

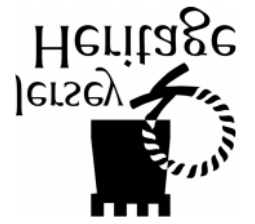
STATES OF JERSEY



AMPHIBIOUS VESSELS: PURCHASE FOR USE ON THE WEST PARK TO ELIZABETH CASTLE ROUTE – BRIEFING REPORT

**Presented to the States on 8th July 2008
by the Minister for Education, Sport and Culture**

STATES GREFFE



**Briefing report on the purchase of amphibious vessels
for use on the West Park to Elizabeth Castle route**

June 2008

**JERSEY HERITAGE
REPORT ON ACQUISITION OF AMPHIBIOUS SERVICE TO ELIZABETH CASTLE
COVER NOTE – JUNE 2008**

The attached report was prepared as a record of the background to the purchase of the amphibious service to Elizabeth Castle by Jersey Heritage in spring 2008. The report is presented to the Minister for Education, Sport and Culture for distribution to States Members. In publishing this report the Board of Trustees of Jersey Heritage offers the following summary of the main points covered.

A – SUMMARY OF NARRATIVE

1 1997 BEAVER LANDING CRAFT SELL VESSELS TO PUDDLEDUCKS

- Jersey Heritage considers and rejects purchase and direct operation.
- Vessels sold to Puddleducks Ltd. in 1998.
- Puddleducks operate service on fare charging basis but viability declines.

2 2004 PUDDLEDUCKS LICENCE EXPIRES – OFFERED NEW CONTRACT BUT DECLINED

- Jersey Heritage offers a renewed contract for 9 years, but Puddleducks decline, citing concern over long-term decline in visitors – (N.B. visitors in 1989 were 150,000– by 2006, last year of Puddleducks operation were 41,000).
- The business had become marginal to operate. It had become unviable for any new operator to make a new investment in the business.
- This is confirmed in December 2006 when Puddleducks write to the Board: ‘should trustees see fit to offer the route to a third party operator it will leave the directors of Puddleducks with very little to show for the 9 years of committed service except for 3 vehicles, a kiosk, a workshop and some unpaid directors loans’.

3 2006 PUDDLEDUCKS DECIDE TO SELL

- Puddleducks write to Jersey Heritage to say ‘The Board of Directors of Puddleducks Ltd. has decided that this company no longer factors in the general corporate strategy and therefore we have decided to make a disposal. Currently we are exploring 2 options. The first is to sell the vehicles off the Island to one of the many operators around the world that would operate this type of vehicle and the second alternative is a local sale’.
- Jersey Heritage considers once again the option to purchase. The Board consider that on balance the appropriate first option was to seek an alternative independent operator who would make a contractual commitment.

4 2006 JERSEY HERITAGE TENDER SERVICE

- Jersey Heritage advertise the licence jointly with the Puddleducks’ notice of sale and issue a joint press release in order to give maximum opportunity to associate the route with the existing operation/vessels.
- Following discussion with Puddleducks about the economics of the route, their views on viability and in the light of analysis of Puddleducks’ accounts, Jersey Heritage makes changes to the business model under which the route is to be operated in order to encourage new applicants for the service. This enables the operator to invest in the vessels and enables Jersey Heritage to achieve control over prices for the first time.
- Puddleducks are made aware of this offer and did not apply under these new terms.

5 2006 PURE ADVENTURE WIN OPEN TENDER

- There are only 2 serious tenders. One to be provided with Puddleducks’ vessels and Pure Adventure’s to operate with new vessels.
- Pure Adventure are preferred because (a) they are cheaper; (b) the new vessels offer an upgrade and capabilities not achievable by the existing service (e.g. operation on the roads); and (c) unlike the alternative operator the company are already involved in a marine based customer service business.

6 2007 PURE ADVENTURE OFFER TO BUY PUDDLEDUCKS

- In January Puddleducks write to Jersey Heritage that ‘We would not be prepared to [make our vessels available for the season] just as cover for later delivery but we would be prepared to enter into negotiation with anybody who wishes to purchase our vehicles’.
- Pure Adventure have the Puddleducks vessels valued independently and offered £50,000 – £8,000 above the valuation. This offer was declined. In further negotiations Pure and Puddleducks fail to agree a price.
- Puddleducks change their earlier position and offer to operate a temporary service for the summer. This offer was considered but rejected by Jersey Heritage on the grounds that it would complicate the contractual position with Pure Adventure.

7 2007 PURE ADVENTURE OPERATE TEMPORARY SERVICE

- The problems experienced by Pure Adventure in operating the service during the 2007 season are well documented. Elizabeth Castle experiences a decline in visitors of 17%.
- These losses are taken account of in the recent severance agreement between Pure Adventure and Jersey Heritage in which Pure are penalised.
- During this difficult period Jersey Heritage becomes increasingly involved in the operation.

8 2007 JERSEY HERITAGE DECIDE TO BUY OPERATION

- At the end of the 2007 season, Jersey Heritage reviews contract and reaches conclusion that it makes sense to seek to purchase the operation.
- At this point Jersey Heritage remains in contract with Pure Adventure and carries the consequent legal and financial obligations.
- The costs of the deal include a £121,000 sum representing an agreed position on the price of the contract. This figure is referred to as ‘goodwill’ but is simply the price agreed with Pure for them to relinquish their remaining contractual entitlements.
- Prior to purchase Jersey Heritage engages MECAL, Jersey Harbours’ agent for survey and certification of commercial vessels, to confirm suitability of vessels.

B – SUMMARY ISSUES

- **Jersey Heritage wished to, and actively sought to, retain the services of Puddleducks on the Elizabeth Castle route.**
- **Jersey Heritage acted openly and fairly in tendering the service and awarding the contract.**
- **The new financial model for the basis of the contract was sound.**
- **The vessels are safe and appropriate to the route.**
- **The business case for the purchase of the service was sound.**
- **In finally purchasing the vessels the Board made the decision based on all best available evidence and on appropriate professional advice.**
- **Jersey Heritage are confident in being the most appropriate and cost-effective operator of the service at this time.**

CONTENTS

- 0. Introduction**
- 1. 1994 – 2003: background and obligation of Jersey Heritage to maintain a passenger service to Elizabeth Castle**
- 2. 2004 – 2006: Puddleducks Limited decision not to renew contract – and Jersey Heritage decision allow Puddleducks Limited to continue operating without a contract**
- 3. June 2006: Puddleducks Limited decision to cease operation – and Jersey Heritage decision to tender service**
- 4. Jersey Heritage decision to change the nature of the contract**
- 5. September – December 2006: tendering and appointment process**
- 6. December 2006: the decision to award the contract to Pure Adventure Jersey Limited**
- 7. February – October 2007: the decision to remain with Pure Adventure Jersey Limited throughout the 2007 season**
- 8. Jersey Heritage administration of the contract**
- 9. December 2007: proposal for revised contract**
- 10. February 2008: the decision to sever the contract and buy the vessels**
- 11. Viability of the vessels**
- 12. Conclusion**

APPENDICES

1. Two letters from Jonathan Segal (a Director of Puddleducks Limited) to Jersey Heritage dated 30 June 2006 and 6 September 2006.
2. E-mail from Brian Tanguy (a Director of Puddleducks Limited) to Jersey Heritage – December 2006.
3. Elizabeth Castle pricing structure 2006.
4. Indicative contract between Jersey Heritage and “the operator”.
5. Signed contract between Jersey Heritage and Pure Adventure dated 21 December 2006.
6. Letter from Jersey Heritage to the Ministers for Education, Sport and Culture and Economic Development dated 26 January 2007.
7. Letter from Pure Adventure to Jersey Heritage dated 28 March 2007.
8. Letter from O’Flaherty & Co. (Pure Adventure’s accountant) to Jersey Heritage dated 10 August 2007.
9. Letter from O’Flaherty & Co. to Jersey Heritage dated 18 October 2007.
10. E-mail from Ogier (Jersey Heritage’s legal adviser) to Jersey Heritage dated 3 January 2008.
11. Service acquisition costs – 2008.
12. MECAL report of condition re Charming Nancy and Charming Betty vessels – April 2008.
13. Letter from C-MAC Industries Limited (Sean Power, Managing Director) to Jersey Heritage (Michael Day, Director of Jersey Museums Service) dated 27 February 1994.

0. Introduction

The reasons for the decision by Jersey Heritage to purchase the 2 newly-manufactured Hydra Terra Vessels can only be understood in the context of a full chronology of the commercial decisions and judgments that the Board of Trustees has been required to make.

In determining whether the investment represents value for money, there are 2 major considerations–

- That the Board made the right decision based on all the best evidence available at the time.
- That the vessels will remain economically viable for the estimated useful life of 10 years or more.

In this report the chronology of events is presented as background to each key decision made by the Board of Trustees.

In concluding this report Jersey Heritage puts forward the arguments it believes strongly support the decision not only to buy the vessels, but also to operate the service itself for the public benefit.

1. 1994 – 2003: background and obligations of Jersey Heritage to maintain a passenger service to Elizabeth Castle

Although Jersey Heritage took over the management of Elizabeth Castle only in 1994, it had some earlier involvement in developing the licence which established the terms under which the owner of amphibious vessels, at that time Beaver Landing Craft Ltd., would operate a service for visitors to Elizabeth Castle. A 9 year agreement between Jersey Heritage and Beaver Landing Craft Ltd. was signed for the start of 1994 season.

The Licence required Beaver Landing Craft Ltd., to provide a continuous service from 10 a.m. to 6 p.m. from the start of each April to the end of each October. In return the operator had the exclusive right to disembark passengers at Elizabeth Castle slipway and was able to charge passengers a fare that was agreed annually with Jersey Heritage.

In 1996 Jersey Heritage took on the usufruct of both Elizabeth and Mont Orgueil Castles. Under the terms of the usufruct Jersey Heritage has certain obligations, one of which relates to the amphibious service –

“The Trust shall use its best endeavours to cause an appropriate passenger transport service to Elizabeth Castle to be maintained” (paragraph 3.07)

In 1997 the vessels were offered for sale to Jersey Heritage for a sum in the region of £250,000 but, following a report questioning the economic value of the vessels, this offer was declined. A sale did proceed for a sum in excess of £350,000 but to a private company, Puddleducks Ltd., newly formed for the purpose by a consortium of local businessmen. The licence was assigned to Puddleducks Ltd. in 1998.

Puddleducks Ltd. provided an excellent service and was very proactive in promoting Elizabeth Castle. During that time Jersey Heritage worked closely with the operator to develop joint marketing and promotion of both the Castle and the amphibious service.

Due to the long-term decline in visitor numbers (visitors to the castle fell from 150,000 in 1989 to 41,000 in 2006, the final year of Puddleducks Limited operation), and the consequent declining viability of the service, the operator sought annual and above cost-of-living increases in fares in accordance with the terms of the licence. Jersey Heritage agreed all such requests, but it should be noted that visitors to Elizabeth Castles declined faster than the average rate of visitor decline in Jersey.

2. 2004 – 2006: The decision to allow Puddleducks Limited to continue operating

At the end of 2003 the licence held by Puddleducks Limited expired. Consequently, in early 2004 Jersey Heritage offered to renew the agreement for a further 9 year period, on similar terms. Puddleducks Ltd. declined the offer. The reasons cited at the time were that the company's revenue had been in steady decline, as visitor numbers to the Castle fell and, added to this, the operator's costs were increasing due to stricter marine regulations.

One Puddleducks Limited director indicated that the vessels could be sold off the Island where, outside of Jersey's tightly regulated environment, their value could be fully realised. This consideration apparently far outweighed any residual value that might remain in renewing the agreement.

Key decision

The Jersey Heritage Board had 2 choices in early 2004:

- ***Offer to subsidise the service***
- ***Give more time to Puddleducks Limited to find a buyer for the vessels locally***

Jersey Heritage considered offering a subsidy. However, Jersey Heritage was already under severe financial pressure and was contemplating major cuts in services in order to balance its budget. A subsidy would only exacerbate these difficulties.

Discussions with Puddleducks Limited did not progress any further and they continued to provide a service throughout the 2004, 2005 and 2006 seasons, without any formal documentation.

It should be stressed that Jersey Heritage was content with this informal, although less than ideal, arrangement because the service provided by Puddleducks Limited worked well and enabled Jersey Heritage to fulfil its obligations under the usufruct and meet the expectations of the public.

3. June 2006: Puddleducks' decision to cease operation – and Jersey Heritage decision to tender service

On 30th June 2006 Puddleducks Limited wrote to Jersey Heritage (**Appendix 1**) informing them of their decision to withdraw from the service at the end of that season and that it would be seeking to sell their vessels either on or off Island –

'The Board of Directors of Puddleducks Limited has decided that this company no longer factors in the general corporate strategy and therefore we have decided to make a disposal. Currently we are exploring 2 options. The first is to sell the vehicles off the island to one of the many operators around the world that would operate this type of vehicle and the second alternative is a local sale.'

Puddleducks Limited offered to sell the 3 vessels to Jersey Heritage for a sum of around £250,000. With Jersey Heritage's energies already focused on completing the remaining phases of the Mont Orgueil restoration, and with the Forts and Towers programme of development just beginning, the Board were concerned that Jersey Heritage management resources would be too stretched by becoming directly involved in the operation of an amphibious service. A small working group consisting of Jersey Heritage's Director; Jon Carter, and Finance Director Nick Danby, and a Board member, Geoff Crill, were nominated to oversee the tender process.

In the months before and after Puddleducks Limited had announced its decision to stop operating on the route, informal discussions with the managing director of the company had taken place. One point of discussion was whether it would be possible for the operator to receive a greater proportion of the total castle revenue in order to ensure the service remained viable, i.e. a subsidy. Jersey Heritage's Finance Director said any change to the relationship between Jersey Heritage and Puddleducks Limited would need to be proposed to and endorsed by the Board of Trustees.

4. Jersey Heritage decision to change the nature of the contract

As disclosed by Puddleducks Limited's annual accounts, between 2002 and 2004 (**Appendix 3**) revenue from fares charged on the route had declined from £178,000 to £158,000 p.a. against rising costs. Draft results for the company in 2005 indicated that the revenue levels had recovered somewhat, but that year was exceptional. It was the 60th Anniversary year of the Liberation of Jersey and a large exhibition had been built at Elizabeth Castle with the help and funding of the States Liberation 60 Committee.

Puddleducks Limited were very open and transparent about the fact that the amphibious service had become increasingly unviable and it had become clear from its audited accounts that the revenue generated from the operation was barely sufficient to cover its operating costs. This would later be substantiated in an e-mail (dated 16th December 2006) from one of the directors of Puddleducks Limited, who, having been notified that a new operator with new vessels had been awarded the contract wrote –

'In summing up, we feel that during our 9 years of tenure we have done all we can to have fulfilled our responsibilities to the Trust and should the Trustees see fit to offer the route to a third party operator it will leave the directors of Puddleducks with very little to show for the 9 years of committed service except for 3 vehicles, a kiosk, a workshop and some unpaid directors' loans.' (**Appendix 2**)

Key decision

The JERSEY HERITAGE Board had a choice between –

- *Seeking to continue with a newly-appointed operator on the basis that had subsisted with Puddleducks Limited;*
- *Creating a new agreement that fundamentally changed the relationship between the provider and the licensee in order to make it more attractive to an applicant. This would also mean advertising the licence in order to test the market and ensure Jersey Heritage was achieving value for money.*

It was clear that if Jersey Heritage were to encourage any operator of the service to come forward then it was essential to change the way that service operator was remunerated. This presented both a challenge and an opportunity for Jersey Heritage. If Jersey Heritage was not going to operate the service directly then it would have to offer a subsidy to attract an operator. Without this subsidy an operator could not afford to pay for the acquisition of vessels required for the route.

Another dimension to the contemplation of a change of contract basis would be that Jersey Heritage would be provided with the opportunity to have full control of the ferry pricing and create a more transparent pricing structure for visitors. The full pricing structure for 2006 (i.e. with the operator and the castle entry separated), compared to the simplified structure adopted for 2008, illustrates this clearly (**Appendix 3**)

Of almost equal importance in the decision to change, was the Board's concern that Jersey Heritage should not be committed to any single provider for an excessively long period, i.e. the 9-year span of the previous licence. If, as was hoped at the time, funds for a redevelopment of Elizabeth Castle became available, then the way the castle was accessed would need to be re-assessed. Depending on the nature of the investment it might become necessary to provide a service that could operate in rougher weather conditions and throughout the year. Any such solution involving amphibious transport would be difficult and expensive to resolve but not insurmountable.

Following the Board's decision, Jersey Heritage Finance Director kept one of Puddleducks Limited directors fully informed of the key changes that were being proposed to the agreement and had no reason to believe they had not been fully understood.

5. September – December 2006: tendering and appointment process

Jersey Heritage and Puddleducks Limited agreed an approach to the advertisement of the route licence and the

sale of the vessels. In September 2006, with the agreement of Puddleducks Limited, Jersey Heritage placed an advert in the Jersey Evening Post, seeking expressions of interest in providing the service to Elizabeth Castle. Alongside, Puddleducks Limited placed an advert offering to sell their vessels.

The closing date set by Jersey Heritage for expressions of interest was 31st October 2006 to coincide with the end of that season's trading.

It was made clear at the time that a further month would be granted to those expressing interest in order to complete their tenders. This also gave any applicant a chance to consider Puddleduck Limited's 2006 accounts before making a formal application.

A number of individuals informally expressed some interest in operating the service, with one considering using a vessel other than the existing DUKWs.

Before the closing date for formal expressions of interest, an indicative contract (**Appendix 4**) was e-mailed to all those concerned and, although they had expressed no interest in re-tendering, Puddleducks Limited was also copied in on the e-mail out of courtesy and in the hope this might still have prompted Puddleducks Limited to enter the bidding process.

Only 3 potential operators expressed interest. Two were considering purchasing the Puddleducks Limited vessels, a third proposed purchasing new vessels built in the United States.

Given the small number of those expressing interest, Jersey Heritage asked if applicants would be prepared to come forward with formal tenders earlier than 30th November 2006. Two applicants could but, due to personal circumstances, a Guernsey based businessman, said he would be unable to. Without agreement from all three it would have been inappropriate to bring forward the deadline, and the date was left at 30th November 2006.

Regrettably, this third applicant was not able to produce proper documentation by the final date.

6. December 2006: the decision to award the contract to Pure Adventure Jersey Limited

The Jersey Heritage 'working group' interviewed the 2 remaining applicants on 10th December 2006.

The 2 tenders differed in their approach but not substantially in price. Both tenders represented an increase in cost to Jersey Heritage compared to the Puddleducks Limited operation, and simply reflected the fact that both applicants needed an increase in revenue to pay for the capital investment in vessels, whether buying the old craft from Puddleducks Limited or investing in new vessels, as well as achieving a reasonable profit.

Pure Adventure's bid appeared the more attractive. By basing their watersports business at West Park certain business synergies could be achieved. In particular they offered to sell tickets for the castle ferry and admission tickets to the castle from the purpose-built ticket kiosk they intended building at West Park. Jersey Heritage would collect all takings but would save £25,000 p.a. in staff and other costs. At interview their presentation was carefully thought out and professionally organised.

Key decision

The Jersey Heritage Board had 2 choices –

- ***Not appointing and thereby closing the castle. This would not only break the terms of the States' granted usufruct but would effect no financial savings. The budgeted annual loss of revenue of £340,000 was greater than cost savings that could be achieved (Pure Adventure's £250,000 average annual fee and Jersey Heritage staff costs of £70,000 p.a.)***
- ***Appointing the lower tender and the applicant who had provided by far the stronger business case.***

On 14th December 2006 the Board received a report from the working group recommending the acceptance Pure Adventure's tender and the Board agreed to this proposal. Pure Adventure was chosen as the preferred operator. The Board considered that not only did Pure offer the lowest overall price, the company also had some experience of operating in the marine environment. The managing director of Puddleducks Limited was informed almost immediately of the Board's decision.

The contract (**Appendix 5**) was signed on 20th December 2007. In concluding its agreement with Pure Adventure Jersey Limited, Jersey Heritage chose to consolidate its position with an agreement that covered a further 5 year period under terms favourable to Jersey Heritage. To provide the Trust with greater flexibility, it acquired the option to terminate the agreement, giving 12 months' notice at any point after the conclusion of the fourth year, while the operator was committed to providing access to the castle at an agreed price for a 10 year period.

As a matter of courtesy and given Jersey Heritage's close working relationship with Puddleducks Limited, it was felt important to invite the directors of Puddleducks Limited to meet with Jersey Heritage before announcing publicly the award of the contract. As the managing director of Puddleducks Limited was on leave in the early part of the year the announcement was delayed until late January.

On 26th January 2007 Jersey Heritage wrote to the Ministers for Education, Sport and Culture and Economic Development to inform them of the award of the contract to Pure Adventure, illustrating the new vehicles and setting out a narrative of the tender process (**Appendix 6**)

7. February – October 2007: the decision to remain with Pure Adventure Jersey Limited throughout the 2007 season

In early February 2007, Pure Adventure reported to Jersey Heritage that CAMI, the US manufacturers of the vessels, was experiencing delays in receiving parts from the European supplier of the vessel chassis and there would be some delay in the delivery of perhaps a month.

Key decision

The Jersey Heritage Board had 2 choices –

- ***Immediately break the contract with Pure Adventure and either invite the second applicant in the tender process to reapply, or engage in a new bidding process. This would have significant legal consequences and would have put any 2007 service in jeopardy;***
- ***To continue with Pure Adventure and their short-term “teething problem” but place pressure on them to ensure their performance in accordance with the contract.***

It was expected there would only be a short delay in the arrival of the vessels and Jersey Heritage announced that Elizabeth Castle would remain closed until 26th May 2007. This was in the expectation, and with assurances from Pure Adventure, that a service would be operating before then.

In March 2007 Pure Adventure reported that CAMI was again experiencing further delays, and that the delivery of the vessels would be further delayed until July 2007.

Pure Adventure made approaches to Puddleducks Limited to determine if the DUKWs could be purchased to enable provision of an interim service and they were offered the vessels for £100,000. However, Pure Adventure, already committed to the purchase of 2 new vehicles, remained concerned that the DUKWs would have no residual value. A trader in amphibious vessels had indicated to them that this value would be no more than £42,500 for the 3 vessels, and the short-term loss of some £60,000 was unacceptable.

Pure Adventure then entered into discussions with the US manufacturer and were able to secure a second-hand Hydra Terra at a cost of £80,000 which, because it had been built to US specifications could, they believed, be re-

sold in the US at the end of the season with no significant loss.

Pure Adventure put forward a revised proposal to the Board on 28th March 2007. In it they agreed to purchase the second-hand Hydra Terra at their own expense. The vessel could be delivered and operational by 26th May 2007, the date Jersey Heritage had already publicised as the re-opening date for the Castle. The proposal included a compensation package to cover most of Jersey Heritage's losses for that period of closure. The remaining losses would be covered by delaying the appointment of seasonal staff employed at the Castle.

The Board accepted that proposal. In making that decision the Board also took full account of the fact that Puddleducks Limited had made it clear that they would not be interested in operating a temporary service. **(Appendix 7).**

'We would not be prepared to [operate a service] just as a cover for late delivery but would be prepared to enter into negotiations with anybody who wishes to purchase our vehicles and our expertise.'

At the same time, the Guernsey-based businessman who had fallen out of the autumn 2006 bidding process referred to earlier in this report, told Jersey Heritage that he had purchased the DUKWs from Puddleducks Limited. This was also reported in the media.

The interim service by Pure Adventure was scheduled to be replaced by a full service before the start of the height of the visitor season, following assurances received by the manufacturer about revised delivery dates for both vessels.

By this time there was growing media and public pressure on Jersey Heritage, as well as on Puddleducks Limited, to get an amphibious service up and running. In the minds of the public it seemed strange that the 3 vessels, which had operated on the route for 20 years, could not be brought back into service.

On 13th April 2007, two of the directors of Puddleducks Limited came to the Jersey Heritage offices to discuss the situation. One accepted that there had been errors in judgment made by Puddleducks Limited in respect of the Guernsey-based businessman who claimed he had purchased the DUKWs. Apparently, they had signed an agreement but, following repeated failures by the other party to conclude the agreement, the offer had been withdrawn. The DUKWs were therefore now available, and were offered to help Jersey Heritage provided such help was not to the benefit of Puddleducks' commercial rivals Pure Adventure.

There followed some exploratory discussions with the Managing Director of Puddleducks Limited to determine what form that help might take. Initially Puddleducks Limited was very reluctant to consider running a temporary service, preferring instead to negotiate a sale. However Jersey Heritage did not contemplate the purchase the vessels, given they had minimal residual value and the contract with Pure Adventure was still in place.

In a change of mind on 26th April 2007, Puddleducks Limited did finally offer to run a temporary service for Jersey Heritage commencing 1st May 2007 for one month, until Pure Adventure's interim ferry could be brought into service. Puddleducks Limited would be paid £25,000 for this service whilst Jersey Heritage would keep all the fares charged to passengers and the castle admission income. The net cost to Jersey Heritage of this one month of service was estimated at around £10,000.

This proposal was circulated by e-mail to the Board on 28th April 2007. However, because the consequence of accepting the offer involved an additional significant cost and the fact that acceptance might jeopardise Jersey Heritage's contractual relationship with Pure Adventure, the Jersey Heritage Board declined this proposal.

Unfortunately, due to some mechanical and operational concerns on its first day in operation (26th May 2007) it was necessary to withdraw the interim vessel from operation. Following further vessel modifications it was brought into service on 2nd June 2007.

8. Jersey Heritage administration of the contract

Under the terms of the contract, Pure Adventure was due monthly equal instalments of the annual contract sum. Pure Adventure had already agreed a reduction in payments payable by Jersey Heritage under the terms of the agreement of £42,076 due to the Puddleducks Limited planned start of the service being delayed until 26th May. A further reduction in this sum of £6,952 was negotiated following the additional delay of one week.

Jersey Heritage also exercised its entitlement to withhold a 25% retention as the standards set out in the service level agreement had not, and could not, be achieved with only the interim vessel in service.

During June and July it became increasingly clear that the date for delivery of the vessels would once again slip, firstly to September, then October, and finally toward the end of the year.

In accordance with its agreement with Pure Adventure, Jersey Heritage continued to hold a 25% retention against all payments due under the contract. By August, when the full service was due to be operating, this was placing Pure Adventure under increasing financial pressure, threatening to make the company insolvent. Pure Adventure's financial planning was based on the assumption that once the new vessels had arrived, retentions withheld by Jersey Heritage would be released.

Key decision

The Jersey Heritage Board had 2 choices –

- ***Retain the full retention;***
- ***Release some of the retentions early.***

Retaining all the retention could effectively force Pure Adventure into insolvency. If it ceased trading, the running of the service could be jeopardised for the rest of the season. Jersey Heritage could suffer substantial and potentially irrecoverable losses in excess of £100,000.

On 10th August Jersey Heritage agreed to release £15,000 of the amount retained on 1st August to mitigate risk (**Appendix 8**).

The £15,000 was clawed back with the retention due on 1st September.. However, further financial pressures on Pure Adventure developed throughout September 2007 and following a request, £15,000 of retentions was re-released on 26th October 2007 (**Appendix 9**)

Although this was no longer peak visitor season and Jersey Heritage losses were lower, Jersey Heritage felt the risk of Pure Adventure's insolvency would complicate negotiations over the coming 'closed' season.

At 1st December 2007, the due date for the final instalment of the 2007 contract sum, the payments summary was:

	£
2007 Contract Sum due to Pure Adventure	254,648
Less:	
Agreed compensation to Jersey Heritage to 26/05/07	(42,076)
Agreed compensation to Jersey Heritage to 02/06/07	(6,952)
Revised contract sum	205,620
Less retentions (i.e. £51,405 less £15,000)	(51,405)36,405
	154,215
Add: Advance	15,000
Payment made to 1.12.07	169,215
Final Balance due to reach full settlement of 2007 fee	3,267

TOTAL due under severance agreement (see below)

£172,482

9. December 2007: proposal for revised contract

During September and October 2007, Jersey Heritage began working with Pure Adventure to determine if the contractual arrangements could be changed in order to reduce costs of operation. In particular the concept of a 'peak and off-peak' service was developed. Although a considerable inconvenience to passengers in peak season, Pure Adventure had demonstrated it could provide an adequate service with just one vessel at off peak times. This could save Jersey Heritage considerable cost.

Jersey Heritage explored with Pure Adventure whether it would be prepared to bear more of the operating risks than existed under the current agreement. A revised proposal was considered by the Board of Trustees on 13th December 2007. In response to Jersey Heritage's request that Pure Adventure bear the risks of operating the service more fully, Pure Adventure required a larger profit to compensate for those risks, thus increasing JH's operating costs.

By now the context of the Board's decision-making had radically changed from when they had originally awarded the contract to Pure Adventure –

- The provider's operating costs were greater than expected.
- There had been some considerable loss of confidence in Pure Adventure's ability to provide a good service.

It was considered that purchasing the assets that allowed the service to run would mean more flexibility in determining how the service operates each season in response to a changing regulatory or economic environment.

The Finance Director began negotiations with Pure Adventure who were far from willing sellers, believing they had fulfilled the requirements of their contract and, where breaches had occurred, that Jersey Heritage had accepted them.

Jersey Heritage's legal advisors reached a similar conclusion, believing that because the operation was out of season, it was difficult to regard Pure Adventure as being in fundamental breach (**Appendix 10**). There can be little doubt that Pure Adventure had been in fundamental breach of the contract during 2007, but had Jersey Heritage then sought to revoke the contract the likely consequence would have been the closure of the castle at the peak of the season and an expensive dispute. Pure Adventure had a contract it believed it had fulfilled because by now one of the vessels had been delivered to Jersey and the second one was promised for delivery in late January 2008.

Any buy-out would have to be based upon negotiating the acquisition of Pure Adventure's assets at a fair price and a payment to reflect the loss of profits, which Pure Adventure could realistically command over the remaining 4 year life of the contract.

As part of the negotiation, a settlement of the 2007 contract sum would also be determined, as shown in the table above.

10. February 2008: the decision to sever the contract and buy the vessels

On 7th February 2008 the Board considered a paper which set out in broad terms the estimated cost of severing the agreement with Pure Adventure.

The only alternative to such a settlement was to hope that Pure Adventure would deliver the service to a

reasonable standard or, if the company became in fundamental breach of contract, that Jersey Heritage would be able to acquire the assets of the company quickly and find an alternative operator at short notice. Since contractually the most likely timing of any fundamental breach would be at the height of the visitor season, this could mean Jersey Heritage being forced to acquire the assets of Pure Adventure and take over direct operation of the service at very short notice if it was to avoid castle closure. The events over the proceeding 2 years provided no confidence that this could be done.

A severance agreement was signed on 26th February 2008. When on 2nd May both vessels were deemed fit for purpose in accordance with the terms of the agreement, Jersey Heritage acquired the whole operation from Pure Adventure at a total cost of £513,000.

There were several key components of that settlement –

- Pure Adventure 2007 fee would be reduced from £254,648 to £172,482. This reduction of £82,166 effectively compensated Jersey Heritage for the losses it had suffered as a consequence of late delivery of the 2 new vessels.
- Jersey Heritage would meet Pure Adventure's costs in acquiring the 2 new vessels it had commissioned to operate the service (**see Appendix 11**).
- Pure Adventure would retain the interim vessel it had acquired at the company's own expense at a cost of £80,000. This vessel remains as unsold and any losses on the resale of the vessel will be borne wholly by Pure Adventure.
- Jersey Heritage acquired the rights to the workshops and kiosk at West Park with effect from 1st January 2009.
- Jersey Heritage would buy out the residual value of the contract at a cost of £121,000.

11. Viability of the vessels

Following extensive testing and inspection by the Driver and Vehicle Standards Department (DVS) and then by Jersey Harbours (on recommendations by the Maritime and Coastguard Agency – MCA) the first of the 2 vessels (the Charming Nancy) became licensed on 18th March 2008 to operate as an amphibious vessel on the West Park to Elizabeth Castle route.

The purpose of the DVS licence is to enable the vessel to be driven on the Elizabeth Castle causeway, which is classified as a road. The licence also allows the vessels to be driven under escort on other roads within the Island, for instance to enable the vessels to be serviced or re-fueled.

Although the vessel required a number of technical exemptions from maritime regulations in order to be licensed for use on the route, Jersey Harbours were confident the vessels could be operated safely, provided that an appropriate risk mitigation strategy was in place. The mitigation strategy (Document Management System) was also approved by the MCA as being appropriate for a vessel that was operating in the protected waters of St. Aubin's Bay.

Before purchasing Charming Nancy and Charming Betty, Jersey Heritage instructed MECAL (Jersey) Limited, to carry out a survey of the vessels. MECAL (Jersey) Limited assists Jersey Harbours in the survey and certification of commercial vessels.

The brief included assessing whether –

1. The current condition of the vessels is reasonable for a newly built construction of this type (pre-sale survey).

2. The exemptions granted by Jersey Harbours to enable the operator to use the vessel on the Elizabeth Castle route could be withdrawn.

The pre-sale survey confirmed both vessels were in sound condition and concluded it was reasonable to assume the licence could be maintained so far as the vessels were concerned (**Appendix 12**).

The vessels have been approved for use on the route by Driver and Vehicle Standards, the Maritime and Coastguard Agency and Jersey Harbours.

In addition in order to ensure driver competency, Jersey Heritage has developed a driver's syllabus. This syllabus represents a standard of attainment that all drivers are expected to achieve before they are permitted to driver the vessels on water unsupervised. Jersey Harbours has also approved this syllabus.

Conclusion

Jersey Heritage have for many years understood that if it became the operator of the amphibious transport service to Elizabeth Castle, the public would benefit.

Firstly, it would enable Jersey Heritage to provide a consistent standard of customer care for visitors to the castle. For the majority of those visitors, around 70%, their visit to the castle begins when they embark the amphibious vessel operating from West Park.

Secondly, it would enable Jersey Heritage to introduce a simple and flexible pricing structure for typical Elizabeth Castle visitors (see Appendix 3).

When Puddleducks Ltd. announced the sale of their business in 2006, it had been apparent for some time that the service would need to be subsidised, if new operators were to be persuaded to tender for the service.

The alternative, considered at the time, was for Jersey Heritage to buy the vessels and run the service directly. Jersey Heritage's Board concluded that it would still be in its interests if some of the commercial risks of running an amphibious service were borne by a private operator. Puddleducks Ltd. had provided and managed an excellent service for 9 years and the Board hoped an applicant with similar skills and qualities could be persuaded to come forward. Indeed, had Puddleducks Limited reapplied for the licence, their tender would have been favourably considered.

When the licence was put out to competitive tender, the lowest overall bid came from Pure Adventure Jersey Ltd. The price, averaging £250,000 p.a. over the 5 year term of the contract, exceeded the amount that could be raised from paying passengers by around £100,000 per annum.

This came as no surprise to Jersey Heritage. Puddleducks Ltd. had been operating a highly marginal business for some years. Two applicants submitted tenders, one proposing to purchase the vessels operated by Puddleducks Ltd., the other buying new vessels. Both needed to achieve a reasonable return on their investment.

Throughout 2007 Jersey Heritage carefully managed the agreement it held with Pure Adventure Jersey Ltd. to protect Jersey Heritage's commercial interests. It also sought to recover the losses in 2007 caused by the operator's failures.

Ironically, in recovering its losses Jersey Heritage found itself exposed to the commercial risks it was attempting to mitigate by employing a private operator. By now Pure Adventure Jersey Ltd. had little remaining financial capacity to deal with the consequences of a further operational failure. If the business failed at the height of the visitor season Jersey Heritage faced potential irrecoverable losses of £200,000.

By the end of 2007 Jersey Heritage had concluded it could run a service more cost-effectively and reliably than Pure Adventure Jersey Ltd. and would not expose itself to any more commercial risks, provided it could purchase the business at a reasonable price.

In buying the business, Jersey Heritage was able to negotiate a substantial discount on the operator's 2007 fee. Undoubtedly, Jersey Heritage's claim for loss of earnings in 2007 would have been more heavily disputed had it not agreed to purchase the operator's business. Jersey Heritage also acquired the residual value of the vessels which the operator would otherwise have still owned at the end of the contract.

Finally, the price paid by Jersey Heritage to acquire Pure Adventure Jersey Ltd. business needs to be placed in the context of savings it can expect to achieve. Jersey Heritage can meet most of the annual costs of operating the service from passenger revenue and advertising. It will have saved most of the £100,000 p.a. in paying a subsidy to an operator. Jersey Heritage will of course need to service this debt but over a 10 year (minimum) life of the investment this still represents a substantial saving.

The Board of Jersey Heritage is now confident and pleased that it has finally secured access to Elizabeth Castle for its visitors.

Jersey Heritage Trustees
as at June 2008

Jurat John de Veulle OBE (JH Chairman)

Retired senior partner Ernst & Young. Honorary Financial Advisor to the Trust from 1988 – 1999. Appointed Chairman of the Board from 14th June 2000.

Philip Le Brocq (JH Vice-Chairman)

Retired housemaster Eastbourne College. Former President of Société Jersiaise. Trustee from 2004.

Rowland (Chick) Anthony

Retired TV drama Sound Director for the BBC in London. President of Société Jersiaise. Trustee from 2007.

Geoffrey Crill

Senior Jersey Solicitor and Partner with local legal firm, Crill Canavan. Trustee from 2004.

Constable Simon Crowcroft

One of two required States Members. Trustee from July 1999.

Blair Gould

Retired Banker – former President of Jersey Symphony Orchestra. Trustee from 2005.

Clive Jones

Former Managing Director of Citigroup in Jersey. Currently Commissioner JFSC. Vice-Chairman, Highlands College Governing Body. Long-term supporter of JH through Business Associates Scheme and sponsorship. Trustee from 2005.

Deputy Carolyn Labey

Assistant Minister for Education, Sport and Culture. One of two required States Members. Trustee from March 2003.

Paul Nicolle

Retired Corporate Director of Policy and Employee Development, States Human Resources Department. Chairman of Board of Governors, Beaulieu Convent School. Fully qualified Blue Badge Guide. Appointed as a Trustee in 2005 with effect from July 2006.

Jane Stubbs (*resigned April 2008/moving to UK*)

Partner with PricewaterhouseCoopers – Trustee from 2005.

Jonathan Voak

Fine art expert, former Victoria & Albert Curator, Société Jersiaise nominated Trustee from September 2006.

- 6 JUL 2006

Puddleducks Limited

Hotel Metropole . Roseville Street . St Helier . Jersey. JE1 4HE . C.I.

Tel: 01534 874666 Fax: 01534 618100 E-mail: mail@jsegal.net

John Carter Esq
Jersey Heritage Trust
5 Caledonia Place
St Helier
JERSEY JE2 3NG

JAS/GB

30th June 2006

Dear John,

The Board of Directors of Puddleducks Ltd has decided that this company no longer factors in the general corporate strategy and, therefore, we have decided to make a disposal.

Currently, we are exploring two options that are open to us. The first is to sell the vehicles off the island to one of the many operators around the world that operate this type of vehicles and the second alternative is a local sale.

In advance of any form of mass marketing, we felt it only appropriate to contact you with a view to exploring the possibility of whether or not Jersey Heritage Trust is interested in acquiring the company with a view to protecting this important service that the DUKWs provide to the benefit of Elizabeth Castle.

Our decision to sell has been a very difficult one. However, since our company's disposal of South Pier Shipyard some three years ago, it was inevitable that at some stage Puddleducks would no longer fit with our portfolio.

We should have made this decision to sell a few years ago. We did put it off for a while but the time has now come for us to dispose of our interests or sell the vehicles.

Should Jersey Heritage Trust have any interest, I would greatly appreciate it if you could contact me, as it would be my desire to enter into a deal with yourselves rather than sell the vehicles.

Yours sincerely,



JONATHAN A SEGAL

08 SEP 2006



Jonathan Carter Esq
Director
Jersey Heritage Trust
Jersey Museum
The Weighbridge
St Helier
JERSEY
JE2 3NF

JAS/GB

6th September 2006

Dear Jon,

It is with regret that I have to inform you that I have come under tremendous pressure from my partners in Puddleducks Ltd, who are adamant that they want to sell the business.

I had hoped to be able to convince them differently but, unfortunately, that does not seem probable.

As I have mentioned in previous correspondence, I would prefer to sell the business on the island to ensure a continued service to Elizabeth Castle. I had hoped to persuade my partners not to sell but that was to no avail and, without at least one of them remaining on board, it will be impossible for Modern Hotels to run the business on its own.

Therefore, it is with regret that we have come to this decision to sell, but I hope that you will understand our reasons.

Yours sincerely,



JONATHAN A SEGAL
Managing Director

Dictated by Mr J Segal & Signed in his Absence



Roseville Street, St. Helier, Jersey JE1 4HE, Channel Islands.
Tel: 01534 874666 Fax: 01534 750639 e-mail: modern@ihl.net

Modern Hotels is a division of the Modern Group

Dear Trustees,
 Although Puddleducks Ltd. does not have a direct interest in the bidding process to tender for the route to operate amphibious vehicles between West Park Slipway and Elizabeth Castle, any decision made by the JHT on this matter will have a significant effect on the company and its directors.

For those of you who know little about our company and our nine year relationship with the JHT, we would like to take this opportunity to offer some comments to you.
 For the last nine years, since taking on the route from the previous operators, we have always endeavored to work with the interests of the JHT and in particular Elizabeth Castle in mind. We have, at all times, taken every opportunity to promote Elizabeth Castle and other JHT sites.

We have actively engaged in promoting new ideas to benefit the Castle and have worked closely with the JHT to promote specialist events, such as the evening dance events and the growing wedding events market. Most notably, we encouraged the Trust to look at the possibility of joint marketing and from that, set up the Great Value Ficket, which has proven to be very successful for Elizabeth Castle, the Ocella Cafe and the Puddleducks Ltd.

We have worked closely with the Castle at all times, our staff have been entrusted to look after Elizabeth Castle facilities, to take mail from the Castle to our kiosk at West Park and look after said funds in our safe until collected by Securicor. A service which we provided at no charge. Such was the relationship between ourselves and the JHT.

We were entrusted to operate a meet and greet service for guests staying at the Castle Holiday Flat. We would welcome guests, store luggage if required, give information about our services, information about the Castle, parking facilities at West Park and all manner of general information. We did this for a token fee of twenty pounds and never charged for clients who were visiting for a second or third time, thereby saving a number of the JHT from having to come in on a weekend day.

Where possible we invested in the business, firstly by building a kiosk, which was not only a focal point for selling tickets, but also a useful information centre for the Castle. We were able to offer assistance with all manner of questions about the castle, the cafe and of course the JHT.

We also built a workshop, so as to improve our base facilities and our response time to any mechanical issues. This also allowed us to dispose of an unsightly workshop van which used to be parked on the slipway.

We were also aware of customer service and introduced uniforms for all of our staff and basic staff customer training. All of these things enhanced our product, but also had an effect on the overall experience of a visit to Elizabeth Castle.

In the last nine years there has never been a day when the service to the Castle has been

cancelled, other than by severe weather conditions when the sea state was too rough reaching limits outside of our M.C.A. guidelines. This is something which we are very proud of and is a testament to the reliability of our vessels.

The locally built amphibious vehicles which we use are tried and tested on this difficult route, they have always been well maintained by us and if looked after can continue to run for many years to come. Having the three vessels means that we can, if required, carry out maintenance or running repairs on one vehicle, whilst operating the route with the other two vehicles. As you know the M.C.A. require us to have a standby vessel on hand at all times. The last nine years have been financially challenging for the company, falling visitor numbers have not helped. All of our staff including management and working directors have worked for very low salaries and remuneration. Even Nick Danby commented that it must have been a labour of love.

We would have liked to have raised the fares for the transport to and from the Castle, but we were subject to all rates being agreed by the JHT and by Jersey Tourism which prevented any substantial raise.

Unfortunately, although after nine years we have paid off our bank loans, there are still outstanding loans to all of the directors.

We have offered the business for sale at a price which we feel is fair and reflects the performance of the company over the last nine years. It is however, just over half the amount that we paid for the company in 1998.

We have made it clear that, if the route is awarded to one of the operators who are proposing to use our vehicles, we will be on hand to offer our support and expertise both on the operational and mechanical side of the business.

Please do not underestimate the considerable operational challenges that this short strip of land and sea presents to the operator with tide, sea state and general weather conditions all playing a part.

In summing up, we feel that during our nine years of tenure we have done all we can to have fulfilled our responsibilities to the Trust and should the Trustees see fit to offer the route to a third party operator it will leave the directors of Puddleducks with very little to show for the nine years of committed service except for three vehicles a kiosk a workshop and some unpaid directors loans.

Appendix 3: Elizabeth Castle pricing structure

2006 Pricing structure

	Admission		
	Puddleducks Ltd Fares	Prices EC	Total cost to visitor
Admission only. Visitor walks to and from Castle	£	£	£
Adult Walking		5.40	5.40
Senior walking		4.60	4.60
Child walking aged 6 – 16		4.60	4.60
Family Ticket (Two adults and two Children)		15.40	15.40
Children under six, Gold Card and Flash Card holders and Season Ticket holders			Free of charge
Admission and single or return journey on Puddleducks			
Adult Single	3.30	5.40	8.70
Adult Return	5.50	5.40	10.90
Senior Single	3.30	4.60	7.90
Senior Return	5.50	4.60	10.10
Child Single aged 4-5	2.20	free	2.20
Child Return aged 4-6	3.30	free	3.30
Child single aged 6-16	2.20	4.60	6.80
Child Return aged 6-16	3.30	4.60	7.90
Family (two adults and two Children) Single	11.00	15.40	26.40
Family (two adults and two Children) Return	17.60	15.40	33.00
*Cream Tea Package Adult	13.95		13.95
*Cream Tea Package Senior	13.15		13.15
*Cream Tea Package Child aged 6-16	8.40		8.40
Gold card Holder Single	3.30	free	3.30
Gold card holder Return	5.50	free	5.50
Flashcard holder single	2.20	free	2.20
Flashcard holder Return	3.30	free	3.30
Season ticket Holder Single	2.65	free	2.65
Season ticket holder Return	4.40	free	4.40
Children under four			Free of charge

* Cream tea Package includes return journey on Puddleduck, Castle admission and lunch or Cream Tea in café. Gives a £3.50 total saving to visitor.

Appendix 3 (continued)

2008 Pricing Structure

Admission Only. Visitor walks to and from castle

	Admission Prices
Adult Walking	8.00
Senior walking	7.30
Child walking aged 6 – 16	5.00
Family Ticket (Two adults and two Children)	25.00
Children under six, Gold Card and Flash Card holders and Season Ticket holders	

Admission and single or return journey on ferry

Adult Single or return	10.00
Senior Single or return	9.30
Child Single or return aged 6-16	7.00
Family Ticket (Two adults and two Children)	30.00
Children under six, Gold Card and Flash Card holders and Season Ticket holders	Free of charge

** Inclusive Tickets are sold at West Park Kiosk and Elizabeth Castle. Admission only tickets are sold at Elizabeth Castle. Visitor can pay £2 at castle or onboard ferry to upgrade to inclusive ticket and travel on ferry

2. In order to operate the Service, the Operator shall utilise the Vehicles, details of which are set out in Schedule 2 of this Agreement (“the Vehicles”).
3. The Operator shall maintain the Vehicles in good working order and in compliance with all necessary permits and licences as may be required from time to time in order to operate the Service, and shall be responsible for providing sufficient and properly trained and licensed staff for the operation of the Vehicles.
4. The Operator shall ensure that the Vehicles shall at all times during the Opening Hours be kept clean and tidy, and no signage of any kind (other than necessary safety information or notices) shall be displayed on the Vehicles without the express prior approval of JHT. The Operator shall display on the Vehicles such signage as JHT shall reasonably require advertising the Castle, all costs in respect of such signage being borne by JHT.
5. Throughout the Season the Operator shall maintain at the shipway at West Park a kiosk or other point of sale approved by JHT (which approval shall not be unreasonably withheld) in respect of inter alia tickets for the Service and admission tickets for the Castle.
6. Tickets both in respect of the Service and also for admission to the Castle shall be sold at such price as shall be determined by JHT from time to time at its absolute discretion and the Operator shall (a) account to JHT for all ticket sales revenue and (b) provide a complete reconciliation of all ticket sales and also a comprehensive record of passengers carried by the Operator on the Service, on a [daily / weekly] basis.
7. The Operator shall operate the Service for a period of five years, commencing on [1st April 2007] and terminating (save as hereinafter set out) on 31st October 2011.
8. In consideration for the Operator operating the Service in accordance with the terms of this Agreement, JHT shall pay to the Operator (i) an annual fee of [£] (“the Licence Fee”) payable in eight equal instalments on the first business day of each month of April to November inclusive and (ii) a payment of [£] for each

journey made by a paying passenger between the Castle and West Park and vice versa carried by the Operator during the Opening Hours, the Operator to invoice JHT monthly in arrears.

9. The Licence Fee shall be subject to review in the event that JHT shall alter or amend either the Opening Hours or the dates of the Season. In the event that the parties are unable to agree upon the amount by which the Licence Fee shall be revised, then the matter shall be referred to arbitration, the arbitrator being appointed by the Chairman for the time being of the Channel Islands Branch of the Chartered Institute of Arbitrators.
10. JHT shall have absolute discretion as to the amount to be charged in respect of admission to the Castle and shall stipulate from time to time the amount to be charged by the Operator to passengers for use of the Service.
11. The Operator shall maintain in force throughout the term of this Agreement a Public Liability Insurance Policy with a reputable insurer that will fully protect the Operator with a limit of indemnity of not less than £5,000,000 in respect of any one occurrence. In addition the Operator shall maintain appropriate insurance cover in respect of the Vehicles with a reputable insurer with unlimited passenger and third party indemnity cover. The Operator shall whenever requested so to do by JHT produce a copy of all and any relevant policy or policies and receipts in respect of the premium renewal.
12. In further consideration of the Operator entering into this agreement JHT undertakes that it shall not during the term of this Agreement grant unto any other operator a licence to operate any similar service whereby visitors are transported to and from the Castle during the Season (save as is hereafter excepted). Nothing in this clause shall prevent JHT from using the coach transport provided by third party operators for carrying visitors to and from the Castle outside the Opening Hours during periods of low tide. It is also acknowledged by the Operator that this clause shall not prevent JHT, its servants, licensees and contractors gaining access to the Castle by their own vehicles or otherwise than by utilising the Service conducted by the Operator.

13. In the event that the Operator shall fail, neglect or refuse to operate the Service other than on the grounds of (a) safety through weather or tidal conditions or (b) through closure of the Castle by JHT, then without prejudice to JHT's right to terminate the Agreement as hereinafter set out, the Operator shall pay damages to JHT in a sum equivalent to the higher of (a) the total receipts of JHT in respect of admissions to the Castle on the correspondence day or days in the preceding year or (b) the average daily receipts in respect of admissions to the Castle for the month in which such failure, neglect or refusal to operate the Service shall occur multiplied by the number of days during which the Service shall not be operated.
14. In the event of a persistent or repeated failure, neglect or refusal of the Operator to operate the Service other than on the grounds referred to in Clause 13 above, then JHT shall be entitled to terminate the Agreement summarily by notice in writing to the Operator provided that it shall have given not less than 48 hours' written notice to the Operator that it considers the Operator to be in breach of its obligations under this Agreement and thereby give the Operator adequate opportunity to reinstate the Service. In the event that JHT shall terminate this Agreement in accordance with the provisions of this clause then the Operator shall be liable to pay liquidated damages to JHT. The Operator acknowledges that the consistent and uninterrupted provision of the Service is essential to JHT to enable it to discharge its obligations in respect of the Castle and that any failure, neglect or refusal of the Operator (other than on the grounds contained herein) shall be deemed to constitute a fundamental breach by the Operator of this Agreement notwithstanding that on any instance of such failure, neglect or refusal JHT may choose to limit its recourse to damages as set out in Clause 13 hereof.
15. In the event that the Operator shall consider that the Service should not be operated on the grounds of safety due to weather or tidal conditions, it shall notify JHT forthwith and shall likewise notify JHT forthwith when it is able to resume the Service when it considers that it is safe to do so.
16. In the event that any dispute shall arise between JHT and the Operator as to whether the Operator was justified in suspending the Service on the grounds of safety due to

weather or tidal conditions, then the dispute shall be referred to the Jersey Harbour Master for adjudication and his decision shall be final and binding on the parties.

17. The Operator shall use its best endeavours to operate the Service in a manner in which the experience of all passengers using the Service is enhanced. In particular the Operator shall ensure that all its staff are courteous and helpful to members of the public and appropriately dressed. Whilst the parties acknowledge that the Service and the Castle have natural limitations in respect of use by physically disabled people, the Operator shall make reasonably appropriate and adequate provision to ensure that as few people as possible are prevented from using the Service by reason of their disability.
18. Nothing in this Agreement shall create the relationship of employer and employee as between JHT and the Operator and the Operator acknowledges that it shall at all times be acting as an independent contractor. The Operator undertakes to post appropriate notices (approved in advance by JHT) on the Vehicles, on the Service tickets and at all points of sale stating that it is the operator of the Service.

IN WITNESS WHEREOF the parties hereto have signed this Agreement in duplicate the day and year first above written in the presence of the undersigned witnesses.

SIGNED on behalf of **JERSEY
HERITAGE TRUST** in the
presence of:-

SIGNED on behalf of
in the presence of:-

JERSEY this 21st day of December 2006

AGREEMENT made and entered into BY AND BETWEEN
JERSEY HERITAGE TRUST ("JHT" which expression shall include its successors and assigns) of the one part;
AND PURE ADVENTURE JERSEY LIMITED whose registered office is situate at [] Jersey ("the Operator" which expression shall include its successors) of the other part.

WHEREAS:-

- (A) JHT has the responsibility of maintaining the premises known as Elizabeth Castle, St. Aubin's Bay, Jersey ("the Castle") for the benefit of the public of and visitors to the Island.
- (B) The principal means of access to the Castle from the mainland of Jersey is by amphibious craft plying between West Park and the Castle ("the Service").
- (C) The Castle is intended to be open to the public between 1st April and 31st October approximately in each calendar year or such other dates as JHT may reasonably determine ("the Season") and between 9.30 a.m. and 5.30 p.m. on each day during the Season or such other times as JHT may reasonably determine ("the Opening Hours").
- (D) JHT requires that the Service is provided throughout the Season.
- (E) The Operator has agreed to provide the Service on the terms set out in this Agreement.

NOW IT IS HEREBY AGREED:-

- 1. The Operator shall operate the Service throughout the Season in accordance with the service level set out in Schedule 1 of this Agreement.
- 2. In order to operate the Service, the Operator shall utilise the Vehicles, details of which are set out in Schedule 2 of this Agreement ("the Vehicles").

3. The Operator shall maintain the Vehicles in good working order and in compliance with all necessary permits and licences as may be required from time to time in order to operate the Service, and shall be responsible for providing sufficient and properly trained and licensed staff for the operation of the Vehicles.
4. The Operator shall ensure that the Vehicles shall at all times during the Opening Hours be kept clean and tidy, and no signage of any kind (other than necessary safety information or notices) shall be displayed on the Vehicles without the express prior approval of JHT. The Operator shall display on the Vehicles such signage as JHT shall reasonably require advertising the Castle, all costs in respect of such signage being borne by JHT (other than in respect of the basic paintwork of the Vehicles, the cost of which shall be borne by the Operator).
5. Throughout the Season the Operator shall maintain at the slipway at West Park a kiosk or other point of sale ("the Kiosk") approved by JHT (which approval shall not be unreasonably withheld) in respect of *inter alia* tickets for the Service and admission tickets for the Castle. Throughout the term of this Agreement the Operator shall maintain the Kiosk at its cost in a good and proper condition, and decorated (including appropriate signage) in a manner approved with JHT (which approval shall not be unreasonably withheld), it being understood that due and appropriate prominence shall be given at the Kiosk as shall be considered necessary by JHT in order to advertise the Castle and the Service, having regard to the fact that the Kiosk shall be the principal point of sale of tickets for the Service.
6. Tickets both in respect of the Service and also for admission to the Castle shall be sold at such price as shall be determined by JHT from time to time at its absolute discretion and the Operator shall (a) take all reasonable steps to ensure that the Kiosk is properly staffed in order to sell tickets for the Service at least throughout the Opening Hours during the Season (b) account to JHT for all ticket sales revenue and (c) provide a complete reconciliation of all ticket sales and also a comprehensive record of passengers carried by the Operator on the Service, on a daily or weekly basis (at the discretion of JHT).

7. (i) The Operator shall operate the Service for a period of ten years commencing on 1st April 2007 and terminating (save as hereinafter set out) on 31st October 2016.
 - (ii) Notwithstanding the provisions of Clause 7(i), JHT shall be entitled to terminate this present Agreement by giving to the Operator not less than 12 months' prior written notice, which notice shall not expire prior to 31st December 2011.
8. (i) In consideration for the Operator operating the Service in accordance with the terms of this Agreement, JHT shall pay to the Operator an annual fee ("the Licence Fee") payable in 12 equal instalments on the first business day of each calendar month in accordance with the amounts shown in Schedule 3 of this Agreement as "Total annual cost" and "Total monthly cost" respectively. It being however understood that in the event that any of the Lease payments referred to in the Schedule shall be in a different amount to those shown in the said Schedule, then the "Total annual costs" and the "Total monthly costs" shall be adjusted accordingly.
 - (ii) The first instalment of the Licence Fee shall be paid on the first business day of January 2007 and thereafter monthly as aforesaid, it being however understood that until the Service shall be operational in accordance with the Service Level set out in Schedule 1 of this Agreement, JHT shall retain 25% of the monthly instalments, which retention shall be released to the Operator when the Service Level has been achieved, that is to say when both Vehicles referred to in Schedule 2 are operational.
9. (i) In the event that the Operator shall reasonably incur Extraordinary Expenditure (as hereinafter defined) in operating the Service during any calendar year, then the Operator shall be entitled to give written notice to JHT no later than one month following the end of the Season for that year that it

requires the Licence Fee for the following year to be adjusted in order that the Operator may recover such Extraordinary Expenditure. For the purpose of this Clause "Extraordinary Expenditure" means:

(a) any additional expenditure reasonable incurred by the Operator as a result of a statutory obligation imposed on the Operator in relation to the operation of the Service subsequent to the commencement of this Agreement; or

(b) an amount equivalent to $X - Y$, where

(1) X equals the cost of any expense reasonably incurred by the Operator in relation to the operation of the Service during that year (excluding Directors' salaries and vehicle maintenance and repair costs); and

(2) Y equals the assumed cost of the like expense anticipated to be incurred by the Operator in the preceding year as set out in Schedule 3 increased by a percentage which is 50% greater than the percentage by which the Jersey Retail Price Index figure last published immediately prior to the date of the said notice served by the Operator shall have increased over the figure of the said Index last published prior to the end of the preceding year.

Notwithstanding the provisions of this Clause the Operator shall not be entitled to serve notice on JHT pursuant to this Clause unless the total expenses for the relevant year are or are reasonably anticipated by the Operator to be at least ~~£10,000~~ ^{£25,000} more than the Total annual cost for the relevant year as set out in Schedule 3.

In the event that the notice referred to in this Clause shall be served by the Operator during the last year of the term of this Agreement (howsoever arising), then any amount claimed by such notice which shall be deemed to be Extraordinary

Expenditure shall be paid by JHT to the Operator no later than 31st October of the subsequent year.

(ii) The Licence Fee shall be subject to review in the event that JHT shall alter or amend either the Opening Hours or the dates of the Season.

In the event that the parties are unable to agree upon the amount by which the Licence Fee shall be revised or adjusted pursuant to this Clause, then the matter shall be referred to arbitration, the arbitrator being appointed by the Chairman for the time being of the Channel Islands Branch of the Chartered Institute of Arbitrators.

10. JHT shall have absolute discretion as to the amount to be charged in respect of admission to the Castle and shall stipulate from time to time the amount to be charged by the Operator to passengers for use of the Service.
11. The Operator shall maintain in force throughout the term of this Agreement a Public Liability Insurance Policy with a reputable insurer that will fully protect the Operator with a limit of indemnity of not less than £5,000,000 in respect of any one occurrence. In addition the Operator shall maintain appropriate insurance cover in respect of the Vehicles with a reputable insurer with unlimited passenger and third party indemnity cover. The Operator shall whenever requested so to do by JHT produce a copy of all and any relevant policy or policies and receipts in respect of the premium renewal.
12. In further consideration of the Operator entering into this Agreement JHT undertakes that it shall not during the Opening Hours grant unto any other operator a licence to operate any similar service whereby visitors are transported to and from the Castle during the Season (save as is hereafter excepted). Nothing in this clause shall prevent JHT from using the coach transport provided by third party operators for carrying visitors to and from the Castle outside the Opening Hours during periods of low tide. It is also acknowledged by the Operator that this clause shall not prevent JHT, its servants, licensees and contractors gaining access to the Castle by their own vehicles or otherwise than by utilising the Service conducted by the Operator.

13. In the event that the Operator shall fail, neglect or refuse to operate the Service other than on the grounds of (a) safety through weather or tidal conditions or (b) through closure of the Castle by JHT, then without prejudice to JHT's right to terminate the Agreement as hereinafter set out, the Operator shall pay damages to JHT in a sum equivalent to the higher of (a) the total receipts of JHT in respect of admissions to the Castle on the correspondence day or days in the preceding year or (b) the average daily receipts in respect of admissions to the Castle for the month in which such failure, neglect or refusal to operate the Service shall occur multiplied by the number of days during which the Service shall not be operated.
14. In the event of a persistent or repeated failure, neglect or refusal of the Operator to operate the Service other than on the grounds referred to in Clause 13 above, then JHT shall be entitled (but shall not be obliged) to terminate the Agreement summarily by notice in writing to the Operator provided that it shall have given not less than 48 hours' written notice to the Operator that it considers the Operator to be in breach of its obligations under this Agreement and thereby give the Operator adequate opportunity to reinstate the Service. In the event that JHT shall terminate this Agreement in accordance with the provisions of this clause then the Operator shall be liable to pay liquidated damages to JHT. The Operator acknowledges that the consistent and uninterrupted provision of the Service is essential to JHT to enable it to discharge its obligations in respect of the Castle and that any failure, neglect or refusal of the Operator (other than on the grounds contained herein) shall be deemed to constitute a fundamental breach by the Operator of this Agreement notwithstanding that on any instance of such failure, neglect or refusal JHT may choose to limit its recourse to damages as set out in Clause 13 hereof.
15. In the event that the Operator shall consider that the Service should not be operated on the grounds of safety due to weather or tidal conditions, it shall notify JHT forthwith and shall likewise notify JHT forthwith when it is able to resume the Service when it considers that it is safe to do so.
16. In the event that any dispute shall arise between JHT and the Operator as to whether the Operator was justified in suspending the Service on the grounds of safety due to

weather or tidal conditions, then the dispute shall be referred to the Jersey Harbour Master for adjudication and his decision shall be final and binding on the parties.

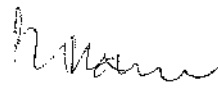
17. The Operator shall use its best endeavours to operate the Service in a manner in which the experience of all passengers using the Service is enhanced. In particular the Operator shall ensure that all its staff are courteous and helpful to members of the public and appropriately dressed. Whilst the parties acknowledge that the Service and the Castle have natural limitations in respect of use by physically disabled people, the Operator shall make reasonably appropriate and adequate provision to ensure that as few people as possible are prevented from using the Service by reason of their disability.

18. Nothing in this Agreement shall create the relationship of employer and employee as between JHT and the Operator and the Operator acknowledges that it shall at all times be acting as an independent contractor. The Operator undertakes to post appropriate notices (approved in advance by JHT) on the Vehicles, on the Service tickets and at all points of sale stating that it is the operator of the Service.

IN WITNESS WHEREOF the parties hereto have signed this Agreement in duplicate the day and year first above written in the presence of the undersigned witnesses.

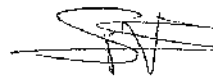
SIGNED on behalf of JERSEY
HERITAGE TRUST in the
presence of:-


N. de Damp


Chairman

SIGNED on behalf of PURE
ADVENTURE JERSEY
LIMITED in the presence of:-


#27259073
DIRECTOR


DIRECTOR OF
ELITE SECRETARIES LIMITED
COMPANY SECRETARY

SCHEDULE 1

The Service Level

1. A ferry service shall operate between the Castle and the slipway at West Park during the Opening Hours throughout the Season.
2. The Operator shall operate a further service crossing from West Park to the Castle not later than 30 minutes nor more than 1 hour before the Opening Hours and from the Castle to West Park not less than 30 minutes nor more than 1 hour after the Opening Hours for the transporting of JHT, its contractors and licensees to and from the Castle, together with a reasonable amount of portable goods and equipment.
3. The Operator shall permit members of staff of JHT to use the Service at any time during Opening Hours without charge.
4. The Service shall be operated by the Operator utilising only the Vehicles. In the event that the Operator shall wish to utilise any alternative or additional vehicle it shall first obtain the written approval of JHT, which approval shall not be unreasonably withheld provided such replacement or additional vehicles are of a similar standard capacity and capability.
5. The Service shall operate with such frequency as shall be necessary to ensure that no visitor to or from the Castle is waiting to embark for more than 20 minutes.
6. The Operator shall ensure that the Service has a capability to disembark not less than 200 passengers at the Castle per hour during Opening Hours.
7. The Operator shall operate the Service during the Season outside the Opening Hours ("the Extra Service") provided that it shall have received not less than one month's prior notice from JHT. The Notice shall stipulate the service level required in respect of the Extra Service and the time that the Extra Service is required to commence, it being understood that such service level shall be no more onerous than that set out in paragraphs 5 and 6 of this Schedule.
8. The Operator shall be paid at the hourly rate to be agreed between the parties for providing the Extra Service prior to the commencement of each Season. In the event that the parties shall be unable to agree such rate prior to the commencement of the relevant Season then the matter shall be referred to arbitration in accordance with the provisions of Clause 9 of the Agreement.

SCHEDULE 2

The Vehicles

Type: Amphibious vessel

Make: Hydra Terra

Registration Number:

Seating Capacity: 51 36 PER VEHICLE

Senator Mike Vibert
Education, Sport & Culture
PO Box 142
St Saviour JE4 8QJ

and

Senator Philip Ozouf
Economic Development Department
Jersey Tourism, Liberation Square
St Helier JE1 1BB

26 January 2007

Dear Senator Vibert and Senator Ozouf

Next week we will be releasing the news that the Trust has entered into a new contract for amphibious transport to Elizabeth Castle.

The uncertain future of the Puddleducks operation has been a great concern over the last few years and we are very pleased to have been able to secure a new operator in Pure Adventure. The new arrangements offer a great deal more security for both the Trust and the operator ensuring the viability of the Castle as an attraction in the medium term. We also hope that the new vehicles, which are in principle able to operate on the roads and at night, will create new opportunities to extend business at the Castle.

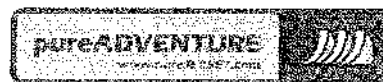
For your information I am enclosing a narrative of the tender process and some illustrations of the type of vehicle that will be used. We hope that the new service will be in operation at the start of the season, although licensing requirements may cause some delay. If you would like any further information on this exciting development please don't hesitate to contact me.

Yours sincerely

Jonathan Carter
Director
Tel: 633336
Email: jon.carter@jerseyheritagetrust.org

cc: Rod McLoughlin and Kevin Lemasney

Enclosures



Jon Carter
 Jersey Heritage Trust
 Jersey Museum
 The Weighbridge
 St. Helier
 Jersey
 JE2 3NF

Pure Adventure Jersey Ltd
 Barneville, Les Grands Vaux,
 St. Helier, Jersey JC2 4NB

TEL +44(0)1534 769 165
 MOB +44(0) 7797 721 050
 FAX +44(0) 1534 876 803
 E-MAIL info@pureJERSEY.com
 WEB www.pureJERSEY.com

Wednesday, 28 March 2007

Dear Jon,

The purpose of this letter is to set out a clear and definitive plan of action for delivering an interim amphibious passenger service to Elizabeth Castle until our two new Hydra Terras arrive in the island and are cleared for service.

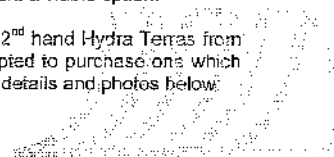
The New Hydra Terras

The latest delivery information we have is that the two new Hydra Terras will arrive in Jersey in July 2007. Based on this information we believe that we will have them in operation by 1st August 2007. The work that we have done in conjunction with our independent surveyors over the last month with DVS and the MCA in relation to the proposed interim vessel will definitely speed the certification process up once the vessels arrive in Jersey.

Interim Service

Whilst we are waiting for the new vessels to arrive we have scoured the world market for suitable 2nd hand interim vessels that we can bring in to commence the service. Essentially we were left with two options:

- 1) The existing Puddle Ducks: Initially we approached the Puddle Duck owners to see whether they would allow us to hire the vessels off them so that we may commence the service on time. We also asked whether we could sub contract them to operate the service on our behalf. They categorically stated that these were not viable options. The Puddle Duck owners are only interested in selling their vessels. As such we had the Puddle Ducks independently valued by Rex Ward who is based in the UK. Rex has been responsible for 90% of all DUKW and amphibious vehicle sales in Europe over the last 30 years and so when it comes to valuations there is nobody better qualified than himself to advise us independently. Rex informed us that because the Puddle Ducks can not be licensed to run on roads they would be very difficult to sell. His maximum valuation came to £42,500 for all three vessels. During our negotiations with the Puddle Duck owners we have offered them £42,500, £50,000 and just last week £60,000. At no point during our negotiations have they said that anything under £100,000 would be accepted. So with no possibility of us being able to afford £100,000 to purchase them and with them categorically stating that they will not hire or sub contract the vessels we have to conclude that the Puddle Ducks do not represent a viable option.
- 2) 2nd Hand Hydra Terras: We have options to buy anyone of three 2nd hand Hydra Terras from the USA. Having looked through all the specifications we have opted to purchase one which until recently was in operation in the Caribbean. Please find some details and photos below:



Abseiling, Bio-Karting, Clay Pigeon Shooting, Coasteering, Hovercrafting, Power Boating, Rock Climbing, Sea Kayaking
 plus much more...

www.pureJERSEY.com



Pure Adventure Jersey Ltd
Barnville, Les Grands Vaux,
St. Helier, Jersey JLE 4NB

TEL +44(0)1534 769 165
MOB +44(0) 7797 721 050
FAX +44(0) 1534 876 803
E-MAIL info@pureJERSEY.com
WEB www.pureJERSEY.com

We are able to get the vessel transported from Brunswick on 10th April arriving in Southampton on 24th April. Once the vessel is in the UK we can get it assessed by the MCA which will save us time in arranging them to come over to Jersey. The vessel can then be delivered down to Portsmouth and shipped across to Jersey. We would expect delivery in Jersey by the 1st week of May. Once in Jersey all that will be required is a DVS inspection / registration and for Harbours to issue us with an operations license. With driver training completed we should be able to commence passenger operations by 26th May.

As the vessel seats 49 passengers we believe that we will be able to take 147 people per hour out to the castle.

The kiosk will be built and operational by the 1st week in May allowing us to commence the service with no further disruptions.

Contractual Payment

Pure Adventure Jersey remain committed to providing what we believe is the only long term affordable solution to ensuring visitors can access Elizabeth Castle at all states of the tide.

The delay in arrival of the new vessels is an unfortunate set back we regret. However, in spite of and perhaps because of the high level of unexpected scrutiny that has gone into type and detail of the vessel that we are proposing to use, we are convinced that Hydra-Terras are the best means of providing this service.

Closure of the castle and consequent delays in operation of the service will mean Pure Adventure Jersey will not operate this season with the same costs as forecast and consequently it is able to pass those savings onto the JHT. The weekly cost savings can be split into two periods as follows:-

31 March to 26 May 2007: £4,180 per week
26 May 2007 onwards: £960 per week

Based upon the above, using the current estimated dates of arrival for the new vessels, the saving will amount to around £42,076 which will be achieved through a proposed reduction in the fees due under the contract. This total saving is calculated as follows:-

31 March to 26 May 2007 (8 weeks): £33,440
27 May to 26 July 2007 (9 weeks): £8,636
Total Potential Saving: £42,076

For the removal of doubt we would like to clarify that the cost saving is based upon a weekly basis and as such the weekly figures make up this proposal. The total savings of £42,076 are for informational purposes but are based upon the current existing timeframes. In the instance a full service is provided earlier than 26 July 2007 then the deduction of fees by JHT will be up to the date that full service has commenced. This will have the effect of reducing any overall savings figure.

Abseiling, Blo-Karting, Clay Pigeon Shooting, Coasteering, Hovercrafting, Power Boating, Rock Climbing, Sea Kayaking
plus much more...

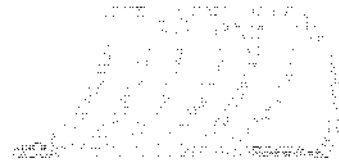
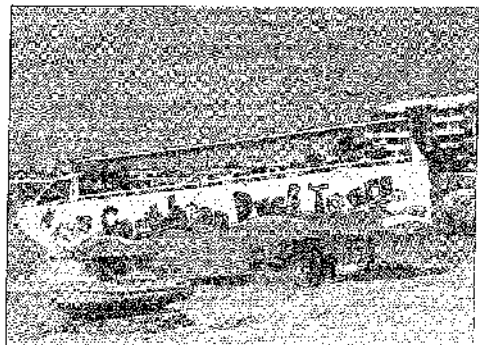
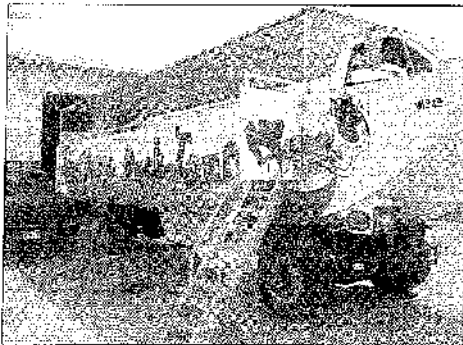
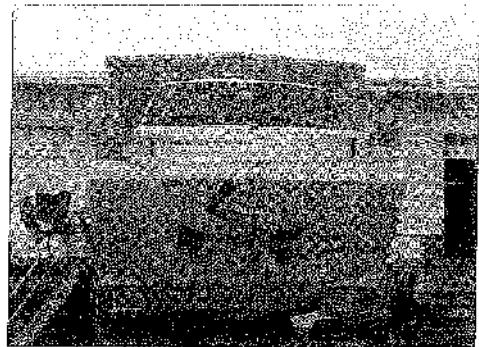
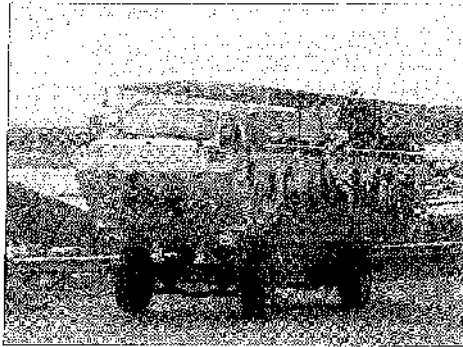
www.pureJERSEY.com



- Hydra Terra Amphibious Coach MK2
- Dimensions 12.8m (l) x 2.65m (w) x 3.5m (h)
- 49 Seats
- Great Views – Open Sides
- Comfortable Seating
- Vehicle has two doors at the front, one on each side

Pure Adventure Jersey Ltd
Barneville, Les Grands Vaux,
St. Helier, Jersey JF2 4NJ8

TEL +44(0)1534 769 165
MOB +44(0) 7797 721 050
FAX +44(0) 1534 876 803
E-MAIL info@pureJERSEY.com
WEB www.pureJERSEY.com



Abseiling, Bfo-Karting, Clay Pigeon Shooting, Coasteering, Hovercrafting, Power Boating, Rock Climbing, Sea Kayaking
plus much more...

www.pureJERSEY.com



Pure Adventure Jersey Ltd
Bameville, Les Grands Vaux,
St. Helier, Jersey JE2 4NB

It is proposed that the savings will be reduced from monthly fees as follows:

Month	Contract Payment	Revised
March	£15,916	£Nil
April	£23,873	£Nil
May	£23,873	£21,586

TEL +44(0)1534 769 165
MOB +44(0) 7797 721 050
FAX +44(0) 1534 876 803
E-MAIL info@pureJERSEY.com
WEB www.pureJERSEY.com

It is important to emphasise that the additional cost of providing temporary arrangements are being borne entirely by Pure Adventure Jersey and not by the JHT. This cost is not insubstantial involving as it does the purchase, transportation and certification of the interim Hydra Terra. Although we expect to be able to recover some of the purchase price from re-sale it is clear that Pure Adventure Jersey will suffer some loss.

A strict interpretation of clause 13 of the agreement, would allow the JHT to seek compensation based on the loss of admission income suffered during the period of closure. The JHT Finance Director has confirmed the loss of admission income for the period based on the level takings for the equivalent period last year 31st March to 26th May 2006 would have been £30,713. The savings that Pure Adventure Jersey will pass on to the JHT exceeds this figure by some margin.

In view of the above Pure Adventure Jersey ask the Board to regard the revised proposals as not being a fundamental breach of their agreement with the JHT and that its revised proposals are accepted.

Additional Assurances

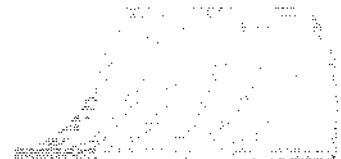
We have appointed Mark Lockie, an independent International Marine Surveyor to work on our behalf and liaise between the manufacturers and the MCA. We have also held further discussions with Alan Muir at DVS with regard to registering the vehicles once they arrive in the island.

Please find enclosed:

- 1) Email from Alan Muir at DVS
- 2) Emails from Mark Lockie (Independent International Marine Surveyor)

Yours sincerely

Michael James MSc.
Managing Director



Abseiling, Bto-Karting, Clay Pigeon Shooting, Coasteering, Hovercrafting, Power Boating, Rock Climbing, Sea Kayaking
plus much more...

www.pureJERSEY.com

O'FLAHERTY & CO
 CHARTERED CERTIFIED ACCOUNTANTS

2nd Floor, 29th Clarendon
 Park Square, Manchester
 Jersey JF2 3AJ

Tel: +354 29 892878
 Fax: +354 29 892878
 Email: info@ofl.co.uk
 Web: www.ofl.co.uk

10 August 2007

Mr N Darity
 Jersey Heritage Trust
 Jersey Museum
 The Weighbridge
 St Helier
 Jersey JE2 3NF

Dear Nick

PURE ADVENTURE JERSEY LIMITED – "PAJL"

I am writing further to our telephone conversation yesterday with regard to the potential release of a proportion of the retention currently held by Jersey Heritage Trust.

Please take this letter as confirmation that the monies received to date from Jersey Heritage Trust by PAJL have been utilised in accordance with the signed contract. This confirmation has been made having reviewed PAJL's ledger to trace monies received and paid. The strain on cashflow has been caused by several factors namely the extended period of retentions being withheld and additional maintenance and associated costs in relation to the interim vehicle (this excludes the actual cost of the vehicle which was funded solely by the shareholders).

In respect of the retention I would propose that, subject to the Trustees' agreement, the following sums be released in order to assist with PAJL's cashflow:-

Already paid today:	£5,000
On receipt of this letter:	<u>£10,000</u>
Total:	<u>£15,000</u>

Should you require any further assistance, or have any queries on the above, then please do not hesitate to contact me.

With kind regards

Yours sincerely



SEAN O'FLAHERTY, FCCA
 MANAGING DIRECTOR

O'FLAHERTY & CO
 CHARTERED ACCOUNTANTS

2nd Floor, 104, Chancery
 York Place, St Helier
 Jersey, JE2 3RD

Telephone: 0333 300092
 Fax: 0333 304455
 E-mail: enquiries@ofc.co.je
 Web: www.ofc.co.je

18 October 2007

Mr N Danby
 Jersey Heritage Trust
 Jersey Museum
 The Weightbridge
 St Helier
 Jersey JE2 3NF

Dear Nick

PURE ADVENTURE JERSEY LIMITED – "PAJL"
PROPOSAL SUMMARY

I am writing further to our meeting with the Directors of PAJL yesterday 17 October 2007. This letter has been prepared to confirm the issues discussed and to put forward PAJL's proposal to the Trustees in respect of both the current and subsequent years.

Current Year Proposal:

The Directors propose that JHT consider settling all costs incurred by PAJL. It is proposed that the Director fees which are due and payable as per the existing agreement in the sum of £32,750 are hereby waived from payment by way of a compromise. In effect the Directors are not seeking any remuneration for the current year and as such will have worked without any reward. As discussed the work and time undertaken by the Directors has been significant and far more than anticipated at the time of entering in the agreement.

The costs for the current year to December 2007 are estimated to be £200,000 which would require an additional £50,000 of funding from JHT. This roughly equates to the retention being held by JHT on the revised costings for the current year. The actual costs for the season are expected to be available on 19 November 2007.

For the avoidance of doubt I should appreciate it if the Trustees were made aware that the Directors of PAJL have utilised their own funds for both the purchase and shipping costs of the interim vessel amounting to over £80,000. The Directors will attempt to recover this investment from the sale of the interim vessel once the two new vessels are operational. Any potential losses in respect of the interim vessel will be borne by the Directors.

.../continued

Immediate Cashflow:

As discussed the Directors do not currently have sufficient funds either within the Company or personally to settle outstanding bills and forthcoming wages. The Directors hereby request that the Trustees consider providing immediate financial assistance by way of a repayable loan to ease their cashflow problems. It is hereby acknowledged that PAJL owns both the bus/van vehicle worth approximately £90,000 and the kiosk worth approximately £12,000 which are free from debt and any legal charge. The Directors are prepared to allow the JHT to have a first charge on these assets if it were to provide immediate additional funding subject to agreeing a resolution for the current year's costs in due course.

As you will be aware it is the cashflow requirements that are the main concern for the Directors. It would be appreciated therefore if you would revert back to me at your earliest opportunity as to whether the Trustees would be prepared to assist with this issue.

New Service Level Agreement:

The issue of a new five year service level agreement has been agreed in principle by both JHT and PAJL. It is proposed that revised costs for the forthcoming season are prepared and submitted to JHT by 19 November 2007.

The possibility of using a performance based reward / penalty system was discussed. Any such system would be based upon the successful fulfilment of the new service level. This would provide both recovery of losses for JHT and an incentive of additional monies for PAJL if pre-agreed service levels are achieved. Whilst it was accepted that the detail of any such system would be difficult to draw up and monitor it was agreed that the JHT put together a proposal for consideration.

I trust the above is self-explanatory and shows that, irrespective of the problems encountered during this first season, PAJL are fully committed to providing a high level of service to JHT for the proposed new five year agreement.

Should you require any further assistance, or have any queries on the above, then please do not hesitate to contact me.

With kind regards

Yours sincerely



SEAN O'FLAHERTY, FCCA
MANAGING DIRECTOR

Pure Adventure Jersey Limited

Page 1 of 3

Nick Danby

From: JERTEMP LIT1 [jtemp.lit1@ogier.com]
Sent: 03 January 2008 10:37
To: Nick Danby
Subject: Pure Adventure Jersey Limited

Dear Nick

Thank you for coming to see me before Christmas and for leaving us a copy of your file and the original agreement.

While the terms of the original agreement dated 21 December 2006 required Pure Adventure to provide two vessels throughout the season, which they clearly did not do, it is clear from the correspondence provided that you agreed a variation to that certainly to 1 August 2007. In my view therefore, you will not be able to complain on the basis of a repudiatory breach prior to 1 August.

In terms of the events post August 2007, the following seems to have occurred:-

1. Confirmation of additional funding by way of loans on 10 August 2007.
2. Correspondence in October 2007 from JHT, seeking to renegotiate the contract.
3. Agreement by the board of trustees on 29 October 2007 to make further loans to Pure Adventure up to £51405 including a guarantee in favour of Customs which was confirmed by a letter to Customs the following day.
4. Letter of 21 November 2007 to Pure Adventure setting out its proposals to how the service should run the following year.
5. Letter of 14 December 2007 from JHT to Pure Adventure saying that the contract has not been terminated.

While the letters of 21 November and 14 December do say that JHT considers that Pure Adventure are in fundamental breach of contract, the letter of 21 November is an open letter focusing on how the service should be operational next year and the 14 December letter notes the agreement has not been terminated but instead makes proposals for acquiring the vessels and performing this service itself for the following year.

I have set out the above because it is putting it at its lowest, far from certain that JHT would successfully argue a repudiatory breach as at today's date.

I think a Court could therefore conclude that whilst Pure Adventure were in breach, the approach taken by Jersey Heritage Trust was to find alternative solutions to address the breach.

Furthermore, it should be remembered that in relation to the contract, the obligations to perform are only during the season which runs from 1 April to 31 October or such other dates as JHT may reasonably determine. The question for the Courts would be whether Pure Adventure were in repudiatory breach for the season to 31 October 2007 and whether that was a breach that JHT had accepted. In my view there is a real risk that the Court would say that while there was a breach, JHT had not accepted that breach but was rather trying to continue with the contract.

I therefore consider your strategy should be for 2008, unless you can acquire the vessels, is to require Pure Adventure to strictly adhere to the terms of the contract. This would seem to require the following:-

1. Setting out now that you require full adherence to the terms of the contract for the season (including specifying any earlier dates you wish the service to start, bearing in mind the timing of Easter this year).

2. You should specify your requirements in relation to the kiosk. In particular clause 5 of the agreement gives you the power to approve the decoration of the kiosk. It does appear however that the agreement does contemplate operators using the kiosk for other services as long as an appropriate prominence is given to the advertisement of the castle and the service.

3. Any retention withheld will not be paid unless both services will be operational at the commencement of the season and you will make retentions at that time.

What I further suggest is that you also make it clear that you want a commitment that they will perform the service by 15 January, in accordance with the terms of the contract, absent any other agreement between the parties.

As to buying out of the agreement, this agreement operates until the end of 2011 ie. for a further 4 years. The estimated costs for that are approximately £250,000 per year with the directors salaries being a total of between £40-45,000 per year, (roughly £170,000). For year 1, these costs will not be exceeded.

I set out the above because the only profit element within the estimated costs appear to be directors fees and salaries. If therefore you are buying out the contract and assuming all other expenditure, this is the loss of profit element of any claim you might face. What you will have to argue to offset that claim would be loss of profits in 2007 due to the lower level of service. What you would have to try and illustrate compared to previous years figures is whether there was less revenue received in 2007 compared to those earlier years. You would of course face the argument as to whether this was due to decline in tourism numbers generally. I have not seen the numbers or evidence of receipts for the castle and cannot say therefore what number this might produce. However I assume it is likely to be significantly less than the directors salaries for the next four years, since otherwise why would JHT be providing any form of subsidy or payment to Pure Adventure.

The other aspect to address either in relation to buying the vessels or buying out to the contract is use of the kiosk. From the papers, my understanding is that the kiosk is leased to Pure Adventure Limited. You would need some form of ongoing agreement with Pure Adventure in relation to the operation of the kiosk which would have to be effected into any agreement.

Summary

In conclusion, I consider to bring a claim based on a repudiatory breach at this stage is only a claim that I would describe as arguable because it is not clear that Jersey Heritage Trust have accepted that breach. Jersey Heritage Trust therefore faces either to continue to negotiate a buy out (on a without prejudice basis) but in my view coupled to a strategy of requiring Pure Adventure to adhere to the terms of the contract.

I would therefore continue to withhold the current retention until that confirmation is received. Strictly speaking however, the payments due at the beginning of January, less any retention, are payable. The only justification withholding the full amount would be to work out what losses had been suffered by JHT in terms of lost income for 2007 and then seek to offset that against payments for the early part of 2008 as a negotiating tactic. In taking such a line you would have to be able to justify the retention in financial terms ie. it is needed to recover lost profits. You should also consider the impact it would have on Jersey Heritage Trust's reputation in terms of adverse publicity, in particular if Pure Adventure ceased trading. You should therefore be aware that a tough stance might force Pure Adventure into liquidation in any event. This could enable you to acquire the vessels from the Viscount if they are designed specifically for Jersey. That has to be balanced against ensuring you can meet the service for this season.

The second option is to, on an open basis, insist on performance of the contract while continuing to negotiate a buy out of the contract. That will involve JHT making some form of payment unless it can demonstrate that the likely profit to be made by the directors over the next 4 years is less than losses suffered in 2007.

Yours sincerely

Matthew Thompson
Partner
Ogier

Appendix 11: Business acquisition costs

£'000	
Vessel Manufacture	
CAMI's price for manufacturing both vessels.	272
Statutory costs - Import Duty & Driving Vehicle Standards	
The bulk of this item (£42,000) relates to import duty paid on the vessels. Amphibious imports from outside the EC are rated at 16% - one of the highest rates which apply to imports.	50
Shipping costs	
Cost of shipping the vessels from New York and transfers from UK ports to Jersey.	17
Vessel finance costs	
The vessels took over 15 months to manufacture. Pure Adventure Jersey Limited used loan finance from Acorn Finance to pay for the vessels to be built.	33
Cost of vessels	372
Kiosk and Workshops	
Pure Adventure Jersey Limited invested this sum in building and connecting services to the new Kiosk at West Park.	20
Acquisition of the residual value of the contract	
Pure Adventure Jersey Limited expected profits of at least £200,000 over the remaining four years of the contract which had to run at the time of the purchase. It also lost the residual value of the vessels at the end of the contract say £150,000.	121
Total	513



- 2 MAY 2008

Certifying Authority for Small Commercial Vessels
 Pearl Assurance House
 Duke Street
 Tavistock
 PL19 0BA
 Tel: #44(0)1822 615500, Fax: #44(0)1822 615588
 email: admin@mecal.co.uk
 Website: www.mecal.co.uk

Report of Condition

Name of Vessel:

- A) "Charming Nancy"
 B) "Charming Betty"

Type of Vessel:

9.4m Length Overall Amphibious Passenger Landing Craft, for current service between Elizabeth Castle and the foreshore, St. Helier, Jersey.

Year of build and builder:

CAMF.....Cool Amphibious Mfng. Inc., USA. A) 2007. B) 2008.

Name of Owner:

Pure Adventure Jersey Ltd., Bamville, Les Grands Vaux, St. Helier. Jersey JE2 4NB

Certification:

Passenger Certificate and Licence, issued under Shipping (Jersey) Law 2002 as amended. A) Valid till 10/11/2008, B) believed in course of issuance at this date

Surveyor:

C.J. Gladish

Date of Survey:

24-25/4/2008

Location/Conditions for Survey:

A) Ashore at operational base, St. Helier. B) Ashore in CAF Engineering Workshop, Jersey, and subsequently afloat at La Collette, Jersey.

Surveys were carried out principally to ascertain that "The current condition of the vessels is reasonable for a newly built construction of this type (pre-sale survey)" as indicated in point 1. of e-mail of 22/4/2008 from Mr. N. Danby of Jersey Heritage Trust, at whose request these surveys were conducted.

The surveys, within the scope requested, were carried out against standards as would be applied as relevant to Jersey or MCA small commercial vessel coding.

The vessels were seen in clean and dry condition.

A) "Charming Nancy".

Certification in force is as referenced above. The passenger vessel surveys being carried out by the UK MCA on behalf of Jersey Harbours. The number of persons to be carried is limited to 32 passengers and 2 crew. Conditions 1 to 11 as indicated on the certificate apply the operation of the vessel. Exemptions, 1 to 5, as indicated on the reverse of the certificate are granted under the authority of the current Minister for Economic Development.

It is understood that the vessels are also subject to inspection by the appropriate Jersey authority for compliance with road vehicle regulations and standards. NOTE: This aspect is out the scope of this survey.

A stability test was recently performed on behalf of Jersey Harbours by MICAL(Jersey) Ltd to confirm compliance with MCA Document OAH 572, with results indicating compliance with a small margin.

Freeboard marks are applied port and starboard.

The vessel hull is constructed in aluminium alloy. There is no information to hand concerning design standard utilised or any approval there-of, nor of survey during construction. Certification concerning marine materials and equipment utilised, e.g. hull material, propeller and shafting was not sighted.

Markings on some alloy members where visible indicated that likely specifications utilised were 6061-T5511 for flat bar and ASI ASTM B308 6061 T6 for channel extrusions. This would indicate that in part at least marine grade material was utilised. (Associated Heat and Lot numbers were also noted).

Internal welding was noted to be intermittent, which is acceptable in principal for non-watertight structure in most cases, but not meeting a weld-schedule which would normally meet classification society standards. However, noting the service of the vessel, subject to recommended annual survey it may well prove adequate in service.

There is no access to side, under-deck void spaces which it is understood are foam filled as a damage stability measure.

External butt welding was visually acceptable.

Some minor corrosion markings noted in way of the transverse stiffeners under the engine transmission box/pod due to impossibility of complete paint coverage due to intermittent welding. This may not progress beyond a mere surface marking, but recommended to monitor at periodical surveys.

The hull is bolted to the Volvo road chassis through two longitudinal flat bars welded to the hull bottom plating. The internal structural arrangement supporting this, and the nature of the welding on the inboard side of these bars, is not known. It is recommended that these connections are subject to periodical inspections in service and at annual survey.

Apart from observations above, no anomaly noted to hull and roof structure.

Side bulwark doors have seals and catches which are not however of normal marine standard, therefore regular attention should be given to ensure an effective standard of maintenance of closing and sealing.

Flexible window side screens were fitted along the passenger seating area which has upholstered seating and is fibre carpeted in clean and intact condition.

A builder's plate is affixed stating "Volvo, 17500Kg total, 1- 5600Kg, 2- 9440Kg. Vehicle Type FL-240". The significance of this information is not known.

The propeller, cutlass bearing, "A" frame and stern gland appeared in order with no damage. Noted that the rudder, in comparison to "Charming Betty", does not have a bottom closing plate. (This is not likely to adversely affect service).

Steering gear for the rudder was seen operating.

The engine is a turbo-charged Volvo D7E, diesel engine, Ser.No. 10358319, stated to develop 177Kw at 2300rpm. This and the road drive train were seen operating. However the shaft and propeller operation were not witnessed as not afloat. However vessel was subsequently noted in amphibious operation. No anomaly noted however.

Cooling is by air cooled jacket water radiator.

Battery stowage, 4 off 12v batteries supplying 12v and 24v circuits with change-over switches, is satisfactory except for some possible inconvenience for access for maintenance of the two lower batteries.

Fuel and "Abblus" tanks are situated below passenger deck level at the extreme starboard quarter. (See note following ref valve access).

Access to fuses in the box noted forward of the gas operated drivers seat is difficult due to the cover fastening arrangement.

All lights, including road vehicle lights were seen to be working, with the exception of the marine stern light and the two supplementary side, (road) red lights at the stern where the fittings are broken.

With respect to Navigation Lights the vessel has a stern light and Port and Starboard side lights. This does not comply with COLREGS as white steaming light and/or an all-round white light would also be required if any night time use was to be envisaged (However, operation between one hour after sunset and one hour before sunrise is not permitted under the provisos of the current certification).

Safety Equipment/Features Noted:

1 off 30 man Ferryman 30 Liferaft with " E" emergency pack. Date of manufacture 6-05, next service due 8-08. This is in a cradle on the roof with a Hydrostatic Release Unit , valid to 9-09, with a manual release option from the helm position. (See later note ref alternative stowage position).

1 off Carley type float rated for 14 persons in a float-free cradle , also on the roof. (See later note ref alternative stowage position).

4 off circular lifebuoys. (2 with buoyant lines, 2 with automatic lights) mounted in the cabin.

34 off Lalizas 70169, SOLAS IMO A689(17) as amended, rigid adult lifejackets with reflective tape and whistles stowed under seats, with donning instructions posted at each seating row port and starboard.

5 off Lalizas Poseidon , SOLAS 98, childrens lifejackets are also carried.

1 off Piastimo Rescue Sling for MOB recovery.

1 off manual Munster Sims fire pump with portable suction and discharge hoses fitted with strum and jet/spray nozzle.

2 off 6 litre AFFF, 13A 144B, Foam and 1 off 2Kg ,13A 70B C , Dry Powder fire extinguishers carried forward.

In locker forward are stowed, ...Cat C first aid kit valid to 6/2011, 2 off portable waterproof Silva S12 VHF sets, a road safety "triangle", a "working" first aid kit, 2 off orange smoke signals valid to 05/11 and 12 red parachute flares valid to 12/10.

A 15m towline , ready connected to the forward towing eye is lead into and stowed in the locker.

Port and starboard fire flaps for the engine air intakes forward have manual quick release , as does the aft flap for the engine cooling air outlet.

A remote fuel shut-off is arranged under a cover aft in which is also the release for the above air outlet flap. The fuel shut- off valve at the fuel tank is however practically in accessible as a cover has been "pop-riveted" down over this to prevent a flame path in case of fire. It is recommended that this cover has a more ready means of removal to give access to this valve and also to allow inspection and any maintenance of tank connections. (See associated comment above).

In the forward space there is Fireboy FE241 extinguisher with auto or manual release. This would appear to be adequate in capacity for the machinery spaces it is intended to protect, however it is situated forward of the cooling radiator, and thus the efficacy of the medium rapidly covering the main machinery spaces aft of this in case of release is open to question.

Noted that there is no fire detection fitted. This, however, may not be required under the present certification regime.

An anchor , approximately 25Kg stockless type is situated vertically behind the helmsman's seat, with a locker containing the attached 10mm chain and 20mm warp below the seat. (Lengths not checked).

A Northstar Explorer 710 DSC VHF set is fitted.

A reversing camera is fitted.

N.B. The Castle Ferry Operating Procedures, "On Board Safety Equipment" section does not mention the below deck auto/manual engine space extinguisher, and also refers to a 4KG Foam extinguisher where-as this latter appears to be replaced by the above 2 KG DP extinguisher.

Bilge pumping consists of 1 off manual pump at deck level forward and 2 off electric submersible pumps with alarms and manual control in the engine space. All fitted with strums and taking suction from the engine space well.

Electrical equipment, including cabin lights, washers and wipers, noted operating satisfactorily except where otherwise specifically noted. In the forward void space the starboard, or offside road light wiring was noted not to be protected in way of the gland in the bottom plating and possibly could chafe in use.

Marine Steering and rudder indicator operation witnessed.

B) "Charming Betty".

The hull did not bear a builder's plate as for the "Charming Nancy", however a plate bearing the information "VIN No. YV2TBMCA87B469297" was affixed on the port side of the helm position.

The vessel was seen in the workshop of CAF Engineering Ltd, Trinity, Jersey. Work on final installation and commissioning of systems and placing of equipment aboard was still in progress on 24/4/2008.

Inspections were carried out as for "Charming Nancy" but with the exception of witnessing operation of all systems and equipment, running of engine, and final check of inventory and stowage aboard. These aspects should be finally similarly complied with and verified.

Comments concerning internal welding are as for "Charming Nancy", however possibly lighter. The precautionary recommendation applies to this vessel also.

Portable VHF sets are Cobra MR H300EU, 2 off, for this vessel.

Buoyant lines were required for the two lifebuoys without lights.

The engine is a Volvo D7E, Serial number 10350497. Flexible fuel lines should be secured to avoid chafing over edges of machinery components.

It is recommended that the cutlass bearing housing bolts to the "A" frame have locknuts, as already fitted on "Charming Nancy".

Noted that on this vessel the rudder has a bottom closing plate.

Notices advising of necessity to maintain water-tightness of seals of the access panels in the bottom "pod" after replacement are missing.

The liferaft and Carley type float have been re-sited in a cradle/s on the stern, again with hydrostatic /manual release and float-free arrangement. This is a measure to reduce the KG value to improve stability characteristics.

The aft fire flap retrieval to normal operating position was inhibited by one of the new liferaft rack bolts. This bolt should be cut back as necessary.

The access to the top of the tanks and the fuel shut-off valve is subject to same comment as for the "Charming Nancy".

A stability test was subsequently performed on 25/4/2008 on behalf of Jersey Harbours by Dr. John Bate of MECAL(Jersey) Ltd to confirm compliance with MCA Document OAN 572, (with the attendance of a MCA surveyor who it is understood carried out the passenger vessel surveys). (On this date the vessel was noted underway by the undersigned and although further survey not carried out, no anomaly was subsequently reported). Any certification subsequently issued has not been sighted by the undersigned.

GENERAL:

It is expected that the liferaft and float repositioning will similarly be carried out for "Charming Nancy". It is recommended that the liferaft painter could better be run along the roof in, for example, a conduit with a "spring out lid" which would give readier release of the painter than the present small cable tie arrangement.

Further Centre of Gravity reduction measures which could be considered are:

- Placing the anchor chain and warp in a bin in the forward void space below the deck.
- Stowing the anchor fluke on the deck in the space thus created, instead of vertically.

Further stability and freeboard enhancement measures could include, after due study, fitting sponsons on each side at waterline level.

It is understood, from discussion with Jersey Harbours, that the Exemptions are subject to ministerial endorsement upon renewal of the certificate. Although for technical reasons it is unlikely that this would not occur, it remains subject to the agreement of the minister at the time.

Changes to use of the vessel, e.g. night time use, route/area changes may be considered on submission of acceptable risk assessment and safety case.

It is understood, from the same source, that operation in other areas, e.g. seaward of the Elizabeth Castle breakwater, may not be favourably considered in present configuration due to additional swell considerations.

Examiner : C.J.Gladish

Date : 29/4/08

NOTES:

This survey is based on risk using the MCA Code for Small Commercial Vessels as a guide standard for findings and recommendations. This report should not be used as a statement of condition of the vessel & it's equipment for any other purpose

We have not inspected woodwork or other parts of the structure which are covered, unexposed or inaccessible and we are, therefore, unable to report that any such part of the structure is free from defect

Unless specifically covered there-in, this report does not imply any suitability of design or stability characteristics for intended purpose.



C - M A C I N D U S T R I E S L T D

P.O. BOX 447
 ST. HELIER
 JERSEY C.I.
 TEL: (0534) 4445
 FAX: (0534) 4339

COMMERCIAL MARINE AMPHIBIOUS CRAFT

27 February 1994.

Mr. Michael Day,
 Director,
 Jersey Museums Service,
 The Weighbridge,
 St. Helier.

Dear Mr. Day,

RE: SALE OF CLASS VI AMPHIBIOUS CRAFT C-MAC 1:

Many thanks for your note of the 21st February.

We are putting the machine on the International market for sale at sterling £ 195,000.

As part of any sale agreement, C-MAC would undertake the following:

1. Full training of operating personnel.
2. renewal of certification class VI (day and summer operation), and class VI A (night and winter operation).

C-MAC is the only fully certified small passenger ship currently in the Channel Islands which meets the new survivability criteria on the 1 compartment rule; ie, if the machine is holed, it will list no further than 7 degrees. It has complete sub-division, with 3 watertight compartments.

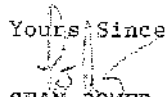
We are also minded this spring to improve the visual image of the machine, by:

A: putting a new bow on the craft which would increase operating speed, and improve the crafts lines.

B: paint some of the freeboard area and superstructure to reduce the impression of height.

Finally, we would be prepared to consider the maintenance of the craft locally, if it were considered necessary.

Yours Sincerely,


SEAN POWER,
MANAGING DIRECTOR.