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Mr. Edem Kpodo
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21st July 2012

Dear Mr. Kpodo,

GOLDEN BEACH HOTELS (GHANA) LIMITED – YOUR REF: GBH/INVEST//2012/01

We have reviewed the RFP documents and all the included information together with your financials, unfortunately the figures do not add up. Our analysis indicates that the Group (GBH) must be indebted to some financial institutions and might be finding it hard to meet repayments or borrow again. Otherwise, wouldn't it have been better for GBH to source funds at lenders' rate, call for tenders to refurbish the hotels and call for another tender for Managers to now manage the hotel if they are unable to handle in-house management.

A promoter in an investment such as this must disclose to the Investors and Managers the exact position of the books which must include the outstanding debts and possibly why the GBH has accumulated such debts and how it has become very difficult to borrow again from Financial institutions to upgrade the hotels. This crucial information is lacking from the documents available to us and may be to other companies listed in your proposal. Without getting the information and plans on how to restructure this debt or recapitalize the Group, we personally feel it will be hard for any operator/investor to move ahead without problems.

Ideally GBH should have sourced their funds, call for tenders on refurbishing either with the input of the Management Company or complete the refurbishing and ask for Management Company to manage the finished product. This way the Management Company can project what sort of revenue that will be generated based on the refurbished properties and weigh them against competitors in the market.

Also reviewing the financials, the Group seems to most likely be running at operational losses, otherwise if the Group is making the projected profits as shown on the documents, a reasonable percentage of such annual profits could have been set aside for refurbishing and upgrading of these hotels. Hotels that fail to set aside a reasonable percentage of their revenue for refurbishing usually end up with refurbishing problems.

As its obvious the above pictures portray GBH positions with her Properties, it then means that GBH may be looking at achieving the following results:-

1. Refurbish the Hotels
2. Service Existing Loans
3. Pay Dividends to Shareholders and Investors
4. Increase the Property Portfolios & Assets by increasing the number of rooms
5. Retain some reserve for unforeseen circumstances

However, we have also wondered if Golden Beach Hotel has considered the implications of this proposed "New Investor & Management" approach. We think this may generate the following problems:-

A. A new investor will seek higher interest rates and charges more than High Street Financial Institutions like the banks, bearing in mind that the investor may even be getting the funds from the banks or have alternative investment opportunity that may yield better dividend than what can be obtained in GBH.

B. The new Investor knowing the adverse Credit rating or Records/Profile of GBH with the local banks may put stringer conditions on her funds.

C. New hotel Management Company will definitely increase sales and management efficiency but it will carry substantial costs.

D. The Management Company must seek to receive percentage of room sales, percentage of profit (profit before old debts are serviced) and other fees depending on the Management Company appointed.

E. A mandatory repayment amount must be allocated to the new investor irrespective of total revenue generated, therefore old outstanding debts will either suffer or GBH shareholders will receive zero dividends as the new debt must now come from the proceeds of the present arrangements hence it's like debenture loans.

F. There is no Guarantee Income or Revenue for GBH

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G. Based on the aforesaid, GBH will be faced with the following imminent difficulties:-

E.1 The new investor with a repayment plan and interests on funds invested.
E.2 The new management company taking off their agreed rates irrespective of the amounts to be paid to the investor as investor is completely different from the management company.
E.3 The old debt that needs to be serviced as agreed.
E.4 Shareholders who may become irritated with GBH Management Board and the new Hotel Management Company because they had hoped this new arrangement would have solved all the problems associated with the investment to enable them start earning dividends again.

H. This will summarise to the shareholders and owners being unable to meet their financial needs despite having a total of 329 room hotels.

I. GBH will therefore be unable to increase the number of rooms or develop new areas so as to start generating more revenue for the shareholders.

Looking at the history of the Hotels especially with the partnership difficulties between the earlier investors and the Ghana Social Security and National Insurance Trust which led to the dissolution of the agreement that lasted from 1999 to 2011, the issue is "Would the SSNIT go again into a three party arrangement comprising of Owner/Investor/Manager", Will this not be too complicated and a repeat of the past arrangement that failed?

We will therefore suggest a different approach which will deliver 1- 6 goals as enumerated above and meet the expectations for GBH Investors, shareholders and Management Company. As the Director of Investments within our Group, if this same problems emanate in our Group, my priority will be to make sure the Group remains afloat and not stifled by loans and interests repayments.

To solve A-G problems above, we propose that <u>Dazee Ltd. Owners of Dazee Hotels lease the entire hotels from GBH</u> at an agreed lease amount which we are proposing to be in the region of $30m for a 15 year term.

This would be paid on an annual or bi-annual basis as will be agreed by both parties. Dazee Hotels will also refurbish the hotels for which Dazee Hotels has estimated to be in the region of $25m-$30m and possible increase the number of rooms to 500-1,000 rooms subject to planning permission approval which shall be obtained by GBH.

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By increasing the number of rooms and without stopping the lease sum, the 2 parties can agree on what happens to the new rooms introduced at the end of the lease.

To fully understand and appreciate what Dazee is offering, it will be good to scale these down as follows:-

i.	Lease rent (15years)	$30.0m
ii.	Refurbishing of existing hotels	$35.0m
iii.	New rooms (estimated 700 rooms)	$30.0m
	TOTAL INVESTMENTS	$95.0M

With this, Dazee Hotels will then invest her own money and bring the hotels to such a standard that must enable her recoup the cost of refurbishing, recoup the rent, meet her obligations and of course make profit.

If this is approved, Dazee can arrange with her Interior Designer, Partners and Associates to turn around the Hotels to 5 and 4 star statuses. Dazee will then proceed to sort suppliers and materials that will achieve this; work on the exterior of the hotels to give it a new look, introduce other incentives for the growth of the hotels without much recourse to periodic meetings and seeking approvals from GBH.

Dazee will utilize her understanding of the EU banks on invoice financing, project fund loans, EU export financing and Cultural Enhancement Funds to achieve any of these plans.

With the EU economy very shaky, there are various Government incentives for small and medium size businesses to expand into new markets. It will be easier approaching these bodies or agencies with a lease agreement than requesting for loan. Dazee can make a good presentation to her bankers than GBH can do because GBH is expected to disclose her trading records while Dazee will be expected to disclose PROJECTED trading results to achieve the investment repayment.

GBH will in turn have a guaranteed income per annum and can consolidate all existing loans either into an agreed repayment plan or convert them into equity or shares. GBH shareholders can trade their shares or borrow from third parties knowing that they have almost a guarantee annual dividend based on the receivable lease amounts.

The proposed investor and manager schemes will leave GBH under a perpetual low or zero yielding investment. It will result in Golden Beach Hotels always looking for loans or going into Joint Ventures with other Institutions.

With the projected costs and complex arrangements such as what is being proposed in the RFP, GBH may end up not getting the hotel to a very high standard reminiscent to a modern class of hotel as envisaged by the board or shareholders.

There is also a likelihood of GBH management board, the investors and the management company not agreeing on several issues for example, while the Management Company may want to retain some of the proceeds of sales and convert same to working funds so as to increase revenue and profit which will be beneficial to her, the investor would want to recoup her investments and would have attached stringent conditions to the funds and default clauses that will not permit the Management Company from diverting the funds to increase revenue or profit. The GBH board will also be interested in paying dividends, so disagreement will again ensue and bring the new arrangements once again to its knees.
This will result in GBH unable to pay any dividend in the first 3-5 years; thereafter, the refurbished rooms will be due once again for upgrade and the struggle continues as a vicious circle.
A typical example as shown below will demonstrate this better:-

WORKING EXAMPLE

Assumptions:

1. GBH borrows $50m to refurbish the hotels
2. The interest rate exclusive of any other bank charges is 20%
3. The Term Loan Period is 36 months (3 years)
4. The Room rates are increased to an average of $80.00 per room
5. Room Occupancy increases to about 60% average
6. A new management agreement is drawn at 5% of Room Revenue & 10% of Profit
7. The Operating Profit on the Room Revenue stands at 70% (30% costs)

RESULTS

A.	Total Room Revenue pa	$5,764,080.00
B.	Operating Cost on room revenue (30%)	$1,729,224.00
C.	Total Interest Payable over 36 months	$15,416,666.67
D.	Total Capital & Interest repayable	$65,416,666.67
E.	Average Repayment based on D above	$21,805,555.56
F.	Management Fees/Charges based on 6 above	$691,689.60

PROFIT/LOSS

This is based on the first 3 years and worked upon only room revenue

i.	Room Revenue	$5,764,080.00
ii.	Less:	
	a. Cost of Room Revenue	($1,729,224.00)
	b. Management Fee	($691,689.60)

c. Loan Repayment ($21,805,555.56)

iii Profit/Loss

Room Revenue	$5,764,080.00
Costs (a,b & c above)	$24,226,469.16
LOSS	$15,416,666.67

(Please note that proceeds from F&B and other income will reduce this, whatever remains if any will become profits for shareholders/depreciation etc)

Therefore for it to be worthwhile options:-

a. The Management Company must generate $15,416,666.67 extra to cover the above shortfall
b. Also generate revenue to meet the Operational Costs which is averaged to the following:- (using 2011 figures extracted from your records)

a. Payroll & Related Expenditure	$4,026,244.00
b. Admin & General Expenses	$3,009,150.00
c. Sales & Marketing	$ 183,793.00
d. Energy	$ 1,581,716.00
TOTAL	$8,800,903.00

Therefore the viability of using this finance and management scheme may not work as within the first 3 years alone, any management company must operate to generate extra $24m in profit to meet the above costs and this will leave the GBH shareholders with ZERO DIVIDENDS within these first 3 years.

But if our proposed LEASING approach is acceptable, it means GBH do not have to service any investment debts, pay any management fees to any operator as well as bear any loss or profit but they will walk out every year with her rent. This simply means GBH has GUARANTEED ANNUAL INCOME and the Management Board and shareholders can plan effectively.

It will then be left to us the Lessor to ensure that we meet the costs of refurbishing, meet our operational costs as well as make profit for our investors and shareholders.

We think this system will be far better for the property owners than first finding the money to refurbish the hotels, managing the operators as well as servicing the debts, but if you feel that we must submit our proposal in line with what you detailed, this scheme can't fit in.

WHAT WE PROPOSE

Because of the projected cash flow and investment costs, we are proposing a 15 year lease so as to enable us refurbish the hotels, increase the number of rooms, and install more revenue generating features from Games Arcade to "Meals-On-The-Wheels". These will help us recoup our investments and return profits to our investors.
These features which we envisage we can introduce may be difficult to be achieved if we are contracted as Operator; getting the board to approve such expenditure may not be possible. If we also operate as an Investor only, we will be more concerned in getting the return on our investment within the shortest possible time than to think of what the hotel will generate as profit.

Experience in the Industry shows that most Government officials or hotel investors usually disagree to certain level of expenditure in a hotel, they assume a hotel is made up of bed to sleep, table to read, bathroom for bathing etc, but in the 21st Century, a hotel is much more than that.

While a hotel to some is a relaxation venue where they can enjoy an experience not affordable in their houses; to a business man, it may be a place he could get the fastest internet services, interactive systems and also be exposed to learning what he can apply in his business. To a child, the hotel may also be a place to play games, watch latest movies and be able to catch up with his friends in face book and other social networks.

If GBH Ltd wants to consider our Leasing Option, the scheme will be able to:-

1. Guarantee her an annual income
2. The renovation will still be carried out
3. The Hotels are all upgraded to either 5 star, 4 star or boutique hotels
4. They have both Investor and Manager that they do not have to worry about
5. They are sure to continue to generate enough revenue and can effectively plan against their annual rent
6. GBH will also have an increased number of rooms

METHODOLOGY TO ACHIEVE THIS

Once the Leasing Scheme is acceptable, GBH Ltd and Dazee Hotels will sign an MOU (Memorandum of Understanding) which enables both parties to now disclose vital information and set time tables for completion. The MOU will:-

I. Cover the Lease amounts
II. Due dates for payments
III. Penalty clauses for breach of payments
IV. The handing over date
V. What happens with the existing staff
VI. What happens with the retirement/disengagement benefits of the staff
VII. What happens with the expanded number of rooms when the lease finally ends in the agreed period of 15 years
VIII. Rights and limits of intrusion by the owners
IX. Other areas that will be agreed which then forms basis of the Contract

We strongly think it will be better for GBH to collect rent and sit back to watch the professionals do their work.

We look forward to receiving your consent on this.

Yours truly,

Chidi Njoku
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