

STATEMENT BY THE PRIME MINISTER

HON. BRUCE GOLDING

ACKENDOWN NEWTOWN DEVELOPMENT COMPANY LTD

Tuesday October 30, 2007

Members of this Honourable House are already aware of the controversy surrounding the financial liabilities incurred in the construction of the Sandals Whitehouse hotel. This statement concerns the financial position of Ackendown Newtown Development Company Ltd.

Ackendown is a company jointly owned by Gorstew Ltd., the Urban Development Corporation and the National Investment Bank of Jamaica in the ratio of: Gorstew (33%), UDC (37%) and NIBJ (30%). Ackendown's primary mandate was to undertake the planning, design, financing, development and construction of the Sandals Whitehouse Hotel in Westmoreland. The company was further directed to supply the required furniture, fixtures and equipment. It is a four-star all-inclusive family resort with 360 guest rooms.

In 2005 the hotel was leased to Gorstew for its operations as a Sandals Resort hotel. The terms of the lease provide for a fixed rent of US\$2.33 million per annum for the first 5 year lease period and to be increased to US\$2.92 million at first renewal. Additional rent is calculated as a percentage of the audited net package revenue linked to year-to-date occupancy levels and based on an established schedule.

During its first year of operations the hotel enjoyed an occupancy level of 81.8% but this declined to 67.9% as at March 31, 2007. The original forecast for 2007/08 was for the occupancy level to increase to 78%. However, based on the downturn in stopover arrivals up to the end of August, this target is unlikely to be met, notwithstanding the increase in country-wide stopover arrivals of 4.8% recorded in September.

Ackendown has incurred deficits on its operations ever since its inception. For 2005/06 it experienced an operating loss of US\$3.11 million. For 2006/07 the loss was US\$2.86 million. The company's net losses were affected by a change in the basis used in the valuation of the hotel property. In 2005 it was classified as an "asset under construction". However, with the operationalization of the hotel, it was reclassified as an "investment property". This

necessitated a fair value adjustment which resulted in an actual decrease of US\$27.62 million to reflect the market value of the asset. This increased the net loss for 2005/06 to US\$30.73 million.

At March 31, 2007, Ackendown recorded working capital deficit of US\$8.8 million. Total assets stood at US\$87.41 million while liabilities totaled US\$82.33 million – a debt to assets ratio far outside the industry norm. The company is heavily indebted with a debt to equity ratio of 16:1 – again far outside any industry norm.

A significant portion of the debt, US\$41.4 million, consists of shareholders equity and loans from the Caracas Energy Fund. There is currently no signed agreement regarding the proceeds of the Caracas Energy Fund. Shortly before the elections, the government sought to have the UDC and Development Bank of Jamaica assume responsibility for repayment of the loan. The then Board of the UDC was unable to arrive at a consensus on the matter and no decision was made. Hence, the draft loan agreements have not been signed. The Ministry of Finance and the Public Service and the new Boards of the UDC and DBJ will review the matter.

This Honourable House is already aware that in November 2005 Gorstew and Sandals Whitehouse Management Ltd. instituted a claim against Ackendown for breach of the Heads of Agreement signed by the shareholders. Specifically, the suit makes claim for negligent misstatement, breach of lease, breach of warranty and breach of the technical services agreement made between Gorstew and Ackendown. In addition, Gorstew contends that the cost overruns on the project quantified in the claim as US\$41.5 million ought to be borne entirely by the UDC and the NIBJ. The suit further claims that Ackendown failed to deliver to Gorstew and Sandals a fully equipped and furnished hotel in February 2005 as agreed. The claim quantifies special damages in the sum of US\$28.9 million and unspecified general damages for injury to reputation and interest at commercial rates.

The relief claimed by Gorstew in respect of cost overruns is essentially a declaratory relief that these should be borne by the UDC and NIBJ and not by Ackendown. However, the other claims are directed at Ackendown and could have a material effect on its already precarious financial position.

In its defence which has been filed, Ackendown has applied to the court for the issue relating to the responsibility for cost overruns to

be determined in accordance with the procedure for adjudication stipulated in the Heads of Agreement.

Both the Contractor-General's report and a Forensic Audit report found that inefficient project management was a contributing factor to the cost overruns. The report of the Quantity Surveyor identified US\$5 million of the cost overruns as costs to be borne by Gorstew and the balance to be borne by Ackendown. It is to be noted that under Clause 10 of the Heads of Agreement the Project Manager, namely the UDC, agreed to indemnify Ackendown from and against any cost overruns on the project where those cost overruns are attributed to inefficient implementation by the Project Manager in keeping with the terms of the Heads of Agreement. But under a separate agreement signed between the UDC and Nevalco Consultants Ltd. for the management and coordination of the project, Nevalco agreed to indemnify the UDC against the consequences of any breach of its obligations under that agreement. Among these obligations, as stated in Clause 4, is the requirement that "Nevalco shall not, without prior written consent of the UDC, give any instruction to the Consultants or the main or any other contractor or any supplier any instruction the effect of which would either increase the project cost or the time taken to complete the project". There can be found no evidence of any prior

approval of the UDC for several variation orders and instructions issued by Nevalco which contributed significantly to the cost overruns.

The Board of Ackendown, at its last set of meetings prior to the change in administration, considered whether to initiate legal or arbitration proceedings against the UDC or any other person for breach of contract. No decision was made. The new Board of Ackendown will, therefore, be directed to take appropriate legal action against Nevalco and any other entity whose unauthorized actions contributed to the significant cost overruns which the Jamaican taxpayers now have to service and will, most likely, be called upon to write off.

The UDC continues to provide project management and company management services to Ackendown. It is yet to provide a project completion report and continues to undertake repair work to furniture in hotel rooms, the sewage tank and coral mouldings among other tasks. The pace at which the repairs are being carried out has been a source of dispute between the UDC and Gorstew which has offered to undertake the repairs and deduct costs from rental payments. The outgoing Board of Ackendown had taken steps to relieve the UDC of its functions and to outsource this to a

private company. This, however, awaits the required procurement procedures.

In the meanwhile, Ackendown remains in dire financial straits. It has been unable to remit the GCT collected on rent which it receives and which should have been paid into the Consolidated Fund. As at the end of September, this amounted to US\$1,174,945.84. Presently, the company requires urgently an injection of US\$700,000 to meet inescapable operational expenses including insurance premiums which will become due in November. The Ministry of Finance and the Public Service is addressing this issue.

I have attached to this statement the financial outturn of the company for the three-year period 2004/05 to 2006/07. Also attached are the cash flow projections for September 2007 to March 2008. This shows a projected cash deficit at the end of November of US\$1.15 million, assuming the injection of US\$700,000 required in October and the remittance of \$1.3 billion in GCT payments. The cash deficit is expected to rise to US\$1.9 billion at the end of February and to decline to \$1.6 billion at the end of March 2008 predicated on the expected increase in occupancy-related rental income in March.

Both the construction and financing of this project represent an untidy arrangement. Litigation could complicate the matter even further. I have instructed the Ministry of Finance and the Public Service to develop a strategy for dealing with the inherent liabilities over the medium and long term.

October 30, 2007

ACKENDOWN NEWTOWN DEVELOPMENT COMPANY LTD.
Financial Highlights 2003/04 - 2006/07

	2003/04 US\$M	2004/05 US\$M	2005/06 US\$M	2006/07 US\$M
Income	0	0	3.88	4.8
Expenses	0	0.03	6.99	7.66
Operating Profit/(Loss)	0	0	-3.11	-2.86
Change in value of property	0	0	-27.66	0
Net Profit/(Loss)	0	0	-30.73	-2.86
Current Assets	2.87	9.34	5.3	2.48
Total Assets	61.88	115.62	91.73	87.41
Working Capital	-16.62	-45.63	-53.98	-8.88
Current Liabilities	19.49	54.97	59.28	11.37
Long-term Loans	14.81	27	29.52	70.96
Total Debt	34.3	82.97	88.8	82.33
Shareholder's Equity	27.58	33.65	2.92	5.08
Interest Cover			0.76	1.07
Debt as % of Assets	55.43	70.89	96.81	94.19
Debt/Equity Ratio	1.24:1	2.44:1	30.41:1	16.2:1

ACKENDOWN NEWTOWN DEVELOPMENT COMPANY LTD.
Cash Flows 2007/08

	Actual Apr- Aug 2007	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Total 2007/08
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
CASH INFLOWS									
Fixed Rent	1,359,167	226,528	226,528	226,528	226,528	226,528	226,528	226,528	2,944,861
Additional Rent	1,322,552	21,109	81,268	110,165	142,658	153,014	177,481	832,764	2,841,010
Interest Income	260								260
Loans			700,000						700,000
TOTAL INCOME	2,681,978	247,637	1,007,796	336,692	369,186	379,542	404,009	1,059,292	6,486,131
CASH OUTFLOWS									
Employee Costs	9,640	1,673	1,673	1,673	1,673	1,673	1,673	1,673	21,351
Debt Servicing									
UDC	0	0	0	0	0	0	0	0	0
OPEC	895,174	0	0	0	0	880,786	0	0	1,775,960
DBJ	597,329	117,123	121,027	117,123	225,194	225,194	212,723	227,363	1,843,077
Caracas	0	0	0	0	0	0	0	0	0
OPEC Escrow	260,130	155,164	155,164	166,164	155,164	-738,226	142,560	142,560	427,680
Accounts Payable	8,419	21,109	41,510	0	488,293	0	0	0	559,230
GCT	0	0	0	1,277,736	52,288	53,755	57,220	150,029	1,591,027
Travelling & Subsistence	2,300	595	595	595	595	595	595	595	6,465
Office Expenses	35	25	25	25	25	25	27	27	215
Insurance Premium Financing	15,416	0	11,562	3,854	0	0	3,606	3,606	38,043
Bank Charges	101	15	15	15	15	15	15	15	206
Property Tax	0	1,700	1,700	1,700	1,700	1,700	1,700	1,700	11,900
Insurance	850,131	0	425,066	141,689	0	0	155,035	155,035	1,726,958
Legal Fees	19,629	0	0	0	0	0	0	0	19,629
Professional Fees	40,623	0	40,623	0	0	0	0	12,065	52,688
TOTAL EXPENSES	2,698,927	297,404	758,337	1,699,574	924,947	425,517	575,154	694,668	8,074,527
CASH SURPLUS/DEFICIT	-16,948	-49,768	249,459	-1,362,881	-556,761	-45,975	-171,145	364,624	-1,588,396
OPENING CASH BALANCE	28,365	11,417	-38,351	211,108	-1,151,773		-1,753,510	-1,924,655	11,857
NET CASH	11,417	-38,351	211,108	-1,151,773	-1,707,535	-1,753,510	-1,924,655	-1,560,031	-1,576,539