

#5/08

**MINISTRY PAPER**  
**Ackendown Newtown Development Company Limited**  
**Annual Reports for years ended March 31, 2005 and 2006**

**Introduction**

1. The matter for tabling in the Honourable House of Representatives is the Annual Report for Ackendown Newtown Development Company Limited (ANDCo) for the financial years ended March 31, 2005 and 2006.
2. ANDCo was incorporated in Jamaica and is owned by Gorstew Limited, the Urban Development Corporation (UDC) and the National Investment Bank of Jamaica Limited (NIBJ) in the ratio of 33%, 37% and 30% respectively. The UDC and the NIBJ are registered in Jamaica and are owned by the Government of Jamaica.
3. Initially, the Company's primary mandate was to undertake the planning, designing, financing, development and construction of the Sandals Whitehouse Hotel in Westmoreland. This activity has been completed and the Company is currently collecting rental income and monitoring the lessee's adherence to performance standards and other terms outlined in the lease agreement. The facility is a first class four (4) star all inclusive couples resort with three hundred and sixty (360) guest rooms. Under the lease agreement, ANDCo has responsibility for insuring the hotel and for supplying all the required furniture, fixtures and equipment. The Sandals Group began overseeing and settling in at the hotel on February 15, 2005. However, the effective date of the 5-year lease was July 1, 2005 when the hotel started receiving guests.

**Disclosures**  
**Auditors' Report**

4. ANDCo obtained an unqualified report from its auditors Deloitte and Touche for the audits carried out on the Company's financial statements at March 31, 2005 and 2006. The examinations were done in accordance with the International Standards on Auditing and the financial statements complied with the provisions of the Companies Act of Jamaica. The report noted that proper accounting records were kept and the financial statements are in agreement therewith and give a true and fair view of the state of affairs of the Company. The financial statements prepared were also in accordance with the International Financial Reporting Standards.

**Compensation of Senior Executives**

5. Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act, (2001), that requires details on the entity's compensation package, it should be noted that an accounting officer employed to the UDC prepares Ackendown's financial

reports and was paid salary and allowances of US\$0.03 million for the period ended March 31, 2006.

#### **2004/05 and 2005/06 Operational Overview**

6. The lease at the Sandals Whitehouse Hotel commenced on July 1, 2005. The contract is for 5 years with options to renew for three (3) further terms of 5 years each. Since the opening of the hotel, the operations of ANDCo revolve around the collection of rental income and the monitoring of the operator's compliance with the property's lease agreement.

7. The hotel's occupancy level for the 9-month period July 2005 to March 2006 was 81.77% and this factor had a direct impact on ANDCo's financial performance. Income generated is directly influenced by an agreed formula that is linked to fixed and additional rental income generated at the hotel. Fixed rental income is currently US\$2.33 million per annum for the initial 5 year term of the lease. Additional rent is calculated as a percentage of the audited net package revenue linked to year to date (lease year) occupancy levels and based on an established schedule.

8. In 2004/05, Gorstew Limited and Sandal Whitehouse Management Limited instituted a claim against ANDCo, UDC and NIBJ for breach of the Heads of Agreement made by the shareholders. Specifically, the suit makes claim for negligent misstatement, breach of lease, breach of warranty and breach of technical service agreement that was made between Gorstew and the Company. In addition, Gorstew claims that the project cost over-runs ought to be borne entirely by the Urban Development Corporation and the National Investment Bank of Jamaica Limited. The claim specifies special damages in the sum of US\$28.9 million and unspecified general damages of reputation and interest at a commercial rate. The case is currently pending in the courts.

Later, in 2005/06, two (2) additional lawsuits were filed against Ackendown as under:

- Gorstew versus ANDCo for US\$75,432 plus attorney's costs of US\$12,000 for interest on late payment of balance of technical services agreement.
- Appliance Traders Limited versus ANDCo for US\$212,873.99 plus attorney's costs of US\$12,000 representing a claim for balance and interest on late payment of amounts due on Service Agreement.

A negative outcome on these lawsuits could have an adverse material effect on ANDCo's financial statements, which are already in a precarious position.



## Financial Highlights

**Table 1 (US\$m)**

Particulars	2005/06	2004/05	Change	
			\$m	%
Income	3.88	0.00	3.88	
Operating and other expenses	-1.88	- 0.03	-1.85	
Operating profit (loss)	2.00	-0.03	-1.97	
Interest costs	- 5.11	0.00	-5.11	
Decrease in investment property value	-27.62	0.00	-27.62	
Net profit (loss) for the year	-30.73	-0.03	-30.70	
Current assets	5.30	9.34	4.04	43.25
Total assets	91.73	115.62	23.89	20.66
Working capital	-53.98	-45.63		
Current liabilities	59.28	54.97	4.31	7.84
Long-term debts	29.52	27.00	2.52	9.33
Total debts	88.80	81.97	6.83	8.33
Shareholders' equity	2.92	33.65	30.73	91.32
Interest cover	0.76 times	0.00		
Debt to assets	96.81%	70.89%		
Debt to equity	30.41:1	2.44:1		

9. Table 1 indicates that for financial years 2004/05 and 2005/06, ANDCo incurred net losses of US\$30.73 million and US\$0.03 million respectively on operations. Of note, in 2004/05, no income was realised by ANDCo as the hotel had not commenced operations. However, costs incurred totaled US\$30.91 million with US\$26.68 million or 86.3% attributed to formation expenses.

10. For the year 2005/06, the Company recorded an operating loss of US\$3.11 million. However, with the hotel in operation, there was recognition and a subsequent change in the valuation basis from "Asset under Construction" in 2004/05 to an "Investment Property" in 2005/06. To ascertain the hotel's market value, a cost of US\$27.62 million was subsequently booked as the decrease in investment property and reflected the fair value adjustment of the property. The resulting net loss for the year 2005/06 rose significantly to US\$30.73 million as income generated from rental and other income was US\$3.88 million as compared to total costs of US\$34.61 million.

11. ANDCo's total assets were valued at US\$91.73 million at March 31, 2006. This represented a decline of US\$23.89 million below the prior year and was primarily due to the adjustment made to reflect the market value of the investment property. For 2005/06, the liabilities totaled US\$88.8 million, an increase of US\$6.83 million above the previous year and directly due to the growth in the current portion of shareholders' loans.



12. At March 31, 2006, the Company had accumulated losses of US\$30.77 million as a result of net deficits incurred since inception. Shareholders' equity also declined to US\$2.92 million as compared to \$33.66 million in the prior period. Overall, this reflected the poor financial state of Ackendown and an urgent need for the implementation of strategies to ensure a turnaround and future profitability. Debt to equity ratios of 2.44:1 and 30.41:1 were recorded at the end of the 2004/05 and 2005/06 respectively. The deterioration to 30.41:1 was attributed to an increase of 8.3% in total debts to US\$88.8 million in addition to a 91.3% decline in shareholders equity to US\$2.92 million. ANDCo's debt to assets ratio also fell by 25.92% to 96.81% as a result of the growth in total debts alongside the reduction in total assets in the same financial period.

13. The Company recorded negative working capital of US\$45.63 million and US\$53.98 million at March 31, 2005 and 2006 respectively. The negative balances were indicative of the significant level of current liabilities (arising from the current portion of shareholders' loans to be paid) compared to the current assets in the review periods. This situation was deemed unsustainable and further capital injection by the shareholders seemed appropriate. In future periods and without a turnaround, the Company is expected to continue being adversely affected in its ability to service its debts and achieve a reasonable return on equity.

## Conclusion

14. ANDCo's audited financial reports for the review periods indicate that the entity was in a poor financial state and facing major challenges as a result of on-going operating losses. This was due directly to significant operating costs, primarily financing expenses incurred on a large debt stock as compared to actual earnings from rental and other income. To improve this negative trend and ultimately achieve a turnaround in operating performance, key strategies need to be employed by the hotel's management to increase significantly occupancy levels and ultimately grow the revenues since this is linked to the lease agreement. Of note, lawsuits brought by Gorstew Limited are currently pending against the Company for several proposed breaches and could have a adverse material effect on ANDCo in future periods.



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November 26, 2007