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EXECUTIVE SUMMARY

0. EXECUTIVE SUMMARY

0.1 Introduction

The Golden Beach Hotels (Gh) Ltd, (GBH) a holding company, operates 3 hotels namely:-

- La Palm Royal Beach Hotel, Accra
- Elmina Beach Resort, Elmina (Central Region)
- Busua Beach Resort, Busua (Western Region)

The company was incorporated in June 1999 as a private limited liability company and a joint venture between the Social Security and National Insurance Trust, (SSNIT) and Rexor Ltd. Over the years however, the joint venture arrangement experienced difficulties culminating in SSNIT buying out Rexor at the end of 2010.

The 3 properties operated by the Golden Beach Hotels deteriorated over the years as a result of lack of investment due mainly to the challenges experienced in the joint venture agreement.

SSNIT as the current sole shareholders seek a strategic investor and/or management partner in order to re-capitalize and re-organize the operations of the company in order to meet the growing demands of the hospitality sector.

Exquisite Consulting Limited (ECL) was therefore contracted to assist the management of the GBH in the process of identifying and selecting a new strategic partner to re-capitalize and reposition the company.

The assignment entails the review and analysis of the operational, financial and corporate governance framework of GBH in order to re-capitalize and re-position GBH. Consequently Exquisite Consulting Ltd sub-contracted KRON Finance and Investments Ltd. to handle all non-operational aspects of the assignment.

0.2. The Assignment Objectives and Scope of Work

The assignment requires ECL to assist in the process of identifying and selecting another, new investor(s) after a comprehensive operational and financial review of the three hotels of GBH and to determine the "best fit" potential alliance partner for re-capitalizing and re-positioning GBH.

The following specific tasks are to be executed under the assignment:-

1. To conduct a detailed situational review of the operations of GBH, including but not limited to the following:
 - a) Review and "clean up" the balance sheet of GBH and recommend actions on how to liquidate the existing debt of GBH
 - b) Review and analysis of the operations, services and products of the hotels of GBH;
 - c) Review of financial and investments needs and advise on the various shareholding options available including the appropriate debt/equity proportions.
 - d) Review and analysis of corporate governance and management structure and;
 - e) Review and determine the implications of the institutional framework such as legal, environmental and human resources issues on the operations of GBH.
2. To ascertain the institutional and operational deficit arising from the reviews above and make projections as to how to bridge the deficit to ensure optimum operations of GBH and thus make it more viable and attractive.

3. To update the valuation report of 2005/2006 and bring it to currency and determine the indicative market value of GBH, reconstituted as a going concern.
4. To develop a Request for Proposal (RFP) to be submitted to 23 companies that expressed interest and invite proposals from them for a "best fit" potential strategic alliance partner(s) for the purpose of re-capitalizing and/or management of GBH.
5. To review and analyze bids received from prospective strategic partner(s) and identify and advise GBH on the five most appropriate strategic partners, who demonstrate through their track record the requisite financial strength, operational competence and capacity to meet the demands of the existing shareholder of GBH.
6. At the request of management of GBH, to conduct or prepare any other report that will be relevant to the assignment objective.

0.3. Assignment Deliverables

The following deliverables are expected under the assignment:

- a) Operational Review
- b) Financial Review including recommendations on how to handle GBH's indebtedness
- c) Business Valuation Report
- d) Company Information Memorandum
- e) Request for Proposals (RFP)
- f) Bid Review Report.

0.4. Methodology

Two teams from Exquisite Consulting Ltd. and KRON Finance and Investments worked on the operations and Finance and Investments aspects respectively. The teams worked on their respective areas but came together to undertake joint assignments or hold meetings with major stakeholders.

The Consultants' activities included:-

a) Collection, validation and review of information, technical review of operations of the hotels, their product offering and standard of service, environment and competition, market performance, organizational structure, human resource capacity, legal and institutional compliance, physical assessments of the assets of the hotels, determination of the indicative value of the GBH, development of an RFP and sending it out to prospective bidders, receipt analysis and evaluation of the bids.

The two teams also held several meetings jointly with the top management and Board of GBH. Other meetings were held with SSNIT, Ghana Commercial Bank, some key operators in the hospitality sector in Ghana and some key GBH customers. The consultants also visited and interacted with the management of the 3 hotels in order to understand their respective challenges, performance and their perspectives for the future. Finally the consultants also visited some of the properties managed by the bidders, wherever practicable.

The following documents were prepared and submitted as part of the assignment deliverables.

- (i) Request for Proposals prepared and submitted, after clearance with the client, to all 23 companies which originally expressed interest.
- (ii) A draft Operational Review Report on the operations of the 3 hotels and the corporate office.
- (iii) A draft Financial and Investments report on the financial performance of the 3 hotels and the company as a going concern and suggestions on the way forward on its indebtedness. A request was made by the financial consultants for a fresh assets valuation of the entire company to aid in the business valuation of the company without which the net worth of the company would be negative, in view of its level of indebtedness, particularly to SSNIT and Ghana Commercial Bank. (The last such valuation had been conducted in June 2008, making the values of GBH woefully underpriced currently). This request was declined.

(iv) A preliminary report on the bids received in response to the RFP seeking clearance on the way forward (see Bid Review below)
In response to this, the consultants were instructed to seek additional information from the 3 bidders which had submitted proposals in response to the RFP in order to conclude the bid evaluation.

Based on (iv) above the 3 bidders were contacted to provide additional information. The consultants arranged for representatives of all 3 bidders to visit the hotels upon their request and thereafter additional information was provided.

0.5. Operational Review

Our review of the operations of the hotels of the GBH indicate that while newer hotels are coming onto the market to compete with them all three properties have experienced deterioration in their infrastructure. This deterioration, combined with other factors (such as the loss of key staff to newer hotels) has occasioned a lowering of the key operational indicators of all the hotels. There is a recent injection of US\$5 million to refurbish the hotels but this is woefully inadequate in view of the extent of deterioration of the assets.

In addition to the need to carry out extensive renewal and refurbishment of all three properties,

- Serious consideration needs to be given to expanding the room capacity of La Palm to bring it in tandem with its conferencing capacity in particular and its extensive range of public areas. The hotel also needs to strategize to take advantage of the La Beach Towers development nearby.
- The level of empowerment of the management of the hotels at the unit level needs to be upgraded as it is not commensurate with international industry practice. There is the need to place the guest at the centre of all its operations.
- Vacancies for key operational staff in the hotels (especially La Palm) need to be filled to ensure good service delivery.
- The disparity between the levels of remuneration for employees at La Palm on one hand and the other two hotels on the other needs to be bridged although we concede that the earning capacity of the three hotels is not the same.

- The issue of the uncompleted 80 bedrooms and the threat of sea erosion at Elmina need urgent attention.
- Standards of service delivery in all 3 hotels, particularly at Elmina (especially in the food and beverage department) are undeserving of the classification of the hotels and need to be improved through regular training.
- The digression into conferencing as its mainstay (probably out of necessity) with less emphasis on leisure by Busua needs to be reversed. Urgent steps need to be taken after its renewal to provide much needed beach and leisure facilities such as a night club, casino?, water sporting equipment etc to take advantage of the huge potential from the large expatriate and local resources in the oil and allied industry in addition to those in cocoa and mining in the western region and beyond.

0.6 Bid Review and Evaluation

At the close of the receipt of bids, only 3 companies had responded with 2 respondents (i.e. Golden Tulip West Africa and ii. Legacy Hotels, South Africa) interested in **management (operation) of the 3 hotels**. A third bidder (Dazee hotels, UK) proposed **leasing all 3 hotels and expanding their capacity** at its own expense.

The terms and content of all 3 bids did not initially meet the full requirements of the RFP. Specifically

- (i) The submitted proposals were not in the format required by the RFP.
- (ii) It was difficult to ascertain what was being proposed financially, given that a major objective of the exercise presumably was to attract financial injection into the hotels.

However following a meeting with the Board of Directors of GBH, the consultants were mandated to seek further clarification from the 3 bidders to complete the evaluation of their bids. Further information was therefore requested from the 3 bidders namely Golden Tulip West Africa, Legacy Hotels and Resorts and Dazee Hotels. The consultants arranged for representatives of all 3 companies to visit the hotels at their request and also to provide additional information.

Below is a summary of the key elements of the 3 bids:

SUMMARY OF BIDS.

CRITERIA	GOLDEN TULIP WEST AFRICA	LEGACY HOTELS AND RESORTS	DAZEE HOTELS
Interest:	All 3 hotels	All 3 hotels	All 3 hotels
Main Proposal	Management (operation) of hotels only	Management (operation) of hotels only	Lease all 3 hotels for minimum 20 years
Development Plans	Provided	Provided	Plan to expand hotels especially room capacity for La Palm.
Investment in Properties?	Yes through a sister company	No interest – prefers to refer owner to 3 rd party investors	Will provide own financing to expand and refurbish hotels to the tune of US\$25 - \$30 million
Operational spread	Europe, Americas, 4 hotels in West Africa including 2 in Ghana	Southern Africa; 2 hotels in West Africa including 1 in Ghana	2 hotels in Nigeria
Main Terms of Contract (Fees)	(i) Base Management – 2.5% of Gross Operating Revenue (ii) Incentive Fee – 7.5% of G.O.P. (iii) Reservation Fee – 1.0% of Gross Room Revenue (iv) Sales and Marketing fee – 2.0% of Gross Operating Revenue (v) Brand Entrance Fee - \$200 per room (one time payment)	(i) Fixed Management – 2.75% (ii) Incentive Fee 5 – 10% of GOP depending on level of turnover (iii) Reservation Fee – US\$15 per bookings done through Legacy. (iv) Marketing fee – 4% of Rooms Revenue and packages/conferences.	Proposed Lease – guaranteed lease of \$2million per annum (negotiable); payment through bankers. – Investments of \$25 - \$30 million in hotels refurbishment – Investments of \$30 million in additional capacity.
Refurbishment / development Assistance	Ready to provide assistance but did not specify if there will be extra charges.	As consultants to the projects at extra cost.	As above
Technology Transfer (Training and engagement of local management staff)	Available	Available	Not indicated

0.7 Recommendations

Two of the 3 bids are directly comparable (management only) while the third bid proposes a lease of the hotels. Our recommendation will be based on 4 scenarios:

- (i) The status quo remains – i.e. the current arrangement with GBH as a holding company to operate the hotels.
- (ii) That SSNIT as sole shareholder insists on an investor who injects financing into the company.
- (iii) SSNIT does not necessarily require an investor but needs a management partner who understands the nature of the business to enable it operate the hotels profitably. This scenario assumes that SSNIT, as the sole shareholder, will continue to provide the necessary funds to re-furbish and renew the hotels which have deteriorated.
- (iv) SSNIT requires both an investor and a management partner who will at the same time operate (manage) the hotels.

Scenario (i): In view of the current state of the hotels, we will not advise that the status quo is maintained. It is clear from the operations of the hotels in the past few years that the company has not generated enough profits let alone pay dividends to the shareholders. This situation, coupled with the need for an injection of funds to renew the hotels in an increasingly competitive market, makes it imperative to discontinue this arrangement.

Scenario (ii): Should the shareholder insist on an investor who injects financing into the company, we strongly recommend, from the operational point of view, that the current refurbishment exercise should be completed to bring the hotels up to an appreciable level of their classification (i.e. 4 and 3 stars respectively) to make them more attractive to prospective investors. As an alternative solution we recommend consideration of the lease option offered by DAZEE hotels, (or any other lease model) subject to further due diligence and negotiations on the terms of the lease. This is clearly an option worth pursuing if SSNIT as a shareholder does not intend further investment to renew the hotels as it generates revenue to the shareholder from the onset while taking care of the properties' needs.

Scenario (iii): This assumes that SSNIT needs only a management partner to operate the hotels while it continues to inject funds as the sole shareholder. Both Legacy Hotels and Golden Tulip West Africa have demonstrated their capacity to manage hotels in West Africa. Technically Legacy Hotels, by virtue of its contract over Labadi Beach Hotels has an edge if it should be given La Palm (La Palm being the flagship of the GBH) in view of the tremendous advantages managing the two hotels together (approx. 300+ rooms) will bring in terms of synergy, economies of scale etc. Its other proposals are very interesting for Elmina but weak on Busua. However Golden Tulip West Africa's financial proposals in terms of fees etc are more attractive. Our recommendation is that, subject to negotiations to reduce the fees and charges, the Legacy bid is a better option under this scenario.

Scenario 4: In the event SSNIT requires an operator who is ready and interested in investment into the hotels, Golden Tulip West Africa's proposal will be the most suitable, subject to resolving the issue of indebtedness of the GBH and cleaning up its Balance Sheet as may be determined by the financial consultants.

0.8 Conclusion

All three properties of The Golden Beach Hotels (Gh) Ltd. have deteriorated over the years due to lack of investment to refurbish and renew them. Although some funds have recently been provided to refurbish the hotels, the funds so far released are inadequate vis-à-vis their requirements. The operations of the hotels have not been profitable and against increasing completion, bold measures need to be taken to inject more funds into the hotels and attract a management partner to take the hotels to a higher level. Urgent action needs to be taken by its major stakeholders, particularly the shareholders to stem the tide if the hotels, which are strategically positioned, should take advantage of the increasing tourism inflow to the growing Ghanaian economy.

Although the response to the search for a strategic partner (in terms of the response to the Request for Proposals) was low, a strategic partner could still be selected from the bidders for further negotiations, subject to the specific requirements of the shareholders.