

deficits. The company has also had successive years of accumulated deficits, and, at the balance sheet date, the group also had a stockholders' net deficit. Accordingly, the ability of the company and the group to continue as going concerns depends upon their obtaining suitable long-term financing and on sustained future profitable operations.

As stated in note 1 (c), 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 that the status of Number Sixty Limited as a wholly-owned subsidiary needed to be legally established. It has also asserted that certain parties, with whom the group transacted business on the basis of their being unrelated, were indeed related parties;
- repudiated a claim by Neuson Limited which, at September 30, 1997, the date Neuson Limited demanded payment, was stated at \$130,105,027 and US\$7,083,594 (the Z equivalent of the US\$ amount being approximately \$258,552,000, at the then prevailing rate of exchange) [see note 22(b)];
- 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;
- excluded from the consolidated financial statements the sale of villas to CVC, including the previously reported gain of \$235,462,794; and
- written off project expenditure approximating \$259.3 million, being \$287.1 million written off in 1997 less \$27.8 million, net, reinstated in 1998.
- cancelled certain other liabilities in 1999 totalling \$48,661,924 net, having formed the view that they did not represent genuine liabilities.

All except the last of the matters listed above are the subject of disputes with, and lawsuits against, certain former directors and others. The outcome of these disputes and lawsuits is

uncertain and could have a significant impact on the company and group, and, furthermore, the directors have expressed doubt about the validity of the financial statements.

The results of transactions relating to the sale of time-share weeks by CVC and Ciboney Hotels Limited have been included in the financial statements. However, we have been unable to verify the completeness and accuracy of the amounts included in operating revenue, cost of operating revenue, cash, accounts receivable and prepaid expenses, fixed assets, time-share receivable and deferred income.

The consolidated financial statements include the unaudited financial position of Luxury Resorts International Limited [(note 2(b))], which has a net shareholders' deficit of US\$310,400, and has ceased trading.

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, 2000, or of the profit and cash flows of the group for the year then ended, or whether they are prepared in accordance with generally accepted accounting principles in Jamaica and the Companies Act.

KPMG Peat Marwick

October 26, 2000
