

Royal Group-St. Kitts link investigated

Investigating whether resort received goods from the firm without paying

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The RCMP is investigating whether a luxurious Caribbean resort and casino complex linked to Royal Group Technologies Ltd. co-founder Vic De Zen received goods and services from the company without paying for them, according to a source familiar with the probe.

"[The investigation] has to do with false invoicing," the source said. "A lot of [the company's] goods went to build that casino that weren't necessarily paid for."

The RCMP has been investigating ties between Royal Group and the \$400-million resort since February. The resort, which opened in 2003, operates under the banner St. Kitts Marriott Resort & the Royal Beach Casino, and features 623 rooms, three swimming pools, and an 18-hole golf course, as well as the casino. It is co-owned by Mr. De Zen and Royal Group's former chief executive officer Douglas Dunsmuir, as well as other former company executives. "Royal Group allegedly said certain goods and materials were sold to a certain customer when in fact they were used in the casino," said the source.

On Monday, Royal Group's board dismissed Mr. De Zen as chairman and fired Mr. Dunsmuir and three other senior employees connected to the resort. The board said the dismissals were not related to the RCMP but concerned a 1998 land deal between Royal Group and a numbered company co-owned by Mr. De Zen and the others.

According to the board, the numbered company bought the land beside Royal Group's head office in Vaughan, Ont., for \$20.5-million and immediately sold it to Royal Group for \$27-million.

James Sardo, Royal Group's interim CEO, said the board only learned last week that the land was owned by Mr. De Zen and the others. He said details of the transaction were uncovered about a week ago by forensic accountants Kroll Lindquist Avey hired by a special committee of the company's board, which is reviewing the police allegations.

Several analysts have questioned that explanation and said it was widely known that the land was controlled by Mr. De Zen. A report dated May 9, 2001, by **Anthony Scilipoti** of **Veritas Investment Research**, discussed the land purchase and noted that "the company states that the land was purchased at fair market value from Mr. De Zen and his personal partners."

In an interview yesterday, **Mr. Scilipoti** said Mr. De Zen discussed the transaction with him in a private meeting that year. "What troubled me then and still does is this was never disclosed," **Mr. Scilipoti** said. "It was clearly a related-party transaction."

Bill MacKenzie, an analyst with TD Newcrest, said in a report yesterday that "we believe it to be extremely unlikely that the board was unaware of the existence of the related-party transactions with Vic De Zen." He added that "we find it troubling that four of Royal's existing directors were directors while these real estate transactions occurred."

Stephen Laciak, an analyst at National Bank Financial, also said he had been told at the time that the transaction involved Mr. De Zen.

Government records show that the numbered company was incorporated in 1997 and remains

active. In December, 1998, the company bought another piece of land in Vaughan for \$1-million. It is not clear if it still owns the land. Mr. Dunsmuir is listed in corporation documents as the administrator of the company.

Richard Wertheim, a spokesman for the special committee, said directors did not know the full details of the transaction until it was brought to their attention by the forensic accountants. "The mere fact that analysts knew about this, wrote reports about it, does not mean that the directors were privy to that or that they read the reports or saw it," he said yesterday.

Mr. Wertheim said directors at Royal Group received analyst reports on an ad hoc basis. "I don't think they did read them, or if they read them, that they read them very carefully."

He added that "the special committee directors, three of whom were on the board in 1998, were all genuinely taken aback by this. They did not know it."

The land deal was brought to the committee's attention by Kroll, which was initially retained to examine transactions between Royal Group and the St. Kitts resort but was recently given an expanded mandate to do a broader forensic investigation following fraud allegations made by the RCMP against Mr. De Zen, Mr. Dunsmuir and former chief financial officer Ron Goegan.

The focus of the initial investigation by Kroll was to determine whether the company had inappropriately borne any costs on behalf of the St. Kitts project. Royal Group said in April that Kroll found no evidence that costs were improperly shifted from the resort project to Royal Group.

Mr. Wertheim declined to comment yesterday on the RCMP probe. But as to why Kroll came up with its findings relating to St. Kitts, he said the parameters of its initial probe were confined to looking at anything involving the company and the resort, including invoices for shipments.

Royal issues thousands of invoices a year, he said. "If an invoice was issued for shipments elsewhere, Kroll would not necessarily have looked at that," he said. "That's the problem."