

Louis Group (IOM) Limited (in liquidation)

Louis Group Structured Capital Limited (in liquidation)

Louis Group Structured Fund PLC (in liquidation)

Louis Group International (Europe) Limited (in liquidation)

Louis Group (SLN) Limited (in liquidation)

LG SP Investments Limited (in liquidation)

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Joint Liquidators

11 August 2014



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1. INTRODUCTION

1.1. Background

This is our second report since our appointment as Joint Liquidators and Joint Deemed Official Receivers of the following companies by the Isle of Man High Court (“Court”) on 21 January 2013:

- Louis Group (IOM) Limited (in liquidation) – “**LGIOM**”
- Louis Group Structured Capital Limited (in liquidation) – “**LGSC**”
- Louis Group Structured Fund PLC (in liquidation) – “**LGSF**”
- Louis Group International (Europe) Limited (in liquidation) – “**LGIE**”
- Louis Group (SLN) Limited (in liquidation) – “**LGSLN**”
- LG SP Investments Limited (in liquidation) – “**LGSPI**”

Collectively herein the “Six Companies.”

Our appointments came as a result of applications by the Isle of Man Financial Supervision Commission (“FSC”) and were ratified at creditors and contributories meetings on 18 February 2013.

Any reader of this report who has not yet read the decision of the Deemster in making the winding up orders in relation to the Six Companies, we recommend that you do so to understand the circumstances leading up to our various appointments. It is available via this web link.

<http://www.judgments.im/content/J1327.htm>

This report is intended for all members and creditors of the Six Companies, as well as for the Court and the FSC. It is also intended for creditors and investors of property structures which are under our control, as set out in our previous report, dated June 2013.

Copies of this report will be made available on our website, where you can also find copies of our previous reports.

<http://www.pwc.com/im/en/services/advisory/insolvency-louisgroup.jhtml>

1.2. Purpose of this report

The questions we are most frequently asked by investors are:

- What happened to my money?
- Who made this possible?
- Where is the money now?
- How much money will I get back and when?

In this report we will try answer these questions in the context of our responsibilities as liquidators and in doing so, we will also provide an update of our work over the last twelve months, our key findings to date and an overview of our plans.

We will also provide a financial update.

1.3. Limitations

There are around 120 separate Louis Group companies in the Isle of Man. These companies are of interest to around eight hundred creditors / investors, they have around five thousand related paper files, they have been involved in tens of thousands of banking transactions going back over a decade and there are well over a million emails regarding their commercial affairs.

Gaining an understanding of Louis Group has therefore been a significant task for ourselves and our staff. In terms of limitation, we wish to highlight that inevitably there is information in the files and / or archive and / or computer systems of Louis Group which we have not found so far would, perhaps, add to our understanding and maybe cause us to amend / augment this report.

However, we have drawn a line on data gathering / analysis at this point to report our findings as well as our considered views and we are confident that the work we have done so far gives us a very good level of understanding not only of how this group operated but also of the issues, which we now face.

We are also confident of the findings, which we report herein, our analysis, and the conclusions which we have drawn.

It has been a challenge deciding what to include and what not to include in this report however it is neither practical nor necessary to include full details of everything we have found or to append every supporting document behind the points that we make.

Instead we have selected what we believe are the key issues, we have summarised the main points that we consider important and we have attached supporting documentation only where we consider it to be crucial to help the reader fully appreciate the account which we give herein.

We are also appreciative that there is still potentially a lot of work left to do, particularly if we decide to take legal action in the interests of creditors / investors and that there are, as a result, some matters which must remain un-reported at this stage in case future action needs to be taken.

Recognising these limitations, we hope that nonetheless, this report helps investors and creditors to answer some or all of their questions and we wish to express our appreciation to them for the patience and the support which they have, on the whole, afforded us as we carry out this work.

1.4. Definitions

We have included a comprehensive list of the defined terms that we use in this report in Appendix 1.

1.5. Tables

Tables have been produced from spreadsheets, which contain detailed formulae which in certain instances produce minor rounding differences.

2. EXECUTIVE SUMMARY

Louis Group came to the Isle of Man in around 2002 and bought a licensed trust and corporate service provider company, which became LGIOM. There are many such companies operating here, however LGIOM's business was unusual in that it focused on the creation, promotion and management of investment opportunities in Isle of Man companies for third party investors. The ownership of these companies was typically shared amongst A and B shareholders, with the former holding voting control and the latter having rights of participation but no votes. A consequence of this structure meant that the vast majority of the LGIOM client base was considered to be "internal" as the A voting shares were controlled ultimately by Alan Louis ("AL").

Over the course of the period 2002 through 2008, the business grew substantially, at one point employing almost fifty people, and its self-projected religious values, combined with representations of "low" risk property backed investment and support / co-investment from the Louis Family proved to be a significant attraction for the investing public, both in the Isle of Man and elsewhere.

We estimate that total investor sourced capital across all of the companies amounts to around £60m from over 700 different investors. In approximate terms there is around £25m invested in LGSF and around £35m across the various property syndicates. Significantly, we do not believe that there is any Louis Family money invested in any structure.

Around a quarter of these investors are from the Isle of Man, the remainder are from elsewhere, mainly South Africa and the UK. The largest investor put in around £5m, however the vast majority have invested much smaller sums (£10k to £30k) and they are, in the main 'man in the street' type people. The problems affecting Louis Group have hit them hard with many having seemingly invested a substantial portion of their savings, often into several different Louis Group companies.

Promotional materials and investor testimony show us that the sales pitch was compelling. Investors in LGSF were promised high returns from property backed investment with support from the Louis Family when needed. LGSLN investors were promised even more, fixed returns on their investments, debt as opposed to shares and a money back guarantee from LGSPI, at the time called Louis Group International (Holdings) Limited, and represented to many as the main global holding vehicle of the Louis Family's assets.

From the comments we have had from investors to date, a majority of investors have said that when they decided to invest, they had taken comfort from the thought that the Louis Family was co-invested with them through LGSPI and LGIE and that their money was safe in property backed investments.

That this seemingly secure and ethically well founded operation should somehow be insolvent was unthinkable and there was widespread disbelief among the investor base when we were appointed. How could this have gone wrong? There was also AL, vociferously protesting against our involvement, representing to investors that he alone was the man to be trusted to get them their money back and repeatedly painting himself as the victim in all of this.

This backdrop when we were appointed meant that there were expectations not only that we would liquidate assets for the benefit of creditors and investors but also that we would investigate what went wrong so that the story could be told and that if necessary those responsible could be brought to justice.

In terms of asset liquidation, since our appointment we have realised approximately £42m through the sale of around forty different properties. However, the vast majority of this money has been paid to banks as they had first charge security over the properties sold.

Currently, approximately £10m is available for distribution to creditors and there are only three remaining properties left to sell, worth around £3m, all of which should be sold within the remainder of 2014 with the vast majority going to financing banks.

The normal course of action at this stage would be to adjudicate on proofs of debt and distribute these assets to creditors / shareholders.

However, there are unique complications in Louis Group which must be overcome first before this can occur. We refer to our previous reports as Inspectors into LGSF. Our investigations as liquidators have confirmed the findings and concerns that we held as Inspectors and in particular, we have found that Louis Group systematically mixed investor sourced client money in ways that were markedly different to that represented in PPMs. This mixing was initially done using an Isle of Man trust, RST and then through the two BVI Companies, LGIE and LGSPI.

We believe that this mixing of money amounts to deposit taking activity and if we are right about that, then because none of these entities was ever licensed as a deposit taker, there is a taint of illegality across the vast majority of the business carried out by this group in the Isle of Man.

As long as new money kept flowing in, Louis Group was able to continue with this activity. However in 2009 and 2010, as covenants under the bank facilities were breached and increasing numbers of investors started to demand repayment, the finances became stretched and the effects of activity that we consider to be highly improper ultimately brought the group down leading to our appointments.

We have focused on the period 2007 to 2012 and have uncovered evidence of:

- Widespread conflicts of interest, breaches of procedures and other serious failings in corporate governance;
- Hidden fees and commissions;
- New investor capital being used to service interest and to pay old investors their capital back, often in completely different companies;
- Substantial payments to AL and / or his companies, running into the millions of pounds, accounted for as debts due by him but neither documented or repaid and the existence of which he now disputes;
- Highly questionable transactions involving the use of funds belonging to property structures;
- A prolonged apparent deception involving mis-representations about LGIE in response to questions from certain members of LGIOM management about what had happened to investor money;
- A culture of absolute control, fear and intimidation which presented a significant challenge to certain members of the LGIOM management team, many of whom left the organisation;
- Highly questionable retrospective documentation, missing documentation, unreliable accounting records and evidence of false accounting.

We provide a detailed account of these findings in this report together with examples to illustrate the points that we make.

In terms of the other main business of liquidation, dealing with creditor claims, presently we are liquidators on thirty Louis Group companies, including the Six Companies, and we have received over 800 claims totalling nearly £300m.

We have a duty to adjudicate on these claims however the process of claims adjudication is complicated for a number of reasons:

- Such is the inter-connected nature of the group that there are a significant number and value of duplicate and triplicate claims against the same assets;
- There are also substantial complex claims against companies (notably the BVI Companies) that have no liquid assets to pay for the costs of claims adjudication but who themselves might have valid claims against other Louis Group companies or third parties;
- Typically the companies against which investors have claims are themselves creditors of other companies yet they have little or no money to pay the costs of prosecuting their claims;

- Such is the poor state of the accounting records combined with the lack of documentation for inter-entity transactions, that the work we consider to be involved to adjudicate on these claims will be substantial, complicated and costly.

Although it will undoubtedly be possible for each company to be wound up one by one, we are concerned not only that this will consume a substantial amount of the remaining assets but also that it will adversely impact the possible pursuit of the contingent assets that we have identified.

In light of this, we believe that it is right to consider whether there is an alternative that might better serve the overall interests of investors and creditors whilst at the same time allowing us to fulfil our duties.

We have identified a substantial amount of common interest across the investor claimant population that we believe further supports the case for collective action.

Therefore, we propose that an alternative be considered founded upon compromise and involving:

- pooling of assets by certain companies which have assets into a new vehicle;
- cross-cancelling inter-entity and duplicate claims using current best estimates from existing records as well as our analysis of bank transactions; and
- allocating participation rights in the new pooled vehicle to remaining investors / creditors based on as good an estimate as we have to date of what their claims are, taking into account any repayments that they might have had to date as well as the circumstances of their investments. The overall objective is that those eligible will participate once in the new vehicle.

We envisage that this approach would allow us to deal with many of the problems that presently exist at substantially reduced cost, with greater certainty and using a new, untainted, entity. However, we also recognise that it will involve compromise on the part of eligible investors and creditors and that without such compromise it will not succeed.

Unfortunately, for a minority of investors / creditors there is no hope of any return because their particular structures are finished. We have provided a full list of every structure in Appendix 4 of this report together with related commentary so that you can all better understand your individual positions.

For those that are eligible, whilst it is too early at this stage to project with any certainty the amount that the proposed new entity might be able to return to its participants, our target range, based on our calculations to date as well as certain assumptions, is around 13p to 16p in the £.

Absent a compromise, we think eventual returns could be less than this although some structures may fare better than others.

It may be possible to achieve a slightly better outcome if certain claims can be successfully pursued and our proposed approach provides a mechanism for that.

However we appreciate that whatever way this is looked at, investors across all Louis Group structures in the Isle of Man have suffered significant losses and that inevitably there will be calls for those responsible to be held accountable.

In that regard, we can report that pursuant to our responsibilities under applicable law, we have submitted a comprehensive report to the FSC on the conduct of the senior people who were involved.

It is now for the FSC to take action where they consider it necessary.

Our plan now is to write to eligible investors and creditors within the next month or so with more details of the proposed compromise arrangement, specifically setting out how it might affect them individually, and what they would be asked to do by way of compromise.

We will also write with details of a future meeting (and a conference call for overseas creditors and investors) to afford you all an opportunity to ask questions about this report as well as any other aspect of our work.

3. DETAILED ACCOUNT

In this section, we set out our findings and observations pertaining to the Louis Group in the Isle of Man and in particular, we try to explain what happened to investors' money.

What happened to the money coming in?

It is apparent that there has been systematic diversion of investor sourced funds into the BVI Companies over an extended period and that this was not accurately represented to investors.

In fact in many cases it was not represented to investors at all.

Some examples of this are as follows:

- In the case of LGSF, investors were told in the PPM that LGSC would borrow money from LGSF and make loans to approved parties (defined as property companies and significantly not including LGSPI). In fact, almost all of the money transferred from LGSF to LGSC (over £25m) went to LGSPI;
- In the case of the Aldi1 structure, the €6m loaned by investors to companies which, per the PPM was supposed to have been lent to underlying property companies, was instead paid/transferred to LGIE;
- In the case of another structure, Lavender, the €700k put in to Lavender by investors went to LGSPI, not to the underlying property company that was described in the PPM;
- In the case of Yellow, around half of the investor money (c CHF1.5m) went direct to LGSPI (i.e. it did not even make it into Yellow) and the majority of the balance (c CHF2m) also went to LGSPI via Yellow rather than to the supposedly related property company, Platinum;
- In the case of PICS investors – individuals who loaned money directly to LGSPI – their money was transferred from LGSPI to LGSF, from there to LGSC and then back to LGSPI i.e. round in a circle.

Taking into account the amounts recorded as being invested into LGSF plus all of the property syndicates when we were appointed, we believe that total external investor funds invested in / loaned to Louis Group companies was approximately £60m from around 700 different investors, some of whom are invested into a number of different structures.

As Inspectors, we reported on the involvement of the BVI Companies, and in particular, our opinion that LGSPI had operated an unlicensed deposit taking business.

We have found that on those few occasions that the BVI Companies were mentioned in promotional materials seen by investors, they were generally portrayed as Louis Family companies, co-investing with external investors. Many investors have told us that they took comfort from those representations in their investment decision. In fact, we don't believe that AL or the Louis Family put in any money to these companies. Rather, we have found that starting with LGIE (active from around 2002 through 2006) and LGSPI (active from 2006 through 2010) these companies have almost exclusively dealt with only third party investor funds.

The common factor between the BVI Companies when we were appointed, central as they were to the Louis business operated from the Isle of Man, was that they had virtually no money left. The consequences of this unlicensed mixing of funds has left almost every remaining property structure with some sort of exposure to either LGSPI or LGIE or both.

Such is the poor state of their accounting records that it is not possible to determine with any degree of certainty what their true financial position is, what their assets are and who is owed what.

Further, the unlicensed nature of their activity, combined with their failure casts a taint over every transaction in which they were involved.

RST

Prior to the BVI Companies, a trust, established by AL in 1999 called Royal Securities Trust (“RST”), received client money and made payments to some of the early property syndicates.

We were able to obtain RST bank statements from RST’s bank, just as we did with LGIE and LGSPI, and have identified similar patterns of activity to LGSPI, i.e. thousands of transactions involving money seemingly sourced from third parties, with aggregate values in and out of over £100m during the years 2002 through 2005. Money was mixed together in the RST bank account and transferred to various other companies. Some investors have described to us how they thought they had an account at RST and that RST was in their view, a financial institution. This view is supported by evidence which we have seen of balance confirmations being sent out to people in RST’s name as well as interest accruing on those balances.

Based on that evidence and our analysis, we believe that RST too has all of the characteristics of the sort of unlicensed deposit taker activity that we have previously reported and we have made our findings about RST known to the FSC. There is no money left in RST, and it was apparently shut down for good in 2007, having been fairly inactive for around 18 months before that. It did however; receive some money from LGIE before being shut down and may well have used that money to pay off debts to third parties.

We have also found that around £300k was paid into RST from an investor, from there to LGIE and from there to a firm of solicitors in the UK to fund the deposit on AL’s house.

Conclusion – money coming in

We believe that starting with RST and then with the BVI Companies, there were pools of investor / creditor sourced funds systematically operating within Louis Group over a ten year period from 2002 to 2012.

The affairs of these “pool” entities were opaque, they were never audited, and it is a significant concern that none of them were ever licensed given the activities in which they were engaged, thereby casting a taint of illegality over their affairs. None of them has any money left at this time, yet they are involved in the majority of structures to which investors are exposed.

What happened to the money going out?

Our Inspector reports contained details of our analysis of the bank statements of LGSPI, the company that had seen most of LGSF’s money go through it, and we described how that money had been used.

We have subsequently found out that money sourced from other property syndicates and directly from third party investors also went into LGSPI and LGIE and that in the earlier period this sort of activity went on in RST. In this section we provide more detail on what happened to this money.

Money going out - property acquisitions

Property acquisitions were financed by a combination of bank debt and investor sourced capital routed through RST or LGSPI or LGIE.

The investor sourced capital ranked behind the banks and was very much at risk as it would bear any losses first.

We found that the majority of the bank finance in place was short term, generally repayable within five years. Falls in property values in 2009 caused the structures to breach the terms of their bank loan conditions, notably loan to value covenants, which caused banks to step up pressure and as a result the property companies became forced sellers in a very difficult market.

As a result, the majority of the structures incurred substantial losses on their property assets.

Around the same time, the availability of finance from banks for property investments diminished and we found that many of the banks dealing with Louis Group started to take all or substantially all of the rent that was being received. This left the companies themselves with no or very little free cash flow to pay expenses and contributed further to losses.

The InvestCos which had typically received the investor's money had transferred all, or substantially all, of their funds to LGSPI and/or LGIE and were reliant upon either LGSPI or LGIE to pay their ongoing costs. When LGIE and LGSPI themselves started to run out of money in 2009, there was no alternative way to finance the running costs of the InvestCos. Notwithstanding these clear signs of financial distress, LGIOM continued to provide services under contract (such as director / administration / accounting) and in many cases it was not getting paid.

In turn this created financial problems for LGIOM and some decisions that were taken on behalf of certain structures regarding moving money around it are now, perhaps with some benefit of hindsight, highly questionable.

In summary, adverse property price movement has accounted for a large portion of losses due in the main to the way in which these companies were structured, with investor sourced capital being first at risk. Changes in approach by lenders also contributed, as rent, which would otherwise have accrued to the structures was retained by the banks and penalty rates of interest were charged.

It is not possible, based on the records available and the work we have done so far, to say how much of the overall loss was due to these factors however they are certainly important contributors to the present situation.

Money going out - fees and commissions

The amount of fees and commissions paid by LGSC and by property syndicates is substantial. These were typically paid to those entities which referred investors, notably LGIOM and in addition, property related commissions to LGIOM and LGUK were also paid. These fees and commissions account for a portion of overall losses suffered by investors.

Fees and commissions varied from structure to structure. For example, we found that the German Retail structure alone generated a fee of €450k for LGIOM, paid for out of investor sourced funds.

We also found that LGSC's audited financial statements record fees and commissions expenses of c£1.3m relating to commissions paid to those who referred investors in LGSF in the years 2008 through 2011.

In terms of disclosure, we found that whilst some property related commissions were typically disclosed in the PPMs pertaining to the various different structures, significantly there was no disclosure of commissions in the PPM of LGSF. We also found that the commissions paid by LGSC were paid from LGSF investor capital borrowed by LGSC.

Whether or not these fees/commissions should have been paid or whether or not they were disclosed, the money to pay them has now gone.

Money going out - interest and old investors serviced from new capital

Initially, LGSPI paid interest on its borrowings. This interest was paid to LGSC and also to some other structures/individuals. However, most interest payments by LGSPI stopped in late 2008 as its financial condition deteriorated.

LGSC paid some interest in turn to LGSF however, that too stopped in early 2009.

These interest payments were financed from new inflows of borrowed capital sourced ultimately from investors.

In one particularly telling example in May 2009, a LGSF director, when asked to make a further £170k loan from LGSF to LGSC, highlighted that interest payments from LGSC were in arrears and expressed concern about making a further loan. Following a sternly worded email from AL, LGSF lent around £700k to LGSC in part so that it could pay interest arrears of around £500k (around four months of interest) back to LGSF a few days later.

In the books of LGSF, this was accounted for as an increased loan to LGSC (£700k) and reduced interest receivable from LGSC (£500k) meaning that LGSC interest was (per the LGSF accounts) no longer in arrears. This effectively concealed the financial problems at LGSC, which were by then critical, and further increased LGSF's exposure.

A few weeks later, the LGSF directors decided they could lend a further £1.25m to LGSPI via LGSC, the final such loan, leaving LGSF with almost no cash by early June 2009. In making that decision, minutes show that the LGSF board was aware that the money from that final loan was to be used by LGSPI to repay a PICS creditor who had requested repayment of money originally invested around one year earlier i.e. the repayment of an old debt from the proceeds of new debt.

We found that whilst £1m did indeed go to the PICS creditor, around £200k of the new loan was transferred by LGSPI to various PropCos and InvestCos who then used that money to settle outstanding fees to LGIOM.

We consider that the LGSF board had a significant conflict of interest when making the loan, and that it is possible their decision may have been made under pressure as there is a reference to "wider group interests" in the minute approving the loan.

In addition, emails suggest that not all of the LGIOM management knew that £200k of the loan would ultimately end up at LGIOM.

In summary, not only was interest serviced from new capital but also old investors were repaid from new capital and the situation was further complicated by apparent conflicts of interest as the financial situation deteriorated. This explains a further portion of the overall amounts lost.

Money going out - AL loans

Accounting records record the accumulation of a number of "AL loan" accounts made up of money transfers and other transactions which appear to have personally benefitted AL. These transfers and transactions were accounted for as assets due from AL in the books of the BVI Companies and in total amounted to around £8.3m at the date we were appointed.

These AL loan accounts were among the largest assets, by recorded value, in the accounting records of the BVI Companies when we were appointed.

AL has repeatedly denied owing anything to these companies, forcing us to investigate the matter in more depth and resulting in correspondence which we attach hereto Appendix 2.

In that correspondence we have identified the details of how the AL loan balances accumulated and we provided him with clear evidence supporting his role in / knowledge of / approval of the money transfers involved.

In particular, we found that the control exerted by AL over the accounts allowed him to issue instructions and accumulate the loans.

For example, AL gave this instruction on 6 April 2009.

"Hi Dirk, kindly transfer from LGIH (LGSPI) to Alan Louis Fairbairn the sum of GBP300,000. Thanx Alan Louis"

That email was complied with by return and £300k of money sourced from investors was paid away.

A similar instruction was given and actioned for £200k in the previous month and there were others, all of which were accounted for as loans to AL.

In addition, AL paid some personal expenses notably related to his house in Stratford.

As noted earlier, we believe that the deposit paid by AL on his home was sourced from an external investor via RST and LGIE. He appears to have borrowed personally to fund the balance (around £1.5m) and his personal mortgage payments were around £8,000 per month. We estimate that over £200k towards the servicing of this mortgage was paid from the BVI Companies between November 2007 and December 2009 via instructions from AL such as:

“Hi {NAME}, LGIH (LGSPI) to pay £15,000 directly into my Barclays accounts. Lukas please pay and {NAME}, to verify receipt of payment. Thanx”

There are more details in the letters which we have attached in Appendix 2.

We found that some of AL’s debts would be transferred through an inter-company loan such that AL was shown as owing the money to LGIE even though he had received the money from LGSPI. In turn LGIE was shown as owing the money to LGSPI thereby balancing the books. This explains why the accounts of LGIE record a larger AL loan account balance than the accounts of LGSPI. It also explains why LGIE is a large debtor of LGSPI. It may also complicate the recovery process.

We found further evidence of attempts to mask the extent of the AL debts to these companies through questionable accounting disclosures.

For example, in one set of LGSPI financial statements, an overdraft liability due to Barclays of £700k was netted against the asset “Loan to AL” thereby making it appear that the “Loan to AL” was smaller than it actually was and at the same time masking the existence of the bank liability. Those financial statements were sent to the FSC in late 2009 in response to queries and concerns raised by the FSC about what had happened to investor money.

Further, in an email from the then CFO of Louis Group, Andrew Nardone in November 2011 he instructed that:

“Loan account Alan Louis should be Loan account “Louis Family Fondation”

We put it to AL that either the amounts are due, in which case they should be repaid, or that the books which show the amounts to be due are false, in which case an offence of false accounting may have been committed. We also put it to AL that the companies had been insolvent for years, given that the AL loans had been major recorded assets since 2005.

In response, (Appendix 2), AL did not substantively address the points which we put to him and instead he attempted to deflect responsibility onto those who he employed to keep the books for the companies. He has repeated his assertion that no money is due by him. Documentary evidence overwhelmingly contradicts both these assertions and the AL loan accounts for a substantial amount of the money from investors that has been lost.

Money going out – LGUK share acquisition from Banque Louis

Bank statements show that in July and August 2010, around US\$3.15m was paid into the account of LGIE in four separate transactions. We have since ascertained that these payments were from two people now claiming as creditors of LGIE.

Through their lawyer, they have explained to us that they made these payments pursuant to an agreement with AL that they were buying LGUK which was, at the time of these payments, an asset of Banque Louis.

We found that the vast majority of the money, just under US\$3m, was indeed paid by LGIE to Banque Louis shortly after it was received and that around the same time, LGIE became the 100% shareholder of LGUK. We don’t know what Banque Louis did with the money however it is now in liquidation with little apparent prospect of any dividend for creditors.

These claimants told us that they had been trying to get AL to transfer the LGUK shares to them for some time prior to our appointment without success.

We confirmed that the shares in LGUK were accounted for as an asset of LGIE with a value in the books of £2.5m at the time of our appointment. However, LGUK's 2012 financial statements showed a net asset value of around £200k for the company, i.e. less than 10% of its recorded book value.

Subsequently AL, the director of LGUK, told us firstly that LGIE had sold its LGUK shares, then he told us that LGUK was insolvent due to debts owed to him and then he offered us a "nominal sum" for the shares. We declined the offer.

LGUK is still seemingly operative today and we believe that it could have valuable information for us in our work. It may well also have some commercial value. However, LGIE does not have the financial resources to pursue the asset.

We believe that LGIE had been insolvent for a number of years prior to borrowing this US\$3.15m from these two people and it is of undoubted concern that their money ended up in Banque Louis in return for shares that are worthless.

Money going out – other questionable transactions

We have identified numerous instances where property structures have suffered losses due to money being transferred out in circumstances which are questionable.

For the purposes of this report we give three examples:

Henis

Henis is an old property syndicate dating from 2003 and appears to be one of the first such syndicates organised by LGIOM. It acquired some industrial property in the north of England financed by a combination of bank borrowing and the proceeds of shares directly to investors. Henis was a fairly successful syndicate and the initial capital invested was largely returned to investors in 2009 from the proceeds of increased bank debt.

We found that in May 2010 (i.e. after LGSF was suspended and there were apparently widespread concerns about LGSPI's financial situation) the Henis board (comprising LGIOM staff) approved a loan of £300,000 to LGSPI for "onward lending to a private property holding company for the payment of property expenses". As security for the loan, a charge over some of AL's shares in BLH was given.

It is not immediately apparent why Henis should have done this, however at that time, it had the cash sitting in its account and it was decided that the cash should be loaned elsewhere in the Louis Group.

There is no evidence that investors were ever consulted about this.

On 28 May 2010, the first drawdown of £150k was made however on investigation we found that the payment was made directly from Henis to Zircon (which was at the time a subsidiary of LGIOM) rather than to LGSPI. We found that journal entries were then posted so as to show funds being lent from Henis to LGIH and then on to Zircon.

The records of Zircon show that Zircon primarily used these funds to pay its solicitors. Papers in Zircon files suggest that at this time, Zircon was involved in a dispute with a contractor in the UK.

Zircon subsequently collapsed because the contractor went into administration. The loan was never repaid and the shares in BLH that Henis had security over were cancelled such that they no longer exist.

On 4 June 2010, AL requested another loan to LGSPI from Henis of £100k for onward lending to his personal fund management company in Jersey which according to AL's email "must urgently be capitalised" and from which LGIOM was due to receive "very attractive" fees. Emails between LGIOM staff about this arrangement state it is "in our interest to assist as far as possible."

On 8 June 2010, the Henis board approved the £100k loan and the money was transferred. The next day AL sent an email to JMc (the sole director of LGSPI) in which he informed him about money coming into LGSPI. The same email instructed JMc to use the money to pay Sunrock Limited £28,183.56 and record it as "Alan Louis loan."

The balance of the loan was paid to the Jersey asset management company, accounted for as an asset of LGSPI and is now worthless as the Jersey company is defunct.

We believe that the Sunrock payment represents the quarterly interest on a personal loan obtained by AL and we have found that there were many more similar amount payments to Sunrock from LGSPI over the years. The owner of Sunrock explained to us that Sunrock had loaned AL £2m related to AL setting up Banque Louis in Switzerland.

Henis is at least £350k worse off as a result of these transactions and we believe that AL has a case to answer with regards this matter.

Persian

Persian owned a hotel in Germany called the Schloss and Persian records show that it was financed entirely by LGSC (i.e. money sourced from investors in the LGSF). Records show that Persian owed LGSC €€3.6m and this debt was, at the time, one of LGSC's largest remaining assets.

Persian records also show that AL had been acting as agent for Persian and LGSC throughout early 2012 regarding the sale of the Schloss and that he had introduced a buyer with an offer of €2.2m in March that year. AL seemingly made a counter offer of €2.3m however this was rejected by the Persian board as he could not give them sufficient assurance that he had the money. AL then told them that the buyer at €2.2m had withdrawn.

Whether there was a buyer or not, we have not been able to establish. However, we do think that this experience caused the Persian board to think that the asset might only be worth that amount which was clearly a concern to them given that a few years earlier AL had told them the Schloss was worth €7m. Email and other evidence obtained by us shows that in mid May 2012, two months after the above referenced episode, AL personally negotiated the sale of the Schloss for €4m.

He then instructed lawyers for Persian in Germany to deal with the sale and, with apparent intent, he concealed the sale price from the boards of Persian and LGSC.

We found that shortly after agreeing the Schloss sale, AL instructed solicitors for LGSC to draw up an agreement to sell LGSC's €3.6m loan to Persian for €2.3m to another of his BVI Companies, LGE. That agreement was then signed by the LGSC and Persian boards on 6 June 2012. LGE did not pay LGSC for the debt; rather the agreement gave LGE four months to come up with the money.

On 7 June 2012, the day after this agreement was signed; AL appointed himself as sole director of Persian and later that day his associate Georg Beckert emailed the German lawyers to tell them:

"we would like to build in some sort of confidentiality clause to protect the details of the transaction from public knowledge"

On 10 June 2012 AL emailed JMc with instructions to get the sale documents apostilled in the Isle of Man Court and warned:

"DO NOT DISCUSS THE CONTENTS WITH ANYONE IN THE IOM OFFICE" – AL's emphasis.

The Schloss sale was concluded in mid July 2012 and bank statements for Persian which we found in JMc's office show that the eventual sale proceeds were €3.8m. Other records show that €2.3m was subsequently paid to LGSC by LGE, and that LGSC then repaid that money to LGSF.

However, the balance of €1.5m was paid to LGE and used for a variety of payments including a personal tax bill of AL amounting to £82k which was paid to HMRC in the UK.

These payments were instructed by AL by email in mid July 2012 in which he warned JMc:

“It is imperative that you please take careful note of the following, big sums are involved and no mistakes can be made (please do not communicate to anyone the sale of the Schloss)” – AL’s emphasis.

In our view, LGSC (and therefore the LGSF as the creditor of LGSC) lost around €1.5m on the sale of its Persian loan because AL:

- Concealed the information that a sale had been agreed from the LGSC and Persian boards;
- Instructed LGSC lawyers after the €4m sale had been agreed and then stood by whilst LGSC assigned away a €3.6m loan asset for €2.3m to his company LGE;
- Used his position of control to replace the Persian board with himself;
- Instructed JMc to get the necessary papers completed in the Isle of Man for the sale and not to discuss the matter with anyone in the Isle of Man office;
- Subsequently dealt as he saw fit with the money, including a further warning to JMc not to tell people in the Isle of Man office about the sale.

We believe that AL was acting as a de-facto director of Persian and LGSC throughout. The instructions to JMc not to discuss / disclose the sale as well as the timing / content of the email regarding inserting a confidentiality clause into the sale agreement are indicators of bad intent.

Platinum

Platinum was established in 2007 seemingly with the intention of carrying out a property development in the town of Guibiasco near Lugano in Switzerland. We found that Platinum did indeed acquire land using over CHF5m from LGSPI and a large retail store was built which was subsequently rented to the retailer Aldi. The store was sold shortly before our appointment and investors in a related InvestCo, Yellow, were told at the time that a profit had been made.

There has been much interest in Platinum’s affairs by those who are financially invested in Yellow and later in this report we explain what has happened in that particular structure in more detail. However for the purposes of this section, dealing with questionable transfers of money, we highlight one particular transaction.

On 25 March 2008, an instruction was sent to a Swiss bank to pay CHF3.15m to LAM (the Swiss company that eventually became Banque Louis) and that instruction was carried out the same day. The source of the money was a newly drawn down bank loan in the name of Platinum from the Swiss bank, secured on Platinum’s property in Switzerland.

The person who gave the instruction was not a Platinum director at the time and evidence indicates that the other LGIOM staff who were Platinum directors did not know about either the new loan or the LAM payment until much later.

The bank confirmed to us that AL, the authorised signatory on the Platinum account (even although he too was not a Platinum director), gave his approval for the payment. Platinum had no dealings with LAM nor was there any apparent commercial reason for it to make this payment.

No paperwork (e.g. a loan agreement) was ever signed and the payment was not put to the then board of Platinum for their approval. In our view, AL and the person instructing the payment were de-facto directors of Platinum when this payment occurred with all attendant duties and responsibilities.

Email evidence suggests that this payment was the deposit on the acquisition of LAM’s building in Zurich.

Platinum initially accounted for this money transfer as an asset being an (undocumented) loan to LAM.

However, subsequently, journal entries were posted to change this such that it was eventually accounted for as a loan to AL “ref BLH” in the books of LGSPI. It is, as a result, part of the above mentioned £8.3m that AL is recorded as being due to the BVI Companies and absent any recovery of the loan from AL, this money has now been lost.

This change in accounting treatment is highly questionable as far as we are concerned. It also raises the question which entity has actually lost the money. Is it Platinum, the payer of the money? Is it Yellow, the entity which was supposed to fund Platinum? Or is it LGSPI as a result of the above referenced questionable accounting transactions?

The answers to these questions are important because presently there are entirely different groups of creditors with interests in Yellow and LGSPI. Both entities have, under our direction as liquidators, proved as creditors against Platinum for amounts including this transfer. We must now adjudicate these proofs.

When Platinum sold its property, the loan to the bank (which included this CHF3.15m draw down) was repaid and as LAM is now in liquidation, Platinum will not recover this money from it.

We believe that both AL and the person instructing the payment have a case to answer as regards this particular activity. This is one of a number of examples where undocumented money transfers plus subsequent questionable accounting entries serve to significantly complicate the work that we need to do as liquidators.

How did this happen?

Control

The over-riding common factor concerning the activity carried on by RST and the BVI Companies is that it was based on instructions from AL. This is evidenced in thousands of examples through emails as well as notes of telephone conversations.

Such was AL’s level of control over the bank accounts of these companies and the structures that paid into them that notwithstanding there were others involved in the operation of the accounts, once the money was received, AL was able to treat it as being his own to deal with as he saw fit.

AL’s position of power and authority as Chairman of LGIOM was re-enforced by LGSPI which was the controlling (voting) shareholder in the vast majority of property structures. This combination of power and authority, backed up by voting control, gave AL an overarching position of control over the affairs of the Louis Group.

Secrecy surrounding the BVI Companies

The underlying financial reality concerning the BVI Companies’ affairs was guarded closely and it was not widely known amongst the LGIOM staff.

In particular, LGIOM staff have told us that only a select few were allowed to access the financial information concerning these companies that was stored in the LGIOM accounting system. In 2010 a new accounting system was used, monitored by JMc and entirely separate from LGIOM.

Our work as Inspectors required us to access the books and records of these BVI Companies. We were challenged and resisted by AL and his lawyers throughout much of the summer of 2012 and as we reported at the time, were it not for our obtaining bank statements on these companies affairs, then we would not have been able to report as we did.

Recently we have found that in June 2012, money from the last investor in one property structure (Protea) was transferred to LGE and from there used to pay AL’s lawyers who at that time were advising him as he resisted our enquiries. AL had replaced Protea’s board with himself in (2012) so that he could take control of it.

This money transfer was done on AL's instruction, see email in Appendix 14. The above noted transaction involving the Schloss also occurred after we were involved as Inspectors. In our view these transactions demonstrate not only disregard for investors but also a degree of contempt for the process initiated by the FSC, which was by then under way.

In terms of guarding the underlying financial situation as regards the BVI Companies, emails show that AL would deal with questions in a variety of ways, which we would summarise as:

- Referencing how in 90 years of business every Louis debt had been paid i.e. challenging those staff asking questions by making it out that they were questioning the integrity of the Louis Family;
- Providing mis-information – for example the board of LGSC were given frequent updates by AL on the supposed value of the “assets” of LGSPI including representations that LGIE was worth as much as £14m (a figure which we believe to be fictitious) when in fact it was not an asset of LGSPI at all;
- Giving ultimatums - either accept this situation or leave the company (we found many staff did in fact leave citing lack of transparency regarding the BVI Companies amongst their reasons);
- Stating to his staff and to the FSC that the newly licensed Banque Louis could settle all of the debts;
- Using voting control to change company boards to ensure that he could get his own way.

Breaching of procedure / failing in corporate governance / conflict of interest

Given AL's position at the head of Louis Group in the Isle of Man, his approach to the BVI Companies created a very difficult situation for the staff involved.

Staff would receive an instruction from AL regarding a money transfer. Often the instruction would be “urgent” thereby giving the member of staff little or no time to consider the wider implications of the payment or to consult or to ensure that a minute / agreement was put in place.

Large value payments would sometimes be completed in a number of smaller amounts – for example we found that an instruction to pay £1.425m (ultimately to a personal account of AL) was broken down into three separate payments, £500k, £500k and £425k because payments up to £500k only could be made by the individual making the payments. This is indicative of a possible breach of internal controls on payment authorisations.

We found that later on - months or sometimes years after transactions occurred - questions would be asked by those preparing financial records / financial statements as to why certain transactions occurred and what happened to the money.

It is apparent that certain staff at LGIOM became increasingly concerned, notably later in 2009, that the BVI Companies were in financial difficulties and that investor funds were at risk.

Almost invariably, we found that AL would be asked to provide some sort of over-arching explanation, meanwhile audits would not be completed due to delays in answering auditor questions.

We have found numerous examples of attempts to deal with problems. These include retrospective board approvals, journal entries being posted recording inter-company indebtedness where there were no agreements or related flows of funds, assignments and collateral without any apparent consideration of the legal effect or consequences. In some cases correcting measures being reversed or changed later on when new information came to light.

Inevitably, when it all stopped with our appointment, the residual position is confused, often contradictory and in most cases we have concluded that such financial records as exist are unreliable.

LGIE valuation “deception”

Attached to minutes of a LGSC board meeting on 30 September 2008 we found a collateral schedule. Under discussion was the accumulated loan from LGSC to LGSPI, then amounting to around £24m.

The schedule places a value of over £30m on LGSPI’s assets and the message that was seemingly delivered at this time was that LGSPI was good for the money it had borrowed from LGSC.

However, we believe that there are a number of errors on the collateral schedule, the main one being LGIE’s shareholding in LGSA, valued at £11.1m. In that regard, we believe the schedule was deceptive both as to ownership and value.

The schedule implies that LGIE is an asset of LGSPI and therefore that it is LGSPI’s asset to offer as collateral. In fact LGIE was never an asset of LGSPI.

In terms of the LGIE value, this was seemingly derived from the purchase of 10% of LGIE shares by Nils Hinrichsen.

Subsequently AL referred to this in his email to LGSF directors in May 2009 when consideration was being given to more lending by LGSF to LGSC (and ultimately to LGSPI) as follows:

“You are well aware that LGIE value has already been established by the purchase by Nils Hinrichsen ... of shares for I think £1.9m per 10% share. This places the value at £19m and ... it’s only reflected at £12.246m [on the collateral schedule]”

We have since found out that £1.425m from LGSPI was transferred to Nils Hinrichsen (care of his client account at LGIOM) in April 2008 so that he could buy 10% of LGIE. ALFT seemingly sold these shares to Mr Hinrichsen and the money went through an ALFT account before ending up on the same day in an account of AL’s. AL would have known that the Nils Hinrichsen share sale was in no way representative of an open market value transaction, rather it was financed by investor money in LGSPI, yet he continued to make the above noted representations to the LGSF board.

Payments to Mr Hinrichsen were included in the six sums that we were asked to investigate as Inspectors and we found that LGIE accounting records showed some £610k of this £1.425m as an asset due from Mr Hinrichsen at the time we were appointed. He denies any liability to LGIE. We found that he had transferred back the 10% shareholding in LGIE before we were appointed and that AL had assumed part of his debt.

It is unclear to us what protection (if any) this ‘collateral’ process gave LGSC; however, it appears that the LGSC board took some assurance from it and the representations made by AL. It is arguable that they were deceived, in particular, by the representation that LGIE was an asset of LGSPI (it was not) with an attributed value that based on a non-arm’s length transaction financed entirely by LGSPI.

It is also apparent that this £1.425m, sourced from LGSF investors, has gone unless AL and / or Nils Hinrichsen repays it however neither LGSPI nor LGIE have the necessary financial resources to pursue them. This is a possible claim that might be pursued for overall investor benefit.

Questionable retrospective documentation

In May 2009, an agreement was signed between LGSC and LGSPI documenting for the first time the lending between the two companies that had started in mid-2007 and continued into early 2009.

A schedule of “Charged Assets” was seemingly assigned at the same time to LGSC. The stated “value” of the “charged assets” listed on the schedule was £18.8m, CHF1.1m and €11.2m (i.e. around £30m) against an outstanding loan balance of around £24m.

As part of this assignment agreement, LGSPI gave a number of representations including that it was “the beneficial owner of the Charged Assets free from Encumbrances”. LGIE was the largest valued “Charged Asset” with a gross value of £14m. As noted above, at no time did LGSPI ever own LGIE and the attributed value was based on a non-arm’s length transaction financed by LGSPI.

It is therefore arguable that the May 2009 agreement and the assignment of charged assets was a continuation of the above referenced deception.

Errors in the 2009 LGSC financial statements

The signed LGSC financial statements show that LGSPI owed LGSC just over £1.9m at 28 February 2009.

We found that very odd given that the above noted loan agreement, signed in May 2009, referenced a then outstanding loan due from LGSPI to LGSC of over £24m. Per the schedule attached to that agreement, the £24m loan had accumulated steadily from mid-2007 through to September 2008.

We investigated further and found evidence that attempts to document previously undocumented dealings between LGSPI and various Louis Group companies had occurred around November 2009 during the audit process. These newly documented “loans” were then seemingly retrospectively assigned to LGSC and the financial statements were adjusted to make it appear like the situation had prevailed at the 28 February 2009 year end date.

It seems to have been accepted without undue question by the LGSC board that LGSPI had seemingly not (until then) documented its dealings with its borrowers. They also appear to have believed that the assignments were, overall valid and in the interests of LGSC. Further, this situation seems to have satisfied the auditors who signed their opinion a few weeks later.

However, as they and we have found, in the months after this process was completed, material errors became known and further remediation / re-assignment was attempted / carried out.

For example:

- The 2009 LGSC financial statements record as an asset, a supposedly newly documented loan of £8.4m to LGIE. The 2010 LGSC financial statements record that this LGIE loan was “*incorrect due to the fact that no assignment had been completed*” (our emphasis). It was replaced with a loan to LGSPI. We have found that at no time did the LGIE books ever reflect a loan from LGSC, nor had there ever been any money transfers between these two companies, yet somehow the audited 2009 LGSC financial statements represented this loan to LGIE as over one third of the reported total assets;
- During 2010 / 2011 a number of the assigned “loans” were subsequently assigned back as they were found to relate to structures involving other third party investors.

There were also problems regarding the values, for example:

- The 2011 LGSC signed financial statements record that “A number of loans have been identified where the Board [of LGSC] believe that the value at the date of assignment was lower than the assigned value and others where there was an ineffective assignment.”

These examples are reflective of the confused situation that prevailed as those involved attempted to commit to paper matters that were previously largely un-documented in a desperate effort to remove the LGSPI loan as the main asset of LGSC. In our view the 28 February 2009 LGSC financial statements, signed off in December 2009, materially misrepresented the underlying financial reality of LGSC’s situation, which was by then critical.

Those financial statements signed by both the LGSC board and the auditors were sent to the FSC in December 2009. By then the FSC was concerned about LGS LN in particular and it is arguable that the FSC may have been able to act sooner but for these financial statements.

In any event, LGSF was suspended only two months later in February 2010.

No single point of external oversight

No one single external party had overall oversight of the Louis Group.

In terms of regulators, there were at least three involved.

The FSC licensed LGIOM as a trust and corporate service provider and as an investment business licence holder (although this licence was surrendered in 2010). As such, the FSC had some visibility into the regulated side of the business and there is ample evidence of the FSC issuing directions to LGIOM to deal with its regulated activities. However, the vast majority of the investor facing companies in the Isle of Man were outside of any regulation, including LGSF, LGSLN, and the property syndicates, meaning that the FSC had no responsibility to exercise oversight of these structures.

In addition, the vast majority of the companies administered by LGIOM were treated as “internal” because they were controlled ultimately by AL. Although, as we have found, many of these companies have substantial external investor / creditors, their ownership and control was internal and it is possible that normal testing / oversight procedures which are, we believe, focused on dealings with external clients, may not have fully identified the scale of external exposure.

In addition, we believe that the FSC may well have taken some degree of comfort from:

- the audited and unaudited financial information which was presented to it (information which we now believe to have been materially doubtful/incorrect) and;
- other information which was presented orally and in writing, including representations about Banque Louis and its ability to repay investors which ultimately never came to pass and;
- the involvement of independent regulated financial institutions including banks and administrators in various structures and;
- the issuance of a banking licence to Banque Louis in Switzerland in 2009 and;
- the fact that Louis Group remained regulated in South Africa throughout.

We were asked at the investor meeting in February 2013 for our assessment of the performance of the FSC.

We said then and we say again that taking all of these circumstances into account, we consider that the FSC acted responsibly and in a balanced way in the pursuit of its regulatory responsibilities as regards Louis Group and we do not find fault with their approach. However, there are undoubtedly some lessons that can be learned, notably as regards the procedures around internal companies and review of dealings between different client companies where a licence holder has conflicting duties and responsibilities.

The Swiss FINMA regulated Banque Louis for a period – 2009 through 2011. We have had few dealings with FINMA having established early after we were appointed that they stopped regulating Banque Louis (LGIOM’s parent company) in 2011.

We have seen Banque Louis financial statements which indicate that it lost substantially all of the CHF30m of recorded share capital in just under three years of trading. We have however recently written to FINMA asking for clarification on how much they knew about the sources of Banque Louis capital.

In particular, we are concerned about a transaction involving LGSPI which borrowed £7.9m from a local IOM bank in June 2009, transferred it to Banque Louis in Switzerland for two weeks, received the money back again and repaid the loan (at an interest cost of c£80k – ultimately a cost borne by investors). Was that money represented as share capital? We don’t yet know.

We are also concerned about the above noted Platinum transaction involving CHF3.15m of money sourced from a property structure and paid to Banque Louis. Platinum recorded a loan to LAM (as it was before it became Banque Louis) then changed its accounts. Was this money treated as share capital at LAM? Again we don't yet know.

We are concerned about the involvement of BLH, an Isle of Man company now struck off, but which had exposure to around 50 private investors who subscribed around CHF14m of capital towards Banque Louis. Did the Swiss authorities know that BLH was in fact an unregulated syndicate of private investors? Or did they think it was AL's money?

Finally we are concerned about the amount borrowed by AL from Sunrock, seemingly for Banque Louis capital, interest on which was serviced by money taken from LGSPI. Following our appointment, Sunrock has registered charges against LGUK (an asset of LGIE) to secure its debts. Did FINMA know that AL had borrowed this money to fund his shares?

Taken together, it is apparent to us that all or substantially all of the CHF30m capital in Banque Louis was either transferred from or borrowed from third parties through unregulated entities here in the Isle of Man. Should this have been picked up as part of the bank licensing process? Had there been some sharing of information between the Isle of Man and the Swiss, would there have been a different outcome?

The South African regulator regulates part of the group in South Africa where we believe some sort of investment business licence is held. Again we have had very little involvement with the South African regulator. LGIE, the owner of 40% of LGSA, and guarantor of LGSPI's £25m+ of debts to LGSC pledged its LGSA shares as collateral for the LGSPI debts.

In addition, another of AL's trusts which owns a further 25% of LGSA also pledged its LGSA shares in LGSC's favour. It is not clear how much the South African authorities knew about this and whether they may have acted differently, had they appreciated that the majority of their licence holder was pledged in favour of investors in the Isle of Man.

Overall, it is apparent that no single regulator had overall visibility. Given the nature and scale of the above noted dealings between the jurisdictions it is conceivable that had there been one over-arching regulatory view then that may have caused authorities to act differently and sooner.

In terms of financial institutions, we have found that the Louis Group had dealings with at least ten different banks in at least five different countries. It is very unlikely that these financial institutions shared any information between them regarding their respective Louis Group dealings and as a result, no single financial institution had overall visibility. In particular, the overall debt exposure and the extent of cross guarantees would not be known or readily discernable.

However, having said that, we note that it is a regulatory and legal requirement for these institutions to know the source of the funds for their clients. In that regard we believe that the institutions, in particular those dealing with the BVI Companies could, and arguably should have done better than they apparently did at knowing their customer and the source of funds. It is conceivable that had the full extent of external investor sourced finance been identified sooner, then some losses could have been prevented.

Finally in terms of auditors, we have found that there were several different firms involved overall, and that no single firm had complete visibility over the group. There was one firm for LGSF, LGSLN and LGSC, a second firm for Banque Louis and LGIOM, a third firm for South African operations, a fourth firm for LGUK and various other audit firms for property structures. As reported earlier, the BVI Companies were never audited at all. The fact that there was no one audit firm with an over-arching view of the group and that pivotal parts of the group were not audited at all, has probably also been a contributory factor.

Conclusions

Return of money

The involvement of the BVI Companies in the inward flow of money has tainted almost every structure and it is the implications of that taint which we must now deal with as we work to return the assets that we have managed to realise to investors and creditors.

The scale of the problem is vast, and we hope that the examples given above afford the reader a greater level of understanding of the circumstances as well as the unique complexities of this case.

Accountability

We have recently completed a report on director conduct, pursuant to our responsibilities under applicable legislation.

As this report is now with the FSC, it is not appropriate for us to comment in any further detail at this time.

4. CREDITORS UPDATE

The following is a summary of the current claims position for the Six Companies that we were initially appointed over by the Court:

Company	Number of claims received	Value of claims submitted (£)
LGSPI	133	82,742,131
LGIOM	175	57,568,761
LGIE	11	39,142,125
LGSLN	97	11,722,909
LGSC	12	29,330,323
LGSF	37	10,556,418
TOTAL	465	231,062,667

Since our last report we have seen a significant increase in the number and value of claims against LGIOM and LGSPI in particular, mainly due to additional “secondary” claims.

Typically these claims are related to:

- alleged mis-selling / bad advice regarding Louis Group investments;
- guarantee claims, mainly against LGSPI, for losses on certain investments into other companies which LGSPI had seemingly guaranteed either explicitly or by implication / representation;
- losses due to alleged breach of fiduciary duty, mainly against LGIOM.

In a significant number of cases, the claimants have made claims against one or more other Louis Group entities for the same or similar amounts. The vast majority of these claims have not yet been adjudicated upon however we have a duty to do so.

Unfortunately, there is little money left to pay for this work in these Six Companies, in particular LGSPI and LGIE which have no money whatsoever.

CREDITORS OF OTHER COMPANIES NOW IN LIQUIDATION

A number of other Louis Group companies are now in liquidation and the following table is a summary of the current claims position for them:

Company	Number of claims received	Value of claims submitted (£)
Aquamarine Properties Limited (in liquidation)	37	1,320,853
Kingarth Limited (in liquidation)	5	76,884
Kings 2 Limited (in liquidation)	6	111,840
LG Properties Angelica Limited (in liquidation)	5	1,644,141
LG Properties Cynara Limited (in liquidation)	7	1,818,561
LG Properties Lichen Limited (in liquidation)	13	4,784,073
LG Properties Monarda Limited (in liquidation)	8	2,154,230
LG Properties Saffron Limited (in liquidation)	12	3,179,719
LG Properties Sage Limited (in liquidation)	5	941,884
LGI Properties Amethyst Limited (in liquidation)	8	1,549,154
LGI Properties Diamond Limited (in liquidation)	7	2,474,976
LGI Properties Emerald Limited (in liquidation)	8	1,958,203
LGI Properties Platinum Limited (in liquidation)	11	15,263,908
LGI Properties Ruby Limited (in liquidation)	14	4,594,984
LGI Properties Sapphire Limited (in liquidation)	7	2,315,411
LGI Properties Topaz Limited (in liquidation)	7	2,195,637
Louis Group Capital (IOM) Limited (in liquidation)	3	286,824
Louis Group Investments Yellow Ltd (in liquidation)	63	4,961,108
Louis Group Properties Blue Limited (in liquidation)	7	3,150,465
Mayworth Properties Limited (in liquidation)	45	1,557,930
Meikle Limited (in liquidation)	5	107,002
Platinum Star Estates Limited (in liquidation)	34	1,435,776
Silver Star Estates (PCC) Limited (in liquidation)	10	8,105,314
Spring Grove Limited (in liquidation)	34	1,801,660
Total	361	67,790,537

There are a variety of different types of claims, some are from investors, some are from other Louis Group companies, some are from financial institutions and some from trade creditors.

We set out more details in Appendix 5 regarding these various liquidations. In particular, we highlight the individual issues which have been encountered and / or which remain to be dealt with.

In the majority of cases, the work to determine the validity of claims for adjudication has not yet started.

We anticipate that it will be a very complicated process due to the problems identified earlier in this report however it is one that we must nonetheless carry out.

5. FINANCIAL REPORT

We have prepared a series of appendices which set out our current best estimate of the financial position of the Six Companies as follows:

Company	Appendix reference
LGIOM	7
LGSC	8
LGSF	9
LGIE	10
LGSLN	11
LGSPI	12

These appendices provide an updated position to that which we previously reported and reflect our current view using financial information up to 31 May 2014.

In addition, we have provided a more detailed account of receipts and disbursements in LGIOM, covering the period since our appointment through to 31 May 2014.

This account is in Appendix 3 and shows that we have broadly balanced receipts and disbursements so far.

The majority of receipts represent time charges and commissions for work that we have completed / overseen in the property realisation process and the majority of expenses represent the costs of our time as well as the salaries and running costs of the LGIOM operation.

An update for every property syndicate operated by Louis Group in the Isle of Man is set out in Appendix 4.

The financial situation of the other companies where we have been appointed as liquidators is outlined in Appendix 5.

As part of our work on those companies, final accounts will be provided at the conclusion of the liquidation processes.

Our fees are approved by the Court and more details are contained in the schedules in Appendix 6.

6. PROPERTY STRUCTURES UPDATE

6.1. Property sales

We have overseen further substantial sales of property belonging to client companies of LGIOM during the year working with experienced property agents in the Isle of Man, the UK and Germany.

In summary, we have realised over £42m from the sale of over 40 properties since the start of our work and the following deals have been completed since our last report:

Company	Property	Sales price	Date
LG Properties (Monarda) Limited (in liquidation)	Retail in Weingarten, Germany	€5.8m	June 2013
LGI Properties Ruby Limited (in liquidation)	Retail in Uberlingen, Germany Retail in Riedlingen, Germany	€3.5m	Oct 2013
LGI Properties Sage Limited (in liquidation)	Land at Einbeck, Germany	€0.6m	Dec 2013
Mayworth Limited (in liquidation)	1 flat in London, England 1 flat in Leamington Spa, England	£0.7m	May 2014
LG Properties Agate Limited	11 apartments in Bonn, Germany	€2.4m	Jan-May 2014
Henis Limited	Industrial Property in Stockton, England	£3.5m	Mar 2013
LG Properties Platinum Limited (in liquidation)	Land in Guibiasco, Switzerland	CHF1.4m	May 2014
LG Properties Lichen Limited (in liquidation)	Retail in Chemnitz, Germany	€1.4m	June 2014
LG Properties Cynara Limited (in liquidation)	Retail in Furstenburg, Germany	€1.0m	June 2014
Lysis Limited	Retail in Mansfield, England	£0.5m	July 2014*
LGI Properties Angelica Limited (in liquidation)	Retail in Jestetton, Germany	€1.3m	Jan 2014

* Sale agreed

In terms of net financial outcome, the entire sales prices (less selling costs) of the properties at Weingarten, Jestetton, Chemnitz and Furstenburg were paid to the banks from each of those sales. There was, as a result, no net recovery for investors.

In the case of all the other transactions, positive net sales proceeds were recovered after full repayment of any secured creditors and these net proceeds are now held in bank accounts for the benefit of the companies and their unsecured creditors / investors.

Further details on a structure by structure basis are contained in Appendix 5.

6.2. Commentary

During the sales process, we had to deal with a number of difficulties arising from poor / absent documentation and due to shortcomings in property management.

In particular we found that accounts for service charges for every building were many years in arrears (e.g. in the case of Henis, no service charge reconciliation with the tenants had ever occurred since the building was acquired in 2003). In that case, we were able to reconstruct the accounts and reach agreement with the tenants, however, arrears was a particular problem for the German properties where the leases mandated that service charges be reconciled every year within six months of the year end.

As a result of these lease terms, service charge dues from German tenants up to 2012 could not be recovered, leaving the companies themselves with the cost, around €200,000.

We also found with certain German properties that for many years prior to our involvement, the tenants had taken matters into their own hands to organise repairs that the landlords were not attending to. This meant that some tenants were routinely deducting the costs of these repairs from rents and that in many cases, a further 10% of rent was being deducted as well to compensate the tenants for their time and effort.

Such deductions are, we are advised, permissible under German law when landlords neglect their responsibilities. The amounts deducted are around €100,000 and we consider it unlikely that this will ever be recovered for investors / unsecured creditors. These deductions also complicated the process of finalising VAT and tax affairs for these companies as much of the paperwork for the deductions was missing.

We found that there were numerous long running disputes with certain tenants which ultimately had an adverse effect on the sales process and the prices achieved. The property in Jestetton, for example, had a flat roof, which was overgrown with weeds and causing standing water to leak into the store. The cost of repair, almost €70k, was deducted by the buyer. In Furstenberg, there was a baker who for five years was occupying part of the store which had been let to the head tenant. The baker never paid any rent and the head tenant had deducted the portion of the rent pertaining to the baker's part of the store. Eventually, after pressure from ourselves, our lawyers and the head tenant, the baker moved out in April 2014, the head tenant started to pay the full rent and the store could be sold. However, the baker would not pay anything (we estimate he owed over €60k in rent alone) and now we must decide whether and how to pursue that debt.

We also encountered difficulties due to missing documents, in particular certain key documents which buyers demanded to see as part of the sales process. Documents such as building plans, warranty documents and in some cases original leases were not in the files in the Isle of Man. The documents may well have existed / still exist in the files of LGUK, in particular for the German properties, but despite requests, we were not provided with them. This has been inconvenient and has added to costs, however ultimately we have been able to achieve sales.

There are two remaining properties to be sold in Germany, both are under offer and expected to complete in the near future. Unfortunately, neither of these properties is expected to realise a price above the level of bank debt.

Finally, as regards the tax situation in Germany, we found that none of the twelve companies registered for German tax had filed a return since 2009. We spoke to the tax adviser who had acted in the past and he explained that he withdrew service to the whole of Louis Group's German property portfolio due to non-payment of fees related to the Schloss / Persian where his unpaid bills were into the tens of thousands of Euros.

This put the companies in a non-compliant situation with the German authorities and was a complication in the sales process.

We persuaded him to re-engage and working with LGIOM staff to bring financial accounts up to date, we have filed the returns necessary to regularise the situation.

6.3. Observations

Having now overseen the sale of the vast majority of the properties owned by the structures which were established by the Louis Group in the Isle of Man, we make the following observations:

- The structures were typically very highly leveraged with banks and every one where there was bank borrowing (with the exception of Agate) was in breach of loan conditions when we were appointed leading to significant pressure from the banks to sell the properties;
- Missing documentation and long running disputes with certain tenants delayed and complicated the sales process;
- Past neglectful management, particularly concerning timely service charge reconciliations attending to repairs has been very costly for the structures concerned;
- Tax affairs were generally years behind and much work has been needed to regularise the situation before properties could be sold.

7. PLANS AND STRATEGY

In this section we set out our plans and strategy for the next phase of our work. We are focused on two main themes, firstly dealing with claims adjudication and secondly taking such further action as may be necessary or desirable to increase the assets available for distribution.

7.1. Unique problems of the Louis Group

Understandably, “When will I get my money back?” is the most frequently asked question by investors.

Unfortunately in this case, there is no easy answer to that, and indeed for some investors, there is little or no hope of any recovery of their money at all. However, there are assets in certain companies and the work to determine who is due what must now be completed. That work has to be done in the context of the problems and unique set of circumstances that we have explained earlier in this report.

7.2. Analysis of common interest

Regardless of how investors became involved, whether that was through LGSF, LGSLN or the property syndicates, we believe that their common interests are:

- They were all attracted by promises of low risk, property backed investment supported by the reputation of the Louis Family;
- With a few exceptions, their money to a greater or lesser degree has been mixed together through RST, LGSPI and LGIE creating uncertainty and a taint which has possible wide ranging ramifications not only for the investors/creditors’ claims but also for the claims adjudication process;
- Until now, few, if any, investors / creditors appreciate the degree of divergence from PPM representations that has occurred yet they are all now affected by it;
- The companies that the majority of remaining investors/creditors have exposure to are, at present, entirely reliant upon the successful pursuit of claims against other companies before they will have cash assets to pay to their investors / creditors. However they don’t have the money to pay even the basic costs necessary to keep them in good standing let alone the complicated work of claim(s) recovery;
- The entities with remaining assets are generally not the entities that have the exposure to investors and there are typically significant competing/overlapping claims to their assets due to the mixing of money as well as the cross guarantees and circular money flows that have occurred. The adjudication of the claims against these entities will require financial record reconstruction due to shortcomings in existing records, a costly and drawn out process.

7.3. Compromise

Given this degree of common interest across the investor / creditor population and before we embark on the claims adjudication process, we think that it is in all investors / creditors interests to consider the possibilities of compromise.

Such a compromise could work best, in our view, if a new vehicle were to be formed free from any taint due to its past activities into which the asset laden companies would transfer their assets. i.e. the creation of an asset pool.

Making that happen would involve claimants agreeing to swap the uncertainty of whatever claims they might have against the entities which would be pooling their assets for the certainty of participation interests in the new vehicle.

We appreciate that this would need to be carried out subject to certain criteria and a methodology, and to help demonstrate our thinking, we have prepared three diagrams which we attach in Appendix 15.

The first diagram depicts the current situation and shows how there are intermediate companies notably LGSPI, LGIE and LGSC between the investor facing companies and the asset holding companies as well as duplicate and circular claims. There will be a lot of work, time and cost involved in dealing with the unravelling of this situation.

The second diagram depicts what we consider might be achieved as the first phase of a compromise. In particular if the various cross claims, guarantee claims and duplicative claims can be in effect cancelled out through compromise. This would leave a much simplified and straight forward route for the return of assets as the LGSF, the InvestCos and certain other third party creditors would become directly interested in the new entity.

The third diagram depicts a possible eventual outcome involving external investors swapping their claims against InvestCos and / or LGSF for direct participation in the new entity. We appreciate that this outcome would require individual investor / creditor agreement.

Presently we are focused on the first phase which we believe might be achievable in the relatively short term. We control all of the investor facing structures (the LGSF and the InvestCos on the diagram) which we have identified as being possibly eligible to participate in the new entity due to the amount and nature of exposure that they have to LGIE and LGSPI. We have that control through our various positions as liquidators, through our control of LGIOM, the corporate director of the InvestCo structures and through our control of LGSPI, the voting shareholder in the InvestCo structures.

If we were to conclude that the commercial best interests of these structures were best served by a compromise involving participation in the new entity, then currently we have sufficient executive power and voting power to bind them to it.

However, we appreciate that such an approach would leave open the possibility of the compromise being set aside in the future if sufficient numbers of creditors / investors successfully challenged it. Our duty is not to further worsen LGIOM's position by causing it to take decisions on behalf of client structures only to create new possible grounds for claims against it.

It may be that such risk can be mitigated by an application to the Court, however there would be a cost to that application and it would take time. Notwithstanding this concern, we think that compromise should be explored and we hope that investors and creditors will better understand why we think that once they have read our findings in this report as well as our thoughts later in this section.

We have decided to write to all affected in the near future, setting out in as much detail as we can proposals for a compromise for their particular company and we will ask for views. We will then take these views into account in deciding whether a compromise might go ahead.

7.4. Possible criteria for eligibility for participation in any new vehicle

In order to explain what might be involved, we wish to share some of our thinking on eligibility.

We think it right that all investors / creditors / entities who have been affected by an exposure to LGSPI and or LGIE and / or LGSC, whether wittingly or unwittingly, should be eligible to participate and benefit. Herein we call this group Participants.

These Participants have all brought claims against various entities and this is reflected in the overall claims position earlier in this report.

Conversely, those investors / creditors whose money ended up broadly where it was intended should we believe, be subject to the eventual outcome of the structure that they are exposed to and should not be eligible to participate, and the assets of those structures should not be pooled.

Third party (i.e. non-investor) creditors could be Participants or they could be subject to separate arrangements taking account of their commercial situation.

Investors / creditors who have possible multiple claims for the same investment due to cross guarantees and the circularity of much of the money flows in the group – e.g. LGSLN noteholders who have made claims against both LGSLN and LGSPI (under guarantee) should, in our view be eligible to participate only once.

They would be asked to release all but one of their claims in return for the greater certainty afforded by the new entity.

Unfortunately, those investors in structures not currently under our control are outside of the scope of our work and any compromise would not apply to them.

7.5. Amount

As a broad principle we think it will be possible, based on work we have done to date, to agree the amount of any investor participation based on aggregate money paid in less money received as evidenced from bank statements. We acknowledge that this approach may, in some cases, produce a result which is materially different from the balances in accounting records and / or on proofs of debt. However, given the aforementioned short comings in accounting records and deficiencies in documentation, we think that this net cash basis is arguably the fairest and most supportable option in the circumstances.

Where there is a material doubt or disagreement about the amount then we accept that there is a risk that any proposed compromise might fail and in that case, we would in all likelihood have to revert to a more traditional approach.

7.6. LGSPI – PICS and LGSLN investors

There are twenty two people who have claimed against LGSPI pursuant to PICS instruments. Their total claims amount to around £2.5m. We have established that LGSPI presently holds shares in LGSF with an initial cost of around £2.5m. We don't think this is a coincidence. Rather, we think that this is as a result of the circular flows of money which we identified in previous reports whereby LGSPI would invest in LGSF, which would lend to LGSC and the money would end up back in LGSPI.

The "CS" in PICS stands for Cession of Securities. It appears to have been the intent behind these instruments that the money from the PICS noteholder would be used by LGSPI to buy shares in the LGSF and that the LGSF shares would be "ceded" to the PICS noteholder in the event of LGSPI default. Some PICS investors have said to us that they were told PICS was a safer form of investing in the LGSF because of the involvement of LGSPI.

Similar views have been expressed by LGSLN noteholders whose LGSLN investment was guaranteed by LGSPI. Around ninety of them have brought claims totalling over £10m against LGSPI under the terms of its guarantee.

LGSPI has committed a default by being in liquidation but as it has no money, we have yet to carry out the work necessary to determine whether the PICS instruments actually create a legally enforceable right to a cession of LGSF shares and / or whether upon any such cession the obligations of LGSPI to the PICS holder are extinguished.

However, we think that, PICS holders probably have two valid claims for their investments, one for the cession of LGSPI's LGSF shares and one unsecured claim against LGSPI for any shortfall due to losses on the LGSF shares.

Likewise on balance, we think that LGSLN noteholders have two valid claims, one against LGSLN and one against LGSPI. Both these claims are unsecured and in turn LGSPI has unsecured claims for around £600k against LGSLN because it repaid some LGSLN noteholders directly and effectively stood in their shoes.

At the moment this is all somewhat academic given LGSLN's, LGSPI's and LGSF's financial situations.

However, if as part of wider compromise, the PICS holders were to compromise their claims against LGSPI in return for an assignment of LGSPI's LGSF shares, then they would become Participants in the new entity through their resultant holding of LGSF shares and a part of the duplicative claim problem would be resolved.

Likewise, if as part of a wider compromise, LGSLN noteholders were to compromise their claims against LGSPI for a release by LGSPI of its claims against LGSLN, then more duplicative claim problems would be solved and the LGSLN noteholders prospects of getting a better return through LGSLN's shares in LGSF would, in our view, improve.

There would also be a small benefit for them from the reduction in the overall amount of claims against LGSLN assets.

We see merit in both approaches and will be engaging with both the PICS noteholders and the LGSLN claimants against LGSPI to see what they think.

7.7. Others

If/when these compromise proposals are firmed up, it may be necessary to develop a solution for any other potential claimants who don't fit into the categories above. If that is necessary and justifiable commercially, then bearing in mind the general principles which we described above we would try to reach an agreement with them.

7.8. Timetable

We don't wish to delay the adjudication of claims for much longer, however we believe that compromise should be explored first based on the claims position as it presently stands. We will therefore turn our focus to the details of the possible options and anticipate being in a position to send documents in Q3 of 2014. If a compromise is not possible, we will start adjudication of proofs in Q4 of 2014.

7.9. Financial projection for new entity

We have undertaken some preliminary financial analysis on the possible outcome in a new pooled entity using the above noted broad principles. Assuming a wide ranging agreement can be reached with those that we consider might be eligible to participate, we estimate a possible outcome as follows:

Total value of tangible assets identified as being transferred into new entity (net of costs and repayment to FSC)	c£6.5m
Total value of possible claims held by Participants meeting the above eligibility criteria	£40m to £50m
Total estimated value of each new entity share (assuming £1 share for every £1 of claim)	c£0.13 to c£0.16

7.10. What if the compromise is agreed and the new entity comes into existence?

If a compromise is agreed, then the first thing that we propose is to write to Participants with proposals for a distribution of capital.

At the same time, we would also provide commentary on the possibilities for pursuing claims against third parties on a collective basis and make recommendations as to what steps might be taken as well as the likely reserves that would be required.

However, whilst there are undoubtedly claims that might be brought for the benefit of all concerned, we appreciate that many investors / creditors simply wish to draw a line under this matter and move on.

We will therefore aim to ensure that as many views as possible are taken into account and will aim for majority consensus on key decisions.

7.11. What if a compromise is not agreed?

We have a duty to adjudicate on proofs of debt and to that end we will take whatever steps we consider to be necessary to enable us to do that as soon as it becomes clear to us that a compromise cannot be achieved in a relatively short timescale.

However, we must highlight the likely implications of the deteriorating financial position of LGIOM which continues to provide regulated services including acting as registered agent for the majority of remaining Louis Group companies including the InvestCos, as well as providing director services for them.

We cannot continue to run LGIOM indefinitely. We have a duty to wind up its affairs and in light of its financial situation, we face some difficult decisions as regards continued operations.

As demonstrated in our financial report, since our involvement started, LGIOM running costs and liquidation fees have been financed by a combination of revenues generated and a liquidity advance from the FSC. The revenues have come from a combination of client work that has been done under our oversight and from commissions payable to LGIOM under contract for property sales that we have completed.

In the vast majority of cases, work has only been done by LGIOM for those client companies who had the means to pay. However, we also decided that until the situation became clearer, LGIOM should continue to act as registered agent for a significant number of companies, mainly InvestCos, which had no financial means to pay but which might have some prospect of asset recovery as a result of our property realisation work. Most of these companies owe LGIOM tens of thousands of pounds in fees for work done before our appointment they are all insolvent on a balance sheet basis.

As we near the end of the property realisation process so the revenues for LGIOM are reducing and in short, LGIOM can no longer afford to provide services at present levels and bear the costs of the liquidation.

Having assessed all options, unless some sort of compromise can be achieved to speed up the distribution process and get money moving between the companies, there is a real possibility that LGIOM will have to stop acting as registered agent and/or director for a large number of structures given that they are unable to pay for any services. The affected companies will, absent from fresh capital from investors and creditors to pay costs, go into freefall and it is against this background that decisions about a compromise must be taken.

Investors and creditors should also appreciate that any reduction / closure of LGIOM operations would also affect the liquidation process for those companies which are now in liquidation because these companies currently rely on LGIOM for registered agent, administrative support services and accounting which is done at substantially reduced rates by LGIOM staff, on LGIOM accounting systems.

If an alternative has to be found, costs will certainly rise, there will be a delay whilst new arrangements are put in place and ultimately the amounts available for distribution will fall.

Finally, if our focus becomes formal claims adjudication, including necessary record reconstruction and dealing with uncertainty possibly through the Court, then the financial reality of the situation will mean that the prospects of successful pursuit of claims for collective benefit as well as the possibilities for bringing to account those responsible for this are both substantially diminished.

Appendix 1 – Schedule of defined terms

Term	Definition
3 Aldi1 InvestCos	G1,G2 and G3
6 Aldi1 PropCos	LGI Properties Diamond, Emerald, Sapphire, Ruby, Topaz and Amethyst Limited (all in liquidation)
Agate	LGI Properties Agate Limited
Amethyst	LGI Properties Amethyst Limited (in liquidation)
AL	Alan Louis
Aldi 1	the Aldi syndicate comprising G1, G2, G3 and the 6 Aldi 1 PropCos
ALFT	Alan Louis Family Trust
Aquamarine	Aquamarine Properties Limited (in liquidation)
Banque Louis	Banque Louis SA, formerly "LAM"
Barclays	BBPlc or BBCIL
BBplc	Barclays Bank plc
BLH	BL Holdings Limited
Bloom	LG Investments Bloom Limited
Blue Star	Blue Star Properties Limited
BPCIL	Barclays Private Clients International Limited
BVI Companies	LGSPi, LGIE and LGE
Colliers	Colliers International Property Consultants Limited
Chelone	LG Properties Chelone Limited
Eucharis	LG Properties Eucharis Limited
FSC	Isle of Man Financial Supervision Commission
G1	LGI Property Holdings (Germany) Limited
G2	LGI Property Holdings (Germany) 2 Limited
G3	LGI Property Holdings (Germany) 3 Limited
Ginger	LG Properties Ginger Limited
HC	Hannes Cloete
Henis	Henis Inc
InvestCo(s)	Investment companies, whose shares are held by investors
Investments Lotus	LG Investments Lotus Limited
JMc	John McCauley
Kienda	Kienda Properties Limited
LAM	LAM SA
Lavender	LG Investments Lavender Limited
LFF	the Louis Family Foundation ("LFF"), formerly the Alan Louis Family Trust ("ALFT")
LGE	Louis Group Enterprises Limited
LGIE	Louis Group International (Europe) Limited (in liquidation) ("LGIE")
LGIH	Louis Group International Holdings Limited, former name of "LGSPi"
LGIOM	Louis Group (IOM) Limited (in liquidation)
LGSA	Louis Group SA (PTY) Limited, a company incorporated in the Republic of South Africa.
LGSC	Louis Group Structured Capital Limited (in liquidation)
LGSF	Louis Group Structured Fund plc (in liquidation)
LGSLN	Louis Group SLN Limited (in liquidation)
LGSPi	LG SP Investments Limited (in liquidation), formerly Louis Group Investment Holdings Limited ("LGIH")
LGUK	LG PB Properties Limited, formerly Louis Group (UK) Limited ("LGUK")
Louis Group or Group	A generic term meaning all companies serviced from the Isle of Man. May also refer to wider, connected companies which are or were previously under the control of the Louis family.
Lysis	Lysis Properties (PCC) Inc
Mayworth	Mayworth Properties Limited (in liquidation)
New Pool Company	Proposed entity which will receive assets and issue shares to Pool Participants
Peony	LG Investments Peony Limited
Persian	LG Properties Persian Limited
PICS	Property Investment and Cessation Agreements
Pink	Louis Group Investco Pink Limited
Pink 2	Louis Group Investco Pink 2 Limited
Pink InvestCos	Pink and Pink 2

Appendix 1 – Schedule of defined terms

Term	Definition
Pink PropCos	Louis Group Properties Blue Limited, Louis Group Properties Pink Limited, Louis Group Properties GR11 Limited, Louis Group Properties GR12 Limited, Louis Group Properties RSG Limited
Platinum	LGI Properties Platinum Limited (in liquidation)
Platinum Star	Platinum Star Limited (in liquidation)
Pool Participants	Entities or individuals eligible to participate in shares in the New Pool Entity
Participants	Entities or individuals eligible to participate in shares in the New Pool Entity
PPM	Private Placement Memorandum, (or equivalent promotional material)
Privet	LG Investments Privet Limited
PropCo(s)	Property holding companies, whose shares are held by an InvestCo
Properties Lotus	LG Properties Lotus Limited
Reed	LG Investments Reed Limited
Ruby	LGI Properties Ruby Limited (in liquidation)
RST	Royal Securities Trust
Scilla	LG Properties Scilla Limited
Spring Grove	Spring Grove Limited (in liquidation)
SSE	Silver Star Estates (PCC) Limited (in liquidation)
Sunrock	Sunrock Limited
the 'Six Companies'	LGIOM, LGSF, LGSC, LGSLN, LGSPI and LGIE collectively
Topaz	Topaz Properties Limited
Viola	LG Properties Viola Limited (in liquidation)
Yellow	Louis Group Investments Yellow Limited (in liquidation)
Zircon	Zircon Properties Limited



Mr Alan Louis
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3 December 2013

Reference: LO005/GW/lh

Dear Alan

As you are aware, we have been investigating the affairs of numerous Louis Group companies in the Isle of Man pursuant to our appointments as liquidator by Order of the Isle of Man High Court in January this year. This letter sets out certain conclusions we have drawn in respect of your position as a debtor of some of the Louis Group companies from our investigations to date. This letter will be included as the first appendix in our next report to the Isle of Man High Court and will be made available to all shareholders and creditors of the companies over which we are appointed.

We will also send a copy of these letters to your brother Michael, whom I spoke to briefly in the summer and who, on behalf of your wider family, has requested he be kept informed of our progress in these matters so that he may consider the effect our findings may have on the family reputation and in particular what response, if any, the family might make.

This letter concerns your personal indebtedness to Louis Group International (Europe) Limited (in liquidation) ("LGIE") and LG SP Investments Limited (in liquidation) ("LGSPI") which was formerly called Louis Group International Holdings Limited. However our investigations into your debts give rise to some fundamental questions regarding your conduct as director and controller of these and other companies and we touch on these questions later in this letter.

Director loans

We have previously reported our findings, as inspectors and latterly as liquidators, on the financial affairs of LGSPI in quite some detail. Upon being provided with our findings as Inspectors, you contested these with the report which your Isle of Man lawyers, Simcocks, commissioned from the accounting firm Mazars and which has been widely circulated by you amongst Louis Group investors and others.

The Mazars report references some of the payments you have received from LGSPI and classes these as 'director loans'. Whilst we accept in principle that loans made by companies to their directors can be legitimately made and are not uncommon, it is a generally accepted principle that director loans should only ever be made if to do so is in the best interests of the company making them.

Further, it is also generally accepted that director loans should only be authorised by the other remaining directors of the lending company, with the recipient director having disclosed his or her

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Members: I G Clague, K M Cowley, P C Craig, A D Dunn, N M Halsall, N J Shepstone, M Simpson.





personal interest in each case. Finally, director loans must necessarily be scrutinised closely where, as is the case with LGSPI and LGIE, the lender company goes into insolvent liquidation.

Payments to you

From our investigations to date, we have concluded that the amounts you have received from the companies which Mazars describe as ‘director loans’ and which have been recorded as loans in the financial records:

- have not been formally considered and approved, nor are there any loan agreements;
- have been made without due regard to the financial circumstances of the lending company or the consequences on their future financial situation;
- have been accounted for as assets without any apparent regard for your ability to repay the amounts recorded as being due; and
- have not been accounted for either as business expenses or dividends nor do we consider them to be such.

On most occasions, we have seen an email instruction from you to the person in control of the bank accounts ordering a payment of cash for your benefit. Some of these payments are into the hundreds of thousands of pounds and have been paid to your personal accounts at various financial institutions, as well as being used to pay your personal mortgage payments, to service other personal debts of yours and to pay your personal expenses.

The sole support for the payments comprises journal entries, bank statements and email correspondence.

We consider any argument that interest free loans to you from these companies over the past years as being in their best commercial interests is entirely without merit.

Accounting for these debts and involvement of the Alan Louis Family Trust

The accounting records of LGSPI and LGIE record the payments to you as debts in a number of different accounts. In addition, the accounts contain numerous other journal entries which we try to explain in more detail in the attached letter which contribute to the overall balance due of just over £8.3m.

Some of these accounts reference the Alan Louis Family Trust (“ALFT”) which we believe changed its name to the Louis Family Foundation (“LFF”) around late 2010, as being the borrower. Other accounts reference yourself and some make reference to yourself as well as BL Holdings Limited (“BLH”).

We think it both reasonable and appropriate to deem all of these accounts as being due from you personally. We think this because:

- emails and other documents provide ample evidence of your absolute control over the affairs of these companies;
- payments to the ALFT/LFF are quickly onward paid to one of your personal bank accounts;

- you are the settlor, trustee, appointor and beneficiary of the ALFT/LFF, leading us to question the validity of the structure; and
- even if it is a valid structure, as you are a trustee, we are advised that as a matter of Isle of Man law you are liable for any of its debts.

In light of this, we specifically ask you to acknowledge your personal liability (as opposed to trying to make any argument that the amounts are due from ALFT/LFF/BLH) and to acknowledge that you yourself are responsible for making repayment.

Invitation to make repayment

We first wrote to you about your loans from LGIE and LGSPI in November 2012. You responded a few days later through the law firm Astwood Law. Astwoods explained to us that you claimed not to owe these companies anything. Astwoods also stated that a “full response” would be given in due course, but despite a follow up request by us in March this year, we have heard nothing more from Astwoods except a brief letter stating “Dr Louis denies that he is indebted to you [LGSPI and LGIE] in any amount”.

Given that these outstanding loans amount collectively to over £8.3m, and are among the largest remaining recorded assets of both LGSPI and LGIE, we have continued with our investigations. In the letter attached, we set out in detail the facts that we have discovered.

In the interest of fairness, and subject to legal advice, we propose to enclose any substantive reply from you as an appendix to our next report.

Given your previous denial of debts due to the relevant Louis Group companies and the lack of any loan related paperwork, we have had to spend considerable time and resources in investigating these payments and journal entries. At this stage, to save further time and costs in having to pursue you for the repayment of these amounts, we would invite you to admit these debts and open discussions with us for timely settlement.

If you acknowledge the existence of the debt and you are unable to repay it, then we invite you to voluntarily submit yourself to personal bankruptcy in the Isle of Man and, as part of that process, to provide a full account of what you have done with the money from these director loans, so that we can begin recovery proceedings.

Implications of continued denial

You will see that the trial balances and accounting records enclosed with this letter are those which have been maintained by both LGSPI and LGIE per your instructions, as a director of LGSPI and LGIE. If in your response you continue to argue that you are not indebted to either LGIE or LGSPI, then:

- the accounting records of both companies which record your indebtedness as assets with a value of just over £8m are clearly incorrect and we would argue false;
- in the case of LGIE, the records have been incorrect/false since 2001, the point at which you first started to borrow money per the accounting records; and
- in the case of LGSPI, the accounting records have been incorrect/false since 2007 for the same reason.



We wish to make you aware that it is an offence in the Isle of Man to maintain false books and records and although both LGIE and LGSPI are registered in the British Virgin Islands, both companies are subject to the jurisdiction of the Isle of Man Courts by virtue of the liquidation proceedings presently underway.

Further, if you tell us that the aggregate £8.3m loan is not an asset and should have somehow been accounted for differently (e.g. written off as a bad debt, or being classified as the payment of an expense and therefore not repayable), then this will have a severe retrospective effect on the past financial position of the companies, and we believe would result in both LGIE and LGSPI having traded insolvently for a number of years.

That being the case, new debts incurred by these companies over that time, including:

- c£25m borrowed by LGSPI from Louis Group Structured Fund PLC (in liquidation) (“LGSF”) via Louis Group Structured Capital Limited (“LGSC”) (in liquidation);
- c£10m of PICS investments borrowed by LGSPI;
- various sums of money taken in by LGSPI from various property syndicates;
- guarantees given by LGSPI to Barclays of approximately £10m;
- guarantees given to the holders of Louis Group SLN loan notes of around £10m; and
- c£2m borrowed by LGIE from Messrs Furphy & Davidson in 2010,

will have been incurred during a period when these companies were insolvent, potentially amounting to fraudulent trading.

We look forward to hearing your substantive responses within four weeks from the date hereof.

Yours sincerely

Gordon Wilson
Joint Official Liquidator
Louis Group International (Europe) Limited (in liquidation)
LG SP Investments Limited (in liquidation)

CC: Michael Louis
Isle of Man Financial Supervision Commission



Mr Alan Louis
Louis Group (UK) Limited
Elizabeth House
15 Church Street
Stratford-upon-Avon
United Kingdom, CV37 6HB

3 December 2013

Reference: LO005/GW/cm

Dear Alan

As referred to in our letter of 3 December 2013, this letter sets out in more detail some of our findings concerning your personal indebtedness to LGSPI and LGIE and invites your comments/answers to questions herein.

1. Mazars report

We start this letter by referencing the Mazars report.

We are aware from various communications with investors, creditors and other interested parties that you have widely circulated the Mazars report and whilst we do not believe that it was intended to provide a comprehensive review of your personal indebtedness to LGIE and LGSPI, it does reference loans to you, and we understand you have referred to it as justification for your conduct.

In light of this, and because we have now been able to review in much more detail the hundreds of entries that make up your various loan balances to LGIE and LGSPI, we thought it appropriate to comment on certain of the Mazars findings.

The relevant section of the Mazars report is 5.6, which deals with payments from LGSPI to individuals including you, describing such payments as "Director Loans".

In addition, appendix 5.5 in the Mazars report, included here as appendix 1, makes reference to the "Loan Alan Louis GBP" and "Loan Alan Louis EUR" accounts.

We have confirmed and are satisfied that the transactions (both payments in and payments out) shown in appendix 5.5 of the Mazars report are all included within the ledger balances in the LGSPI accounting records that we refer to as "Louis loan A" in the undernoted table. However, there is a further payment to you of £300,000 on 6 April 2009 that is not recorded on the Mazars schedule and we ask you about that particular payment later.

In addition, the Mazars report does not reflect transactions which we describe herein as Louis loans B through F. These make up the vast majority of your recorded loan balance.

Finally, the Mazars report shows loan repayments by you totalling some £1,453,711.77. We have found that the majority (approximately £1.3m) of these repayments are amounts paid to LGSPI from the LGIOM client account with the reference BLH. We believe them to be amounts paid by some of the investors into BL Holdings Limited, your holding vehicle for Banque Louis, for the acquisition of BLH shares from you. We have spoken to some BLH investors and do not believe they knew their money

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would be credited as partial repayment of your loan to LGSPI. We also have reason to suspect that these investors were not made fully aware of the financial position of BLH at the time they bought these shares in BLH from you, particularly given that we now understand the sole asset of BLH, being shares in Banque Louis, are now effectively worthless. Given these issues, we consider this matter to require further investigation at this stage.

In the event that these “loan repayments” are found to be improper, then the amount claimed by us as being due from you will rise commensurately.

In summary, whilst Mazars identify a number of the payments to you, they have not identified all of the payments that you received nor have they identified any of the other journal entry transactions which make up your recorded debt. Further, the repayments that Mazars (and the LGSPI accounting ledgers) record as reducing your debt appear to us to be sourced from investor funds.

We therefore disagree with any assertion that the Mazars report supports the argument that you are not indebted to these companies.

2. Accounting for the debts

The most recent financial statements for LGSPI and LGIE are, we understand, those for the year ended 28 February 2010. We enclose copies of these as appendix 2.

We note that these financial statements were signed by John McCauley in his capacity as director of LGSPI and LGIE on 4 November 2011 and 26 October 2010 respectively and that the debts due by you are set out:

- For LGSPI, in note 5 on page 8 with the description “Louis Family Foundation” (herein “LFF”) and an amount of £2,142,283; and
- For LGIE, in note 6 on page 9 with a description “Alan Louis Family Trust” (herein “ALFT”) and an amount of £6,050,609.

Our investigations have found differences between the financial statements and the accounting records. Specifically, in the accounting records (see trial balances in Appendix 4) you are personally referred to as the borrower whereas in the financial statements the borrower is LFF/ALFT.

We believe that you presented the financial statements of LGIE to the Financial Supervision Commission (“FSC”) and it is therefore significant in our view that these financial statements reference ALFT as the borrower and in so doing mask your identity as the borrower.

We invite your comment on that specific point and reserve our position as to future action in that regard. However, as also noted in our other letter, given your position as trustee of LFF/ALFT, then regardless whether these are debts of yours in your personal capacity or debts of the structures, we consider these to be debts repayable by you personally.

Further, we noted that in the LGSPI financial statements, the total debt due of £2,142,283 by LFF (see page 5) is net of a loan of £700,000 payable by LGSPI to Barclays Private Clients International Limited, an obligation which is accounted for as “Alan Loan – Barclays” and which we understand from Barclays is guaranteed by you personally. Whilst that explains the majority of the difference between the LGSPI financial statement balance and the accounting record balance, netting off a payable to a bank against a receivable from a director is not in our view in accordance with generally accepted accounting standards and it masked the existence of bank debt owed by the company.

Since our appointment, Barclays have proved as a creditor of LGSPI in the liquidation and to date we have found no reason to dispute their claim given that the loan was drawn down in the name of the company, notwithstanding that it was accounted for as personal to yourself.

Why did the LGSPI financial statements mask a debt to Barclays by netting it off against a receivable from you? Did you consent to that netting off? Bank statements indicate that this £700,000 of loan proceeds was paid by LGSPI to Banque Louis. Did you agree to that transfer and given your position at Banque Louis, can you tell us what ultimately happened to the money?

3. Your awareness of the debts

Whilst we acknowledge that you were not a registered director of LGSPI or LGIE at the dates the 2010 financial statements were signed, you were a director at various points during the lives of both LGIE and LGSPI, and you were for the reasons noted above, at all material times the ultimate controlling mind behind their actions as far as we are concerned.

Specifically (and as evidenced in Appendix 3) with regards your knowledge of the financial statements we have seen email correspondence from you to Girish Agarwal, copying in Andrew Nardone and John McCauley dated 1 November 2011 whereby you state:

"I am coming to the IOM on Thursday, when I wish to finalise the LGIH [LGSPI] & LGIE accounts for Feb 2010 please. I wish to give a copy to the FSC."

Further, it is evident that you were familiar and involved throughout the process of their preparation. For example the following is an extract from an email sent by your accountant Andrew Nardone on 21 October 2010 stating:

"Alan has instructed that £1m be credited to his loan account and debited to Loan – LGIE GBP".

We further noted the instruction given by Mr Nardone, in relation to the LGSPI financial statements as per his email of 3 November 2011 that –

"Loan account Alan Louis should be Loan account "Louis Family Fondation"."

We noted your email to LGIE's sole director John McCauley on 26 October 2010 and in relation to the signing of the LGIE financial statements that day –

"We have finally resolved LGIE accounts. Can you please print page 5, sign and date it, and then pdf back to me urgently."

You became a director of both LGSPI and LGIE in November 2011 (within 7 days of the financial statements of LGSPI being signed off) and served as a director of both from November 2011 through to our appointment in October 2012. Had there been any errors in the financial statements or the books of account, you had sufficient opportunity to discover and correct them within this time. As a result, we contend that any argument from you that you were not aware of the content of the financial records and/or the existence of the debts is not substantiated by the evidence available and in our view, bound to fail. Hopefully you will not try to make such claims in any response.

4. Summary of account balances

The tables below reflect account balances shown in the most up to date financial records of LGSPI and LGIE, namely trial balances as at 29 February 2012 that we were provided with by your co-director Mr John McCauley in October 2012. Copies of these trial balances have been attached as appendix 4.

LGSPI

Ledger	Account	Balance 29/2/12 £	Our reference
Loans – Others	Alan Louis (GBP)	484,095.92	Louis Loan A
Loans – Others	Alan Louis Reg BLH (CHF)	2,278,929.81	Louis Loan B
Total		2,763,025.73	

LGIE

Ledger	Account	Balance 29/2/12 £	Our reference
Group loans advanced	A.Louis (CHF)	746,211.43	Louis Loan C
Group loans advanced	A.Louis (EUR)	526,709.95	Louis Loan D
Group loans advanced	A.Louis (GBP)	4,077,774.01	Louis Loan E
Group loans advanced	A.Louis (US\$)	215,186.54	Louis Loan F
Total		5,565,881.93	

In light of your awareness of these debts due from you to both LGIE and LGSPI, and the fact that these records have not been put together by us as liquidators, but are those compiled by your former Louis Group employees at your behest, we hope that you will not attempt to advance any argument that you are unaware of the balances due and owing.

We would therefore again request that you accept that these amounts are due and payable from you and open discussions with us for repayment, to save us wasting further time and resources in having to pursue you for these amounts.

5. Specific loan balances and transactions

5.1 Louis Loan A - £484,095.92

In relation to Louis Loan A we enclose as appendix 5, a ledger print from the records of LGSPI maintained in the accounting system of LGIOM which covers the 50+ transactions between 14 May 2007 and 28 February 2010 which were accounted for as “Loan Alan Louis GBP”. We understand that from 1 March 2010 through 28 February 2012 a new accounting system was used and maintained by Mr. McCauley. Whilst we are not currently able to access the transactions posted in that period, the balance shown at 28 February 2010 in Appendix 5 (£532,560) is broadly comparable to the 28 February 2012 figure which he gave to us.

For the purpose of this letter we refer to the lower balance however we reserve our position in that regard.

We highlight some of the more substantial or significant transactions shown in Appendix 5 below and invite your comment.

5.2 Louis Loan A - Cash Payments

There are numerous payments being made as a result of your email instruction, such as the following:

- a) An outward payment to your personal account at Fairbairn Bank Isle of Man of £300,000 on 6 April 2009. At appendix 6 we enclose your email instruction of 6 April 2009 to Dirk Mudge stating –

“Hi Dirk, kindly transfer from LGIH [LGSPI] to Alan Louis Fairbairn the sum of GBP300,000. Thanx Alan Louis”



We noted earlier that this particular transaction was not included on the Mazars analysis of payments to you.

- b) 11 separate payments between November 2007 and December 2009 to fund your mortgage with Barclays Bank for amounts varying from £4,000 to £30,000 and totalling around £204,000. Within appendix 6 we enclose an example of your typical email instruction (dated 18 March 2008) stating –

“Hi [REDACTED] LGIH [LGSPI] to pay £15,000 directly into my Barclays account. Lukas please pay and [REDACTED] to verify receipt of payment. Thanx”

- c) An outward payment to your personal account at Fairbairn Bank Isle of Man of £200,000 on 17 March 2009. Within appendix 6 we enclose your email instruction of 17 March 2009 to Dirk Mudge stating –

“Hi Dirk, please pay £200,000 from LGIH [LGSPI] to Alan Louis Fairbairn. Thanx Alan Louis.”

Your emails evidence your knowledge of and complete control over the transactions in question which make up this recorded loan balance. At the time of each payment being made, although you may not have been a registered director of LGSPI, we take the view, supported by the fact that these payments are made simply on your instruction, that you were at all material times a ‘shadow director’ of LGSPI.

As such, you therefore had a duty in making decisions on behalf of LGSPI to act generally in the best interests of LGSPI.

In considering these duties, in respect of each of the payments that make up this loan to you, we would now ask you to answer the following questions:

- 1) These payments have been accounted for as loan to you. Is this, in your view, a truthful and accurate account and do you acknowledge that these amounts are due and repayable by you to LGSPI?
- 2) Why were these payments/loans considered to be in the best interests of LGSPI?
- 3) Is there any agreement recording the terms of these payments and, in the absence of such an agreement, when were they to be repayable and what, if any, interest rate was agreed?
- 4) What confirmations as to your ability to repay did you provide to LGSPI that allowed LGSPI to agree to lend this money to you?
- 5) What were these payments used for and, if a specific asset was purchased by you out of these funds, do you still own it?

5.3 Louis Loan A – LGIE Cash Payments and Subsequent ‘Journal Entry’ £356,965.64

We have reviewed LGIE’s financial records and noted that ‘director loan’ indebtedness for monies paid to you by LGIE had been accumulating since 2001. We have reviewed supporting documentation and found that these payments were instructed in a similar manner to the payments from LGSPI detailed above, based on an email instruction from you. These payments include numerous transfers to your personal bank accounts and also what appear to be various donations and led to a balance accumulating whereby you owed LGIE £356,965.64 (see attached LGIE ledger which shows these transactions at appendix 7).

What then followed, effected by ‘journal entry’ in LGSPI’s accounting records dated 1 March 2008 and by journal entry in LGIE’s accounting records dated 1 March 2007, was an accounting transaction that had the effect of moving this debt of £356,965 due by you to LGIE to make it due to LGSPI, with an equivalent debt being created in the accounts of both companies as being due from LGSPI to LGIE.

The end result being that LGSPI took on your loan balance as an asset with a corresponding liability to LGIE for the same amount. However the different posting dates in LGIE versus LGSPI meant that there was a year when the accounts were out of balance. (see the entry dated 1/03/08 in the 2008-09 section of Appendix 5)

Although you may not have always been a registered director of LGIE, we take the view, supported by the fact that the payments from LGIE were made on your express instruction, that you were at all material times a ‘shadow director’ of LGIE. As such, you therefore had a duty in making decisions on behalf of LGIE to act in the best interests of LGIE. This duty sits alongside your duty, as a shadow director of LGSPI, to act in the best interest of LGSPI.

In relation to the original payments to you from LGIE:

- 1) These payments have been accounted for as loans to you. Is this, in your view, a truthful and accurate account and do you acknowledge that these amounts are or were at the time due and repayable by you to LGIE?
- 2) Why were these payments/loans considered to be in the best interests of LGIE
- 3) Is there any agreement recording the terms of these payments and, in the absence of such an agreement, when were they to be repayable and what, if any, interest rate was agreed?
- 4) What confirmations as to your ability to repay did you provide to LGIE that allowed LGIE to agree to lend this money to you?
- 5) What were these payments used for and, if a specific asset was purchased by you out of these funds, do you still own it?

In relation to the journal entry transfer of debt:

- 1) Why did this journal entry occur? What was the reason for it?
- 2) What was the effective date of this transaction and why is there a one year difference between the accounts of both companies for the transaction date?
- 3) Why was no loan agreement put in place between LGIE and LGSPI setting out the terms of this new debt from LGSPI to LGIE?
- 4) What confirmations as to your ability to repay this debt did you provide to LGSPI that allowed LGSPI to agree to take on an equivalent debt to LGIE?

5.4 Louis Loan A – Payments to Nils Hinrichsen onward paid to you

By journal entry dated 28 February 2010, Appendix 5 shows that your loan due to LGSPI increased by £878,066.78. Our enquiries have found that this amount represents indebtedness which was previously recorded as being due to LGSPI by your former co-director of LGSPI and LGIE Nils Hinrichsen. By this journal entry, you became indebted to LGSPI in this amount instead of him.

Thereafter, and under your email instruction, as referred to earlier in the “Your awareness of the debts” section, a second journal entry, again dated 28 February 2010 was made to transfer £1,000,000 of your debt so that it has now become due from you to LGIE instead of from you to LGSPI. A corresponding entry increased the amount owed by LGIE to LGSPI by £1,000,000.

The overall resultant effect of these entries is to switch loans to Nils Hinrichsen from LGSPI into loans to you from LGSPI and then to switch again into loans to you from LGIE. This is reflected in the LGIE financial statements as at 28 February 2010, with this £1,000,000 of debt being included within the loans due from the “Alan Louis Family Trust” which totalled £6,050,609 at this date (see Appendix 2)

Flow of Money

To understand better why these entries may have occurred, we have reviewed the Nils Hinrichsen loan account to find out how the original balance due by him to LGSPI arose. We also noted that payments to Nils Hinrichsen were amongst the six sums that we were initially tasked with inspecting in May 2012.

We have found that Nils Hinrichsen’s loan balances due to LGSPI of £878,066.78 (as referred to above) and also a Euro loan of €256,433.62 arose as a result of the following payments made from LGSPI to the Louis Group (IOM) Limited Client account – for designation Mr Nils Hinrichsen.

We are satisfied in each case that the following funds were paid and received.

Date	Paid to	Amount
GBP		
29-Feb-08	LGIOM Client A/C	£247,063.74
27-Mar-08	LGIOM Client A/C	£500,000.00
27-Mar-08	LGIOM Client A/C	£27,618.00
04-Apr-08	LGIOM Client A/C	£425,000.00
		£1,199,681.74
EUR		
29-Feb-08	LGIOM Client A/C	€256,433.62
Total		€256,433.62

Upon further review of the LGIOM Client account, we found that these funds were onward transferred to the bank account of the LFF by the following three payments.

Date	Paid to	Amount
27-Mar-08	Louis Family Foundation	£500,000.00
27-Mar-08	Louis Family Foundation	£500,000.00
05-Apr-08	Louis Family Foundation	£425,000.00
Total		£1,425,000.00

Thereafter, we found an instruction that these funds were to be paid from the Louis Family Foundation to your personal bank account at RBS in Scotland.

We enclose copies of the relevant payment requests as appendix 8, including an email confirmation from Lukas Nakos to confirm that at least £1m had been paid to your personal account.

In summary, between February and April 2008, £1,425,000 was paid by LGSPI to LGIOM Client account – Nils Hinrichsen, from there to the Louis Family Foundation and from there, £1,400,000 to your personal bank account.

Purpose of these payments

Various representations and explanations have been provided by you, and others instructed by you, to ourselves as inspectors of Louis Group Structured Fund PLC (in liquidation) (“LGSF”) (and others) in relation to these loans from LGSPI to Mr Hinrichsen.

In their report, Mazars referred to these payments as a loan to Mr Hinrichsen and referred to him as an “Approved Party” within the meaning of the offering document of LGSF.

Is this still your position in this matter?

Having reviewed various documents, we now believe that the wider background to these transactions and flows of money from LGSPI to you may well relate to a purchase of shares in LGIE by Mr Hinrichsen. Specifically we found an agreement dated 20 March 2008 signed by Mr Hinrichsen shortly before the above referenced transfers whereby he agrees to buy 10% of the shares in LGIE for £1,925,000. This agreement is also signed by your then co-directors in LGSPI, Dirk Mudge and Lukas Nakos.

It would appear that the money was lent to Mr Hinrichsen by LGSPI to enable him to buy the LGIE shares in accordance with his obligations under this agreement.

We found that you referenced this transaction in an email in May 2009 to the board of LGSF in relation to questions about the value of collateral held by Louis Group Structured Capital Limited (in liquidation). Specifically you referred to Mr Hinrichsen’s transaction to buy 10% of LGIE for £1.9m as apparent justification for your conclusion that this “places the value [of LGIE] at £19m”. We enclose a copy of this email as appendix 9.

Given that LGSPI had in fact paid Mr Hinrichsen the funds, why did you represent that his transaction was in any way a justification for a £19m valuation on LGIE?

Further enquiries by ourselves have uncovered that according to the share register of LGIE, Mr Hinrichsen owned 10% of the shares in LGIE from 23 April 2008, until 2 February 2009. At that point Mr Hinrichsen’s 10 shares in LGIE were seemingly transferred back to the Louis Family Foundation.

Share transfers are typically approved by directors, however this particular transfer was retrospectively approved two years after the event, per the written resolution of LGIE, dated 3 March 2011 and enclosed as appendix 10:–

“Effective from 2 February 2009, however it had not been formally recorded at this time due to an administrative oversight”

However, notwithstanding this back dating of the share transfer, the financial statements of LGIE for the year ended 28 February 2010 (which we note were signed on 26 October 2010) state on page 4 that Mr Nils Hinrichsen “owns 10% of the issued shares in the company [LGIE]”.

Why did you and Mr McCauley retrospectively approve a change in LGIE recorded shareholder when you had represented in the financial statements presented to the FSC that Mr Hinrichsen was a 10% shareholder of LGIE? Did you notify the FSC of this apparent “administrative oversight”?

We also note that in your email of May 2009 and included as appendix 9, you refer to Mr Hinrichsen owning 22% of the shares of LGIE. This appears to contradict both LGIE’s financial statements and LGIE’s register of members. Is that also an oversight on your part?

Turning to actual flows of funds, it is evident that you were the ultimate recipient of the monies which were initially paid from LGSPI and which were initially recorded as loans by LGSPI to Mr Hinrichsen. Is that perhaps why Mr Hinrichsen denies that any monies are due from him to either LGSPI or LGIE?

In your response please also consider the following:

1. Why were debts recorded as being due by Mr Hinrichsen transferred by journal entry so as to become debts due from you?
2. Why was £1,000,000 of debt transferred so as to become payable by you to LGIE instead of by you to LGSPI?
3. Did you consider the impact on the solvency of either company when any of these entries or payments were made?
4. Do you acknowledge that you received the £1,400,000 as referred to above?
5. Why were the payments of £1,425,000 to Mr Hinrichsen's LGIOM account considered to be in the best commercial interests of LGSPI?
6. Do you agree with our assessment of this transaction provided above, and specifically that these payments ultimately form part of your loan balance due to LGIE?
7. If you deny that these amounts form part of your loan account due to LGIE, and as Mr Hinrichsen denies being indebted to LGIE or LGSPI, who now owes this money? If you contend that Mr Hinrichsen owes the money:
 - a. why is there no loan agreement documenting the terms of such a substantial loan from LGSPI;
 - b. why was no security for this loan taken by LGSPI from Mr Hinrichsen; and
 - c. why were debts recorded as being due by Mr Hinrichsen transferred by journal entry so as to become debts due from you?

5.5 Louis Loan B - £2,278,929.81

Per appendix 11 we enclose a copy of the LGSPI accounting ledger to 28 February 2010, with a closing balance of CHF 3,727,189.70. This balance has been converted to the GBP balance of £2,278,929.81 as per the summary of account balances on page 4. This is the loan balance that remains in LGSPI's records as recorded in its trial balance as at 29 February 2012, with the reference "Alan Louis Reg BLH (CHF)" as per appendix 4

We highlight on the ledger per appendix 11 a material transaction being a journal entry to increase your loan account by CHF 3,150,000.00, dated 25 March 2008 with the description "(CHF) Ex- LGI Prop Platinum". That particular transaction comprises the majority of this recorded debt.

You are aware that we are appointed as liquidators of Louis Group (IOM) Limited (in liquidation), Louis Group Investments Yellow Limited (in liquidation) ("Yellow") and of LGI Properties Platinum Limited (In Liquidation) ("Platinum"). Through our work on those particular matters we believe that the wider background to this debt is as follows:

- Before this transaction, Platinum owned two plots of land in Switzerland, the value of which was approximately CHF 5,700,000.
- Platinum had liabilities of approximately CHF 6,300,000, consisting of a loan from Yellow.

- Platinum is a wholly owned subsidiary of Yellow.
- The economic interest in Yellow was owned by third party investors through their acquisition of 'A Shares' in Yellow
- Control over the appointment and removal of directors of Yellow, and through this, the control over the appointment and removal of the directors in Platinum, was with LGSPI as owner of Yellow's B shares.
- Yellow had liabilities consisting of a loan of approximately CHF 3,000,000 from LGSPI and loans of approximately CHF 3,200,000 from third party investors in Yellow who owned the 'A Shares'.
- On 25 March 2008, Platinum borrowed CHF 3,150,000 from Credit Suisse, (see statement attached as appendix 12).
- Instead of using the money borrowed from Credit Suisse to repay Yellow's Loan, Platinum instead paid this CHF3,150,000 to Louis Asset Management AG ("LAM") (which we believe became Banque Louis, a Swiss company which we believe was then wholly owned by you by way of your control and majority ownership of BLH).
- Following the payment of cash from Platinum to LAM, we found that accounting entries were made which showed LAM as being indebted to Platinum for the CHF3,150,000. However these entries were subsequently reversed and by journal entry the CHF 3,150,000 was recorded as a reduction in the loan between Platinum and Yellow.
- However, because Yellow did not receive the funds (they had been paid to LAM) further accounting entries were made in the books of Yellow which had the effect of reducing, by CHF3,150,000, the loan from LGSPI to Yellow.
- To finally balance the various sets of books, a new loan of CHF3,150,000 was created in the accounts of LGSPI as being due from "BL Holdings (C/o Alan Louis)" and LGSPI's loan to Yellow was reduced by a corresponding amount.
- Banque Louis is presently in liquidation, and we believe that it will not be paying any returns to its creditors. Banque Louis has also surrendered its banking licence in Switzerland, and has reverted back to its old name of LAM.

In respect of the above matter, we also note the following –

- You were a director of LGSPI at the date of this transaction (25 March 2008).
- You were the sole director of BLH at this date.
- You were not a registered director of Platinum or Yellow on 25 March 2008.
- There is no record of this transaction in the board minutes of LGSPI, Yellow or Platinum.

From the information we have available, it appears as if Platinum paid LAM (which you owned and controlled through your ownership and control of BLH) CHF 3,150,000 from the proceeds of new borrowing from Credit Suisse. Thereafter, journal entries were recorded which had the effect of replacing CHF3,150,000 of loan from LGSPI to Yellow with CHF3,150,000 due by you and reflected in this Louis Loan B balance.

Given the above, please answer the following questions:

- 1) Why did Platinum pay the CHF3,150,000 to LAM?
- 2) Did you instruct the payment?
- 3) Why was the original accounting entry, being a loan to LAM in the books of Platinum, changed to a reduction in the indebtedness to Yellow?



In relation to the remaining balance of Louis Loan E, we have found that it comprises mainly the above referenced transfer of £1,000,000 of your debt from LGSPI reference Mr Hinrichsen and a payment to Sunrock Limited of £260k on 9 September 2009 which the enclosed email per appendix 14 confirms was made on your instruction. We understand that you personally borrowed significant sums of money from Sunrock Limited.

Again, your comments on these other entries are invited.

5.7 Louis Loan F £215,186.54

We enclose as appendix 15 your USD loan account ledgers with LGSPI and LGIE. We note that your indebtedness of £215,186 – as per Louis Loan F arose as a result of a payment from LGSPI to your personal account of \$300,000. Our enquiries have found that subsequently this indebtedness to LGSPI was transferred to LGIE by way of a journal entry dated 28 February 2010 so that instead of owing these monies to LGSPI, according to your accounting records, you now owe these monies to LGIE.

We attach a copy of the payment request form and supporting documentation per appendix 16 which show this payment being made to your personal account at Fairbairn Private Bank IOM.

In light of this payment and this journal entry, please can you confirm:

- 1) Do you acknowledge that you received this money?
- 2) Why did this transaction occur?
- 3) Was this transaction considered and approved by the board of directors of both LGSPI and LGIE?
- 4) What confirmations as to your ability to repay this debt did you provide to LGIE that allowed LGIE to agree to take on an equivalent debt to LGSPI?
- 5) Is there any document recording the details of this payment and, if not, what were the terms of this payments, when was it to be repayable and what, if any, interest was agreed?
- 6) What were these payments used for, and was any specific asset purchased by you out of these funds do you still own it?



6. Summary

In summary, the financial records record you as being indebted to LGSPI and LGIE for a combined £8,328,908. In addition, in the event that the amounts recorded as repayments by you of around £1.3m are in fact found to be an improper accounting of investor funds that should otherwise have been used as capital for Banque Louis, then your total indebtedness is over £9.6m excluding interest, possible other claims and the costs of our work to assess/recover these sums.

As the various emails that we refer to above demonstrate, you have exercised effective and total control over these two companies and have, in our view, been a shadow director of both companies throughout with the attendant common law responsibilities that go along with those positions.

In the case of LGSPI, other than its initial share capital of \$2, the company's activities have been financed with borrowed money, mainly sourced from Louis Group Structured Capital Limited (in liquidation) but also from PICS creditors, Barclays Bank and various property syndicates, and we refer you to our previously reported findings in that regard. Notwithstanding that it was other people's money, you have received the above noted payments and generally operated these accounts in a manner consistent with a personal bank account.

We invite you now to consider this conduct in your response, in the face of overwhelming evidence as to your involvement and to respond substantively to the questions which we set herein. With regard to the specific transactions detailed above, should you fail to provide sufficiently detailed answers to our above questions, we reserve our rights as liquidators of both LGIE and LGSPI to summon you before the Isle of Man Courts to answer these questions in full under oath.

We look forward to receiving a full and substantive response within four weeks hereof.

Yours sincerely

Gordon Wilson
Joint Official Liquidator
Louis Group International (Europe) Limited (in liquidation)
LG SP Investments Limited (in liquidation)

CC: Michael Louis
Isle of Man Financial Supervision Commission

10 January 2014

Mr Gordon Wilson
Price Waterhouse
Sixty Circular Road
Douglas
Isle of Man
IM1 1SA

Dear Mr Wilson,

Re: Reply to Letters dated 3 December 2013

Your two letters of the 3 December 2013 has reference.

At the outset, there are macro and micro issues to address. It is not possible to address all the issues that occurred in the last decade in one reply but I will do my best to address the pertinent issues raised in your letters.

As there are many complex issues raised, my reply is without prejudice to ensure that what is meant by my reply is accurately interpreted.

Definitions Used

Alan	means Alan Louis
ALFT	means Alan Louis Family Trust
Banque Louis	means Banque Louis, Zurich
BLH	means BL Holdings Ltd
FSC	means Financial Supervision Commission (IOM)
Inspectors	means Mr Gordon Wilson & Mr Michael Simpson jointly
LFF	means Louis Family Foundation, Isle
LG	means Louis Group related
LGIE	means Louis Group International Europe Ltd
LGIOM	means Louis Group (IOM) Ltd
LGSA	means Louis Group (SA) Ltd
LGSC	means Louis Group Structured Capital
LGSF	means Louis Group Structured Fund
LGSPi	means LG SP Investments Ltd
LGUK	means Louis Group (UK) Ltd
LG Companies	means Louis Group companies administered by LGIOM
Mazars Report/s	means the Mazars Forensic Report/s in connection with the Inspectors
NIA	means file not immediately available, held at another office
PWC	means Price Waterhouse Coopers LLC, Isle of Man
SLN	means Louis Group Structured Loan Notes

MACRO ISSUES

Improper Conduct

At the outset of the proceedings against many LG companies, it was Alan's reasonable expectation and that of a reasonable man, that if the brunt of the attack would be against Alan in person, then it would be just that he be consulted about all the issues and treated with due dignity in the process. He was denied both.

- On the point of being consulted, nothing needs to be said, Alan was not consulted by the inspectors. Alan always wished to be consulted in this 14 month period, and Alan's email to his solicitors of the 12 June 2012 [**Annex 1**] has reference in which he writes "I would very much like to be questioned by PWC at any time to suit them. Like the old adage goes, truth will be its own defence."
- On the point of being treated with dignity, there are numerous examples, but one in particular is that Alan holds credible witness evidence (from an independent Isle of Man third party investor) that Mr Mike Simpson went out of his way to tarnish Alan's name even before the investigation was underway [this evidence will be produced in trial if the individual is given immunity from personal harm], enough reason to disbar Mr Simpson who was entrusted to act credibly. As to the actions of Mr Wilson, there are many references but more specifically see reference to Alan's letter of the 7 December 2013 [**Annex 2**].

Had Alan been properly consulted, and treated with due dignity, this chaos and the loss to investor and creditor interests would have been avoided.

The manner in which the inspectors treated this investigation and the staff at LGIOM is unthinkable. I refer you to the email sent by the then LGIOM Fiduciary Manager, namely Mr Callister, to the FSC on 6 Oct 2012 [**Annex 3**]

- "I have been employed by Louis Group (IOM) Limited as Fiduciary Manager since March 2010 and I have never seen a more diligent, hard working group of individuals in the pursuit of addressing concerns raised by your department.... My concern is not just with the timing but the aggression with which the Court Order was served by PricewaterhouseCoopers LLC upon Louis Group (IOM) Limited and my colleagues."

Also, had the FSC not incorrectly prejudged LG affairs this chaos would have been avoided. This is not merely Alan's opinion, but the opinion of many and in this regard a most revealing email was sent to Alan by the previous LGIOM Head of Business Development on 22 October 2013 [**Annex 4**]:

- "As far as I am concerned I think that you are being made a scapegoat. For me, this will not do either in fact or in justice. AS far as I am I am concerned it would certainly do for "the Establishment" to blame you for everything, as appears to be the case. Others let you down, in my opinion; perhaps me but I hope not."

Also, the Mazars reports [**Annex 5**] highlight:

- “a fundamental number of issues with the approach adopted by the Inspectors giving rise to significant concerns as to the integrity of the conclusions reached by the Inspectors.”

The facts are that LGIOM and its fiduciary businesses had turned the corner before the raids. I need only point to the email sent by Mrs Keig to Alan on 4 Oct 2012 [**Annex 6**] to increase LGIOM business only 1 day before the raid by the inspectors on LG businesses:

- “Paul [Morrell] thinks we should look at buying the business [the Gecko Fiduciary business]”

The untrue allegation is also made that somehow Alan did not properly conduct himself as Director or controller of LGIE and LGSPI. This I address next.

Proper Conduct

Alan did not spare any expense to employ a fleet of accountants and specialists to ensure the LGIOM offices and the companies they were managing, like LGSPI and LGIE, were in proper order. However, despite the fact that the inspectors perused all Alan’s emails, his following unequivocal efforts to properly conduct LG affairs is not brought to anyone’s attention:

- Email by Alan to FD of LGIOM dated 19 Feb 2008 [**Annex 7**] in which Alan requests “have you made certain, very very certain that all LG Loan accounts are in order before year end! I don’t want a problem in the balance sheets please.”
- Email by Alan to FD of LGUK and FD of LGIOM dated 14 July 2008 [**Annex 8**] in which Alan says “Nathan, Dirk has kindly offered to complete the Feb 2008 Financials. Let him complete it. From 1 March 2008 you are responsible for the accounting as these books are being done in the UK.” The background to this is that Alan was becoming increasingly frustrated at the inability of Dirk to do his job, and in the end Dirk never completed the financials as he said he would and we could never move the accounts to Alan’s oversight in the UK as hoped.
- Email by MD of LGIOM to Alan dated 3 December 2010 where Lynn confirms that the LGIE and LGSPI accounts job was “too big for Dirk and that he was too inexperienced for it.” Alan replies that “we must have a policy of transparency towards the FSC.” [**Annex 19**]
- Another email from Alan to FD of LGUK dated 17 Feb 2009 [**Annex 9**] in which Alan instructs “Dirk, these delayed accounts is very serious and we cannot continue in this way. Something must be done.”
- Email by Alan to FD of LGIOM dated 30 June 2009 [**Annex 10**] in which Alan asks “how are you progressing with the transfer of assets to Structured Fund, we need to show progress every week please?”

- Email by Alan to the LGIOM leadership dated 7 October 2009 [**Annex 11**] in which Alan says “In light of the administrative gaps found in the Group due to the FSC requests, I have appointed Michael Swain to assist the Group to ensure all boxes are ticked so we can be found excellent in what we do.” The background to this is that LGIOM needed one project manager to ensure Alan can voice his concerns by cracking the whip and ensuring LGIOM get sufficient admin progress.
- A significant email by Alan to the newly appointed CFO dated 8 Jan 2010 [**Annex 12**] in which Alan with agitation says “Andrew, as CFO, please take ownership of this accounts] problem – call the auditors and find out what they can do, throw resources at this.”
- By 3 Feb 2010 our CFO finally wakes up and sends Alan a plan for the IOM Accounts team to which Alan replies “this is a good plan”. [**Annex 13**]

There are many more examples, I rest my case.

Solvency

In Alan’s own 27 year professional career, Alan’s achievements to deliver results and profitability is clear. Nevertheless, Alan will always be a flawed individual like everyone else, and has had his fair share of trials.

Much negative criticism has been made by the inspectors concerning Banque Louis. A certain letter by Prof Taisch to the South African Ambassador, previously unseen by the inspectors or the FSC, has particular relevance [**Annex 14**]. The main issues highlighted:

- Alan’s own successful efforts at selling LGUK and LGIE
- The failed attempts of Banque Louis’ partner, Mr Finegold
- All banking regulatory key ratios were fully compliant
- No client loss exposure
- Basel II ratio exceeded by factor 3.5
- Operational liquidity sufficient for another year
- Most importantly, and very uncommon for Swiss privately held banks, is the Bank’s substantial performance in exceeding CHF1.3 billion AUM in just under 18 months.

Also, LG European Property Report 2012 is self-explanatory [**Annex 15**]. All 17 properties sold within the year were sold above the purchase and valuation prices, and this in a severe recession. This is contrary to the inspectors’ own achievements where all properties sold, with their involvement, were sold at a loss.

Lastly, when Investec Bank tried their luck on LG in South Africa as a direct result of the attack by the FSC, the Louis family businesses paid down cZAR150 million debt within 8 months and with the exception of 6 small investors in one property, no other investors (out of hundreds) suffered a loss but made substantial gains.

With only the 2 references above, the momentum of the wider Louis interests to protect LGSPI and LGIE in the relevant periods goes without saying, my personal wealth at the time or that of my father alone could provide adequate comfort to the interests of LGSPI or LGIE.

To argue the point on solvency is flawed.

Director Loans

It is stated in your letter that “it is a generally accepted principle that director loans should only ever be made if to do so is in the best interests of the company making them.” In this regard you are referring to LGSPI and LGIE.

Both LGSPI and LGIE are owned by LFF (with the exclusion of a small shareholding by Mr Hinrichsen discussed later). The beneficiaries of LFF is principally my wife and children [Annex 16].

Any distribution to me by wholly owned subsidiaries of LFF is for the benefit of the ultimate beneficiaries.

Also, Clause 1.(a). of the LFF Trust Deed grants permission to the Trustees to agree to unsecured loans [Annex 16]

On the point of disclosure and loans being authorised by other Directors, this was always authorised.

Motive

On the question of motive, there is no probable motive that Alan misled others or somehow traded recklessly.

Firstly, as both the Louis family and Alan are large philanthropists there would be no need to freely give out on the one hand but wish to recklessly mislead on the other.

Secondly, during a deep recession Alan was the only Board Member on Banque Louis to prevent a deposit of CHF500 million being made to the bank from a large institution, which was legitimate funds and could have meant millions in commissions, but Alan did so on moral grounds [NIA] to protect Banque Louis. When Alan was out-voted on the Board to accept the deposit, it was only Alan’s veto that prevented the deposit being made. The point here is to clearly illustrate that if Alan was not tempted by hundreds of millions he would not be tempted by millions.

Payments to Alan

The issues here are that:

- loans were made to Alan. Incorrect – loans were made to LFF and LFF at times made distributions to Alan.
- nothing is mentioned about the material fact that Alan contributed substantially to LFF.

- nothing is mentioned by the inspectors about the material fact that ALFT contributed its share in LGSA in lieu of its indebtedness to LGSPI or LGIE, and LGIE contributed its share in LGSA in lieu of its indebtedness to LGSPI.
- All loans were approved, it is not necessary for a BVI Company to draft a formal loan agreement as long as the principle terms of the loan are agreed.
- As illustrated above, LGSPI or LGIE had no solvency issues.

Alan's instructions to make payments to his personal accounts is perfectly acceptable, because funds can be lent from LGSPI to LFF and then distributed to Alan or his wife/children, or if preferred, moved from LGSPI to Alan direct as a recorded loan from LFF.

Accounting for Debts and Involvement of LFF

Accounting for debts between LGIE, LGSPI, LFF and Alan is described above.

It is neither reasonable nor appropriate to deem these debts as being due from Alan. The signed financial accounts for LGSPI and LGIE are correct.

Alan has no debts due to LGSPI or LGIE.

Denial

I can readily accept that it is an offence in any jurisdiction to maintain false books and records, and so it should be, fortunately I am innocent of any such accusation as clearly illustrated herein.

It is evident that the inspector's purposefully illustrate big figures to create the shock and awe to the inexperienced eye, replied to as follows:

- c£25m borrowed by LGSPI. This sum was legitimately lent to LGSPI and collateralized and had LGSPI been given the opportunity to complete the running of its Structured Fund ventures, without being cut-short, it would have solved this problem – if not entirely then the majority of it.
- c£10m PICS investments. LG have run PICS investments for nearly 15 years in South Africa, without any problems or investor losses. The PICS could be afforded by LGSPI and even with LGSPI's short term liquidity constraints during the recession, no lender had any problem to extend the expiry dates because the wider family had ample reserves.
- Sums taken in by LGSPI by various property syndications. This statement is distorted – LGSPI was both a creditor and debtor to property syndications. It is undoubted that the wider Louis interests could address any net debts, which is small. This is only one significant reason why it was absolutely reckless to forcefully liquidate LGSPI and LGIE.

- Guarantees given by Barclays to LGSPI of approx. £10m. This statement is deceptive, because guarantees are not given without underlying collateral, which is not mentioned. **Annex 15** clearly illustrates that all properties sold by LG was sold at a price greater than cost, so it is highly unlikely that Barclays would have lost one penny (except for the SWAPS which Barclays mis-sold) had Alan been in control and LGSPI would unlikely have to fork out anything on its guarantee.
- Guarantees given to the holders of SLN of c£10m – the Board of SLN and LGSC after Alan’s departure was inactive. The wider LG was always willing to resolve this problem, given only an extension of time – Alan fought to keep the interests of investors alive but the FSC were intent on crushing any hopes in this regard. To substantiate my comments, I refer you to the email I received from Mrs Keig in this regard [**Annex 17**]:

“The FSC seems to be pushing [the Board of SLN] to put the Company into liquidation but I still feel this is the wrong thing to do and would only result in certain losses for the investors.”

- C£2m borrowed by LGIE from Messrs Furphy and Davidson – this has already been resolved as a wider House of Louis company has taken over this note. Goes to show how we resolve issues when left to do it.

MICRO ISSUES

Mazars Report

The Mazars report is a correct reply to the materially incorrect report by the Inspectors. It was never published on the internet to publicly humiliate the Inspectors, Alan acted with restraint contrary to the manner he was treated. Therefore, it could never be said Alan tried to justify his conduct by it – but it was properly given to those who asked for a reply.

It needs to be appreciated that it took the inspectors 14 months to come to their conclusions, and even those are materially flawed, therefore it could reasonably be expected that Mazars could possibly overlook some issues having been given only c4 weeks.

On a smaller note, on the matter of the £300,000 referred to, Mazars primarily did a cashflow analysis (and did not include journals passed) because of their time constraints, but this amount is correctly reflected in the accounts of LGSPI for Feb 2010 under LFF loans.

Your understanding of BLH is materially flawed. It is only a malice motive for any inspector who has no grounds to investigate BLH (unless he tries to invent one) to create confusion within the investor ranks before he has even consulted Alan about the facts. Sir, your conduct in this regard is dishonourable.

Besides the fact that Banque Louis was doing phenomenally well, as evidenced by **Annex 14**, these are the facts surrounding BLH:

- The financial position of BLH at the time of investors commencing was strong and substantial, there is no question.
- KPMG Swiss approved the financial positions of the HoldCo and SubCo before FINMA would move to give consent for the Bank to open its doors.
- What happened to Banque Louis subsequently is a matter of market forces.
- There is no money Alan received from investors that was not validly received, and I completely fail to see your point on crediting my own money to LGSPI?

Any reduction of debt was from Alan's own proceeds (or from valid sales of Alan's own shares to third parties), not from investor funds, and Mazars is correct.

Here is another case example of an experienced inspector blowing smoke to create the illusion of wrongdoing, nonsense! The inspectors have available to them the services of both Mr Morrell and Mrs Keig, how could they make such an obvious material error?

On the accusation of masking the Barclays debt, refer to **Annex 18**. The £700k forms part of the £2,142,283 LFF loan (take note that there is an overstatement of £100k, which I am not sure how that occurred but the balancing figure would have been corrected in the Feb 11 accounts). Here again is evidence how everything will seem masked if an inspector does not ask questions.

Accounting for Debts

On the accounting for both LGIE and LGSPI, Alan had the services of quite a substantial experienced team in LGIOM.

There was no duty for LGIE and LGSPI to report to the FSC, Alan and the Boards voluntarily did so, and to allege that Alan or the Boards tried to somehow mask Alan's indebtedness is preposterous. Why would they wish to do so, what would they gain by it, and besides the FSC employ highly astute people, it's not possible for anyone to pull the wool over their eyes.

I was not a trustee of the LFF and the LFF has settled its financial obligations as set out in my expansive court testimonies, and also LFF moved its jurisdiction away from the IOM, so to allege that Alan is responsible for debts to LGIE and LGSPI is wrong and dealt with herein.

The findings have also found that the signed financial reports of LGIE and LGSPI are substantially correct.

The accounting for Alan's debts is dealt with in sub-heading "Payments to Alan".

Alan's Awareness of the Debts

Alan was not a Director of LGIE or LGSPI for specific periods not for any other conspicuous reason but for the fact that FINMA (the Swiss Financial Regulator) requested it.

The email of 1 Nov 2010 gives evidence that Alan employed the services of a CA, and 2 experienced accountants (amongst many others) to properly finalise the accounts. It is absurd to assume that Alan should not have been involved in the accounts finalisation process as

Alan had information of the transactions that preceded these dates, as the previous Directors of these 2 companies were no longer with the company.

Your reference to the email of 26 Oct 2010 and the others is grossly misleading because you make no mention of:

- Alan's 15 Sept 2010 request to Mr McCauley "I enclose the LGIE accounts for your approval which needs to be signed by you tomorrow" [Annex 20]; or
- Alan's email to Mrs Keig of the same date that "these accounts are being checked by John before sign off tomorrow" [Annex 21]; or
- Mr Agarwal's request to Mr McCauley of 1 Nov 2011 to "please give him details" of corrections to the accounts. [Annex 22]

Clearly, I was not the controlling mind.

The inspectors' knowledge of the processes that IOM employed is surprisingly lacking, as they still have the services of Mrs Keig and Mr Morrell who could inform them. The process is this – throughout the year transactions may be booked by the accountant to one account and then correctly allocated at year end – in the case of LGSPI and LGIE it would most often be allocated to Alan and then at year end correctly assigned (as you are a Director of many LG PropCo's you would have observed this trend in these companies also). This is consistent with Alan's instruction to Mr Nardone who was not an employee when these transactions occurred.

Sir, I became a Director of LGSPI and LGIE because the FSC were unhappy that I was not a Director and requested me to become one. Do you not speak to your client?

An important question needs to be asked of the inspectors at this juncture, having read thousands of Alan's personal emails, was there ever an email where Alan suggests that "we must deceive someone" or "distort the facts?" I know not, otherwise you would have crowed on the hilltops about it.

Summary of Account Balances

LGSF was suspended in February 2010 and thereafter both LGIE and LGSPI business had dropped substantially as can be seen from the Bank accounts, other than PICS interest payments.

In terms of your own Appendix 4, you conveniently do not mention a credit due to Alan of £21,899.

What is being inferred is that the trial balances carried forward are different to the Feb 2010 signed financials. The unaudited signed accounts of both companies for Feb 2010 are substantially correct – any other assertions made I believe to be incorrect.

Specific Alan Transactions

Re 5.1-5.2

I have never denied (but then again I was never asked) that I requested some personal payments from LGSPI or LGIE but these are only loans to LFF with a distribution to Alan. It often happened, as you are well aware, that even PropCo payments would be processed direct

to the ultimate beneficiary instead of following a systematic payment process, with journals correcting the position at year end.

How can it merely be assumed that Alan is a shadow director when Mr McCauley was a Director of these companies and a Trustee of LFF. He is well aware that loan payments can be requested by LFF and a distribution authorised to Alan. As said before, the parent's ultimate beneficiaries is Alan's family and the LFF Trust was drafted for correctness by an established IOM lawyer. I deny that I merely acted as a shadow director.

Most of your questions (1-5) have already been answered in the Macro issues above, but more importantly that with the benefit of hindsight, if you take Alan out of the equation you will have chaos – in the same way any hardworking and wealth-creating individual should be looked after. That is why it was in the best interests of the LFF and its subsidiaries to look after Alan. Also, terms of repayment and loan periods reference docs are all held at the LGIOM offices – that's why its listed NIA.

Re 5.3

LG accountants have traced the sum of £356,965.64 that was debited to LGSPI's loan account, and because it is correct it does not require an interrogation.

What is being alluded to is that LGIE Directors should by the request of the inspectors not have approved this transaction that occurred in 2007 which was approved by both the Board and the HoldCo. Nonsense!

Re 5.4

This entire matter around Mr Hinrichsen is totally misunderstood for one simple reason – the inspectors never asked Alan any questions about this matter prior to launching their investigation.

Mr Hinrichsen is not reflected as a Debtor in the Financial accounts of LGSPI or LGIE because he deposited €€1.5 million or around 2002 which was later transferred to LGIE and simultaneously received some loans in South Africa, the net movement of all transactions netted off his situation.

Alan does not have access to all the files for such periods because they are in the Isle of Man, but he will work with the inspectors to clarify this situation and answer more questions, given access to all files.

The issue of whether Mr Hinrichsen owes the money or LFF or Alan is a matter of record, the motive in bringing up purpose of payments is to further muddy the water. But to set the record straight:

- The fact that Mr Hinrichsen bought shares in LGIE was never denied.
- In your Appendix 9 email reference, Alan makes it clear that because Mr Hinrichsen knows the true value of LGSA he was prepared to pay the premium on NAV. That's a correct statement to make.
- The collateral amount reflected in the accounts of LGSF/LGSC is at NAV, so it's correct.

- Mr Hinrichsen did own 10% of the shares in LGIE, so the accounts to the FSC are correct.
- I am unsure what I referred to by the 22%, but it is in any event irrelevant, maybe it was an option granted to Mr Hinrichsen but the files are at the IOM.
- Alan's email is substantially correct.

Interestingly, you have further tried to mislead the untrained eye with two of the same payment ID's (5524392) as per **Annex 23**, which both total £1,000,000.

Re 5.5

Alan was neither a Director of Platinum or Yellow, so he gave no instructions.

Neither Alan or LGIE has any indebtedness to Platinum or Yellow.

The indebtedness of LGIH or any other debtors to these Companies is recorded in the audited accounts of these companies.

I cannot understand why this matter has been raised after our teams gave all info to the auditors and the fact that Mrs Keig, who now works for you, could readily have supplied all the information. Mrs Keig's intimate knowledge of the affairs of this Company can be observed by her email dated 3 Oct 2011 [**Annex 24**].

Re 5.6

The indebtedness of £4,550,000 is reflected in the loan by LFF to LGIE as per the accounts.

Reply to questions:

- LGIE initially owned 100% of LGUK
- LGIE sold its shares in LGUK to Banque Louis for £3.2m
- LGIE recorded a profit of £2.2m on the sale
- The profits were received by LFF and that is why LFF is recorded as a Debtor in the LGIE accounts
- LGIE subsequently bought back the LGUK shares funded by c£2m loan from 2 individuals
- The rest of the questions are answered in substance above.

Re 5.7

The sum of £215,186 is correct and was loaned to LFF - forms part of the debit loan reflected in the LGIE accounts.

Same answers to your questions as given in substance above.

In Summary

It is evident that Alan was telling the truth to the FSC and the inspectors all along, but was subjected to unjust oppression. Your letters of the 3 December 2013 also show that Mazars were correct in their analysis.

A revealing email of Alan's personal attitude towards investors and creditors is provided when Alan was asked by his IOM team [email Annex 25] whether to mention certain risks and his reply "I agree with your point that risks should be outlined rather than omitted." This is the conduct of a prudent Director and one who has the interests of others at heart.

To any allegation there may be a small economy of truth, but the inspectors' allegations have always been wildly exaggerated which have unnecessarily resulted in pain and loss to Alan, the Louis family, employees and especially the wider LG investor base. The inspectors cannot be absolved from this truth, although we appreciate the inspectors are not on trial, but they should be.

In Mr Wilson's own words, the IOM courts do not like Alan – so it is only just, if it so progresses, that Alan be granted a fair and objective trial that only the English courts can provide to him. While Alan was unjustly persecuted, he solved many cases of investors that sincerely sought his help.

It is always best to forgive and leave the past behind, which I have always been prepared to do, and therefore a company nominated by me would look to buy back LGSPI, LGIE (which is to include the LGSA shares), LGSF and LGSC for an agreeable amount. A financial system can also be set-up to help desperate cases, funded by us. We cannot buy back the valuable LGIOM because it's worthless without a license.

We are also prepared to buy back many property companies and move those companies to the BVI so these Companies can recover some losses sustained by the existing investors – and I will structure same to ensure investors benefit all the way.

Of course, I am also open to any reasonable suggestions the inspectors may provide. In any event, I continue to make myself available.

Yours,

A handwritten signature in red ink, appearing to read "Alan Wilson", is written below the text "Yours,".



Mr Alan Louis
Louis Group (UK) Limited
Elizabeth House
15 Church Street
Stratford-upon-Avon
United Kingdom, CV37 6HB

3 April 2014

Reference: LO005/GW/cm

Dear Mr Louis

Thank you for your letter of 10 January 2014 with enclosures. We have read it with interest.

In our letters to you dated 3 December 2013 we invited you to accept the debts you owed to both LGSPI and LGIE, to save wasting further time and resources in us having to investigate and pursue you for these. It is disappointing to see that you have continued your denial of these debts, particularly given that our questions and analyses are based on the financial records you yourself reviewed and approved.

In response to your letter, we would comment as follows:

LGSPI and LGIE Insolvency

As we stated in our earlier letter, we believe that LGSPI and LGIE have been trading insolvently for a number of years during which the recorded assets have included substantial loan debts due to them:

1. according to the financial statements you approved, from the Louis Family Foundation (an Isle of Man trust established for your benefit and over which you are now trustee); or
2. according to the underlying accounting records you and your staff maintained, from you personally.

The fact that you deny that any of these recorded debts are now repayable by either you or the Louis Family Foundation only further supports our belief that LGSPI and LGIE have been trading insolvently during that time.

The implication of this is that you have permitted LGSPI and LGIE to take money from investors in LGSF, from PICS investors, from investors in numerous property syndicates and from other individuals and entities whilst the companies were insolvent and without any apparent regard for the ability of LGSPI and LGIE to repay their debts.

Such activity is improper and comes with attendant personal liability. All rights for any company that we represent that has lost as a result of your conduct are specifically reserved by us at this time.

*PricewaterhouseCoopers LLC, Sixty Circular Road, Douglas, Isle of Man, IM1 1SA
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Members: I G Clague, K M Cowley, P C Craig, A D Dunn, N M Halsall, N J Shepstone, M Simpson.



INVESTOR IN PEOPLE



Debts due by you or the Louis Family Foundation

The financial statements for both LGIE and LGSPI, which you yourself approved, show debts due to LGSPI and LGIE by the Louis Family Foundation. This record conflicts with the underlying accounting records and the payment instructions for these two companies, which suggest that these 'loans' were in fact payments to you personally or for your personal benefit. We set out examples of these in our original letters.

You suggest that these loans were always intended to be loans to the Louis Family Foundation, however, other than the financial statements for the two companies, there are no documents recording this.

Specifically:

- There is no loan agreement in place between the two companies and the Louis Family Foundation,
- There is no note of any apparent acceptance from the trustees of the Louis Family Foundation confirming these are debts of the Louis Family Foundation which will be repaid.
- The only evidence we have found to explain why the Louis Family Foundation is recorded as the debtor in the financial statements, rather than this being recorded as you personally, are email instructions to change the financial statements to replace your name with the Louis Family Foundation.

You suggest in your response that payments by both LGSPI and LGIE for your personal benefit are acceptable, as you argue they are your companies. This suggestion also corresponds with how these companies appear to have operated to date, in that it appears to us that as and when you have needed money to pay a personal debt, such as your personal mortgage, you have simply used money standing to the credit of an account of these two companies as if they were your personal bank accounts.

What you have failed to consider, however, is that LGSPI has been almost exclusively financed over the last number of years by Louis Group Structured Capital Limited, borrowing subscription monies received from investors into Louis Group Structured Fund Plc and that LGIE has guaranteed LGSPI debts as well as incurring debts of its own.

As a result, wherever you have used cash on account with either LGSPI or LGIE, you are effectively using borrowed investor money. Now that we are trying to recover these monies for the benefit of these investors, you deny that the amounts, running well into the millions of pounds, are repayable.

At some stage you will have to explain to investors why, in making these payments to yourself and building up these debts, you put your own interests ahead of those of the investors you so vehemently state that you are still serving.

Distributions from the Louis Family Foundation

You then argue within your letter that the payments to you from LGSPI and LGIE were in fact proper distributions from the trustees of the Louis Family Foundation to you as beneficiary. We take issue with this suggestion.

A trustee makes distributions to beneficiaries out of a trust's assets. What you have described in your letter, and what the financial statements of LGSPI and LGIE suggest, is that the money to pay for these 'distributions' to you has been sourced ultimately from investors, suggesting the Louis Family Foundation did not have sufficient assets itself to make these distributions.



That being the case, it should not make any distributions to you or any other beneficiary.

We expect to find that the Louis Family Foundation no longer has any assets, and that it is completely bankrupt. As such, and as explained in our earlier letter, you as the trustee are personally liable under Isle of Man law for its debts.

Banque Louis

We note that you describe Banque Louis as “doing phenomenally well”.

We further note that by 26 May 2011 (the date of the letter referred to in your Annex 14) Banque Louis’ financial statements show that it had lost around 70% of its investor capital in 2 years (almost CHF24m) and that in the 10 months to 31 December 2013 it lost a further CHF9.4m, leaving it with just over CHF600k in shareholder funds.

We think these facts alone speak volumes, Banque Louis did “phenomenally well” at losing money under your governance and oversight and at the cost of third party investors.

Shadow Director

We take the view that you were the ultimate controlling mind behind all of the Louis Group companies. For you to state as you do in your letter that you are not the controlling mind is neither supported by the records that we have reviewed nor by your conduct in the run up to our various appointments nor indeed by the evidence which you yourself have supplied.

Rather, from all the records we have seen, the listed directors of your companies effectively took whatever action you dictated to them and those that would not comply with your demands quickly left.

Specifically, in your own recent letter you have highlighted correspondence where you are instructing the directors of LGIoM to take certain action, such as who should complete the relevant accounts (your Annex 8), what policy LGIoM should adopt with the FSC (your Annex 19), ensuring your ability to crack the whip over LGIoM staff (your Annex 11), your instruction to throw company resources at a specific problem (your Annex 12) and your approval of proposals from the LGIoM board (your Annex 13).

You even admit in the section of your letter headed Specific Alan Transactions Re 5.1 – 5.2, in the final paragraph, that “*if you take Alan out of the equation you will have chaos*”. The evidence is overwhelming and demonstrates that all Louis Group companies were not only under your immediate control, but that your control was significant and absolute.

Specific Alan Transactions

We refer to your comments in respect of the specific transactions we raised in our letters. We note that you have not answered any of our specific questions, and have, as appears to be your usual practice, stated only limited facts mixed with general allegations of misunderstanding on our part and incompetence of your own former staff.

We did not expect there to be any commercial justification for certain of these transactions, as they are so far removed from the specific purpose of property investment that the Louis Group companies were set up for, and the basis on which investment in these companies was sold to investors. In the interest of fairness we wanted to give you the opportunity to provide us with your own explanations for these transactions, but your lack of direct answers only supports our original conclusions.

We will be taking appropriate action in respect of these matters in due course.



Liquidator Conduct

We are well aware of your continued disapproval of our conduct to date. We take comfort in the fact that when any independent body, such as the Isle of Man Courts, has listened to your objections and justifications for past actions, rather than taking your rhetoric at face value, they have dismissed all of your comments and found against you.

We understand that at this stage it is only your most staunch supporters who still believe there is any truth behind your allegations. We are comfortable that in the fullness of time the truth of your conduct will come to light.

Should any independent investors have any issue with our actions we are more than willing to listen to them and discuss their concerns. We do not, however, intend to respond to any further allegations you make as to our conduct.

Settlement of Debts by the Louis Family

You mention within your letter that your personal assets are more than sufficient to cover any investor loss. However, we find here that when we are asking for you to admit debts recorded against you and/or the Louis Family Foundation recorded in your own financial statements, you now deny their very existence.

During the period of your control of Louis Group Structured Fund Plc, Louis Group Structured Capital Limited and LGSPI, there have been combined losses to investors in Louis Group Structured Fund Plc of circa £24 million. Investors in your property syndicates have lost a similar amount.

If you are willing to propose settlement with satisfactory details of where your money has come from to settle this, we will consider whether a deal can be struck.

Until you are prepared to make this offer, we would request that you cease from making vague proposals, as they are simply an attempt to try and to deflect attention from the personal blame that you must overly accept in this matter.

Yours sincerely

Gordon Wilson
Joint Official Liquidator

Appendix 3 – Receipts and disbursements account - LGIOM

Louis Group (IOM) Limited (in liquidation) receipts and disbursements account

The receipts and disbursements account is for the period 21 January 2013 to 31 May 2014.

		£
Cash balance brought forward 21/01/13		262,359
Receipts:		
Property transaction commission	710,092	
Fiduciary income	1,058,412	
Debtors	284,059	
Louis Group (IOM) Services Ltd (in liquidation) interim dividend	120,000	
Other recoveries	59,402	
Total receipts		2,231,965
Payments:		
Liquidator and legal fees	(1,611,742)	
Staff salaries	(458,807)	
Rent, rates and utilities	(110,535)	
Communications and systems	(61,733)	
Other expenses	(3,357)	
Net VAT paid	(19,247)	
Total payments		(2,265,421)
Net deficit of payments over receipts		(33,456)
Cash balance carried forward 31/05/14		228,903

Appendix 4 - Syndicate companies and commentary

Company	No. of Shareholders	Shares Issued	Status	Commentary
Akanda Properties Limited	20	42	Lysis participant	See Lysis section in Appendix 5.
Amethyst Properties Limited	14	23	Lysis participant	See Lysis section in Appendix 5.
Aquamarine Properties Limited (in Liquidation)	33	54	Receivership	No recovery expected see Aquamarine section in Appendix 5.
Blue Star Properties Limited	44	252	Silver Star participant	Exposure to Carrick House, sold for less than bank debt, recovery unlikely.
Henis Group Inc	21	85	Stand-alone syndicate	See Henis section in Appendix 5.
LG Investments Bloom Limited	8	106	LGSPI creditor	Holds shares in LG Properties Ginger Ltd which has been struck off. Barclays have appointed a receiver over Ginger assets. Recovery considered very unlikely. See companies under LGUK management in Appendix 5.
LG Investments Lavender Limited	16	72	LGSPI creditor	Transferred all investor funds to LGSPI. Possible participation in new entity.
LG Investments Lotus Limited	58	153	LGSPI creditor	Transferred some investor funds to LGSPI and some to LG Properties Lotus Limited now in receivership. Recovery from LG Property Lotus Ltd considered unlikely See companies under LGUK management in Appendix 5. Possible participation in new entity.
LG Investments Peony Limited	17	124	Defunct	Interested in LG Properties Chelone which is in receivership. Not eligible for participation in new entity. Recovery considered unlikely. See companies under LGUK management in Appendix 5.
LG Investments Reed Limited	34	201	LGSPI creditor	Interested in LG Properties Eucharis, which is in receivership. Recovery considered unlikely. See companies under LGUK management in Appendix 5. Possible participation in new entity.
LG Investments Rosebay Limited	9	24	Defunct	Interested in LG Investments Peony Ltd. See above.

Appendix 4 - Syndicate companies and commentary

LGI Property Holdings (Germany) 2 Limited	10	122	LGIE creditor	See Aldi1 section in Appendix 5.
LGI Property Holdings (Germany) 3 Limited	9	112	LGIE creditor	See Aldi1 section in Appendix 5.
LGI Property Holdings (Germany) Limited	36	312	LGIE creditor	See Aldi1 section in Appendix 5.
Louis Group InvestCo Pink Limited	130	998	Pink participant	See German retail section in Appendix 5. Not eligible for participation in new entity.
Louis Group Investments Pink 2 Limited	23	81	Pink participant	See German retail section in Appendix 5. Not eligible for participation in new entity.
Louis Group Investments Yellow Limited (in liquidation)	65	482	LGSPI and Platinum creditor	See Yellow / Platinum section in Appendix 5.
Louis Group Structured Fund PLC (in liquidation)	2	100	LGSC and LGSPI creditor	See Appendix 9.
Lysis Properties (PCC) Inc.	43	140	Stand-alone syndicate	See Lysis section in Appendix 5.
Mayworth Properties Limited (in liquidation)	45	132	Stand-alone syndicate	See Mayworth section in Appendix 5.
Nitro Limited	31	1100	Defunct	Appears to have no remaining assets. Struck-off companies register
Platinum Star Estates Limited (in liquidation)	31	61	Receivership	No recovery expected see Platinum Star section in Appendix 5.
Riverland Global Limited	21	160	Defunct	Under AL control. Struck-off companies register. See companies under LGUK management in Appendix 5.
Silver Leaf Properties Limited	26	152	LGSPI creditor	Possible participation in new entity.
Silver Star Estates (PCC) Limited (in liquidation)	4	5	Stand-alone syndicate	See Silver Star section in Appendix 5.
Spring Grove Limited (in liquidation)	32	71	Receivership	Some recovery expected see Spring Grove section in Appendix 5.
Sun Stone Limited	56	207	Defunct	Under AL control. Struck-off companies register. See companies under LGUK management in Appendix 5.
Topaz Properties Limited	35	152	Silver Star participant	Interested in Snugborough. See Silver Star section in Appendix 5.

Aquamarine Properties Limited (in liquidation) and Platinum Star Limited (in liquidation)

Update since last report in May 2013

- We have kept the companies in good standing by payment of Government fees;
- There has been no recovery of assets, nor has any rent been received since June 2013 when the bank appointed a receiver over the assets of both companies due to breaches of loan covenants;
- Both companies went into liquidation in June 2013 as they were in breach of loan covenants and unable to pay debts as they fell due.

Current issues

- The properties owned by the companies have been sold by a bank appointed receiver who has told us that the values realised are less than the amount of bank debt. We await his final account;
- There will, as a result, be no return to either company from the sale of the properties;
- Both companies may have claims pertaining to an interest rate swap that may result in a small financial recovery however, that matter is pending at this stage.

Future strategy

- No planned action pending receipt of final receiver account then these liquidations will be concluded.

Potential recovery of initial investment

- Returns will be nil or almost nil for shareholders in both companies.

Henis Inc

Update since last report in May 2013

- We sold the property belonging to Henis in April 2014 for £3.47m, some £0.67m above the last valuation;
- After paying bank debt and costs, a net amount of around £1m was realised and presently Henis has that money in its bank account under our control;
- We are in the process of transferring the domicile of Henis from BVI to Isle of Man.

Current issues

- We have identified a possible problem due to Henis making payments totalling £900k to Zircon in early 2007;
- We have found a loan confirmation signed by a Henis director, in mid-2007 confirming the existence of a loan from Henis to Zircon;
- Subsequently Henis received £900k plus interest from LGSPI in early 2008 and this receipt was accounted for as a repayment of the loan to Zircon;
- LGSPI may have a possible claim against Henis for the return of the money as it is unclear why LGSPI made the payment;
- Such a claim would, if successful, substantially reduce the amount available for distribution to Henis shareholders;
- Henis may well have a related claim against LGIOM and / or the Henis director who seemingly made the loan and transferred the £900k to Zircon as it is not immediately apparent why Henis would have any reason to make such a loan.

Future strategy

- Complete the redomicile of Henis from BVI to Isle of Man;
- Commence a liquidation of Henis;
- Deal with the above noted uncertainty regarding the dealings between Henis, LGSPI and Zircon;
- Consider the possible merit of any claims that may exist;
- Report separately to Henis investors and creditors.

Potential recovery of initial investment

- Based on current cash balance, each of the 85 Henis shares in issue is worth around £12,000;
- However if LGSPI has a valid claim against Henis then this could reduce substantially as LGSPI would rank ahead of shareholders.

Louis Group Investments Yellow Limited (in liquidation)

Update since last report in May 2013

- Yellow investors will recall that the purpose of the company was related to the development of an Aldi store in Guibiasco Switzerland by Platinum;
- Since our last update, Platinum entered liquidation on 26 June 2013 and Yellow entered liquidation on 2 September 2013;
- In October 2013 we requested that investors submit claims against Yellow and to date the vast majority of recorded investors have done so. We have reviewed bank statements and other financial records from when subscriptions were being received and have reviewed the dealings between Yellow and Platinum;
- We have not yet adjudicated on the Yellow or Platinum claims due to a number of complicating factors;
- We have recently completed the sale of Platinum's final piece of land for around CHF1.37m;
- We retained tax advisers in Switzerland and with their assistance Platinum has de-registered for Swiss VAT receiving a small refund in the process;
- We found that Platinum had never submitted any tax returns although it was registered as a Swiss tax paying company. We retained a tax adviser and have filed returns for the period 2007 through 2013;
- Presently we await the finalisation of Platinum's Swiss tax position however based on these returns, we were able to recover around CHF1.4m of the CHF2m that is held by a Swiss notary in lieu of Platinum's Swiss tax liability;
- In the event that the Swiss authorities accept the final tax returns submitted, then a further tax recovery of up to CHF0.6m will be received;
- Currently Platinum has around CHF4m in cash.

Current issues

- We have found that just under half of the money invested by registered Yellow investors never actually went into Yellow, rather it went directly to LGSPI. Unfortunately, this casts doubt over some investors' claims against Yellow and is one of the uncertainties that has caused a delay in Yellow claims adjudication;
- We have found that the majority of the remaining investor funds were transferred from Yellow to LGSPI and that only a small fraction (around CHF300k) was ever actually paid by Yellow to Platinum. Unfortunately, this casts doubt over Yellow and Platinum's accounting books and records and has caused a delay in adjudicating Platinum's claims;
- A loan agreement was eventually signed in 2012 (some four years after the start of the structure) for a loan of around CHF4m due by Platinum to Yellow. However, the underlying flows of funds do not support the figures quoted in the agreement giving us cause to question its validity;
- We have found that LGSPI transferred around CHF5.3m to Platinum's lawyer regarding Platinum's land purchase. None of that money has been repaid to LGSPI in so far as we have been able to ascertain and LGSPI has therefore made a claim against Platinum for the return of that money plus interest;
- In the accounts of LGSPI, the amounts received directly from Yellow investors and from Yellow itself were initially accounted for as debts due by LGSPI and thereafter a series of questionable journal entries have been recorded the legal effect of which is entirely uncertain.

Appendix 5 – Consolidated property company report

- We have found that in March 2008 Platinum drew down on a loan facility with Credit Suisse and that CHF3.15m (representing proceeds of the loan) was paid directly to LAM which became Banque Louis;
- This payment was initially accounted for by Platinum as a loan to LAM however the books of account were changed and it was then accounted for as a repayment to Yellow. Yellow never received the money, rather it went to LAM. We have received legal advice that Platinum has valid claims personally against certain individuals in relation to this payment and legal action is now being considered;
- Eventually after yet more questionable journal entries, this CHF3.15m payment was recorded in the books of LGSPI as having been borrowed by AL, a debt that he now disputes;
- As a result of all of these issues, there is significant uncertainty as to who has what rights to Platinum's assets;
- Yellow has almost no money and is not therefore in a position to contest its claims (if any) against Platinum, however we have none the less caused it to file a proof of debt for around CHF7m in the Platinum liquidation;
- The worst case scenario for Yellow stakeholders would be a determination by Platinum that its main creditor was LGSPI based on the flows of funds that occurred between the two entities;
- Yellow may well have grounds to bring claims against a number of parties including former directors, professional advisors, persons involved in the promotion and management of this structure as well as LGSPI. However, it is not in a position financially to pay the costs of any such action nor is it clear whether legal action would be commercially in Yellow's interests.

Future strategy

- Taking into account the above noted history, the resultant degree of uncertainty and the current financial circumstances of Yellow, there are a number of significant problems to be overcome before Yellow will be able to make any returns to its creditors / investors;
- Having filed the proof of debt against Platinum, the other work that needs to be done by us is the adjudication of the various claims by Yellow creditors;
- As part of that process, the rights of those Yellow investors whose money never made it to Yellow will have to be determined as we don't yet know whether it will be possible to treat them on an equal basis with their counterparts whose money made it in;
- Before we do that work, we will have to adjudicate on the proofs that have been submitted against Platinum.
- We refer to section seven of this report regarding our thoughts about a possible compromise arrangement. It is our intention to consult Yellow stakeholders in this regard. However, absent fresh capital, Yellow may have little choice but to compromise as it cannot afford to fight a legal battle against Platinum with its current resources.

Potential recovery of initial investment

- Eventual recovery will depend upon the outcome of the above noted consultation, any resultant compromise process and / or the adjudication by Platinum of Yellow's claim.

Spring Grove Limited (in liquidation)

Update since last report in May 2013

- We appointed Colliers as property manager;
- Spring Grove went into liquidation in June 2013 as it was in breach of its loan conditions and unable to pay debts as they fell due;
- The bank appointed a receiver who took control of the property in June 2013 due to the above noted breach of loan covenants;
- Colliers stood down as property manager and the receiver took over;
- The receiver has recently informed us that the property owned by Spring Grove is about to be sold and that they expect a surplus will be paid to Spring Grove after repayment of the bank.

Current issues

- Spring Grove may have claims pertaining to an interest rate swap that may result in a financial recovery.

Future strategy

- Await receipt of surplus property sales proceeds from the receiver;
- Consider the possible merits of the interest rate swap claim;
- Conclude the liquidation.

Potential recovery of initial investment

- Unknown at this stage.

LG Properties Viola Limited (in liquidation)

Update since last report in May 2013

- Viola went into liquidation in August 2013;
- We completed distribution of assets to investors following each investor completing a release of all remaining claims against all other LG companies involved in Viola's affairs;
- Investors made a profit of around 40% per share compared to the price paid.

Current issues

- None, the liquidation is complete.

Future strategy

- None.

Silver Star Estates Limited (in liquidation) – investor companies Blue Star Properties Ltd and Topaz Properties Limited

Update since last report in May 2013

- In July 2013 BBplc terminated the swap agreements that SSE was party to and debited SSE's account with BPCIL with around £4.0m in early termination penalty taking the SSE overdraft with BPCIL well over £5m;
- Recognising that with such a large liability, SSE was not in any position to continue to trade, SSE petitioned the court and an order was made on 10 September 2013 to wind up its affairs;
- BPCIL submitted a proof of debt in the amount of £5.4m in October 2013;
- A standstill agreement was signed between SSE and BBplc/BPCIL in December 2013 which had the effect of preserving SSE's rights to challenge the swap liability for up to nine months. The agreement expires in September 2014;
- Information was asked of Barclays pertaining to the swaps as well as pertaining to the general operation of SSE's account. Most but not all of that information has now been received;
- Legal advice has been obtained on the merits of BBplc and BPCIL claims against SSE and on the merits of SSE's potential counter claims. This advice has not yet been shared with BBplc or BPCIL pending receipt of the information which they have promised to provide;
- A new lease was signed with the tenant DLP for Unit 29K at Snugborough in May 2014 following lengthy negotiations, the lease terms are confidential;
- A new lease has been signed with a new tenant, for Unit 32K for three years from July 2014;
- The remaining vacant unit at Snugborough, 33K, will suit our needs as liquidators of LGIOM and it is our intention to relocate the LGIOM operation to that unit in September 2014 on terms comparable to the similarly sized unit 32K recently rented out;
- SSE's properties are advertised for sale with an indicated value around £2.5m.

Current issues

- The outstanding position between BBplc / BPCIL and SSE;
- Outstanding loan to Lloyds Bank of C£200k secured by a first charge on Snugborough properties to be repaid from rental/property sale proceeds;
- Involvement of Royal Securities Trust to be clarified as preliminary investigations indicate that investor money may have been paid to RST rather than SSE and / or the investor companies above it;
- Involvement of Kienda to be investigated as it was a former shareholder in Topaz and Blue Star, which reportedly transferred its shares to its members after it had been struck off giving cause to question the validity of the transfers;
- SSE is a protected cell company however as previously reported it is not clear whether cell shares have been issued and / or that assets have been segregated. The intention appears to have been that the remaining Snugborough property would be segregated in "Cell C" however the accounting records and agreements with banks / investors are contradictory. This will have to be resolved as part of the process of determining who has what rights to remaining assets.

Appendix 5 – Consolidated property company report

Future strategy

- Sell remaining properties;
- Conclude RST and Kienda related investigations;
- Conclude the outstanding dispute with BBplc and BPCIL;
- Conclude the cell / asset segregation related investigations;
- Prepare and submit a more detailed report specific to SSE creditors / shareholders and the Court in the Autumn of 2014.

Potential recovery of initial investment

- The outstanding matters between BBplc / BPCIL will need to be resolved before there can be any consideration of a return to investors as the value of claims that they have submitted exceeds the remaining assets by some margin. Given this uncertainty and the possibility of legal claim and counter claim it is not possible to speculate on likely returns;
- Offers for the remaining properties in the region of £2.5m will continue to be invited based on agent advice.

Aldi1 – investor companies LGI Property Holdings (Germany) Limited, LGI Property Holdings (Germany) 2 Limited and LGI Property Holdings (Germany) 3 Limited

Update since last report in May 2013

- The six Aldi1 PropCos in the Aldi1 structure went into liquidation in June 2013 and we were appointed as liquidators. In early 2013 five of these six companies sold nine Aldi stores to repay the lending bank;
- We subsequently sold the two remaining Aldi stores which were owned by Ruby for €3.5m in November 2013;
- Currently the six Aldi1 PropCos have cash of around €4.2m;
- There are competing claims against these companies for this cash;
- We have confirmed that the financial records of the three Aldi1 InvestCos record as assets around €6m of loans to LGIE and that the financial records of the six Aldi1 PropCos record as liabilities similar amounts due to LGIE. The problem is that this was not what was represented to the investors in the three Aldi1 InvestCos when they made their investments, rather they thought their money was going straight to the six Aldi1 PropCos;
- We have confirmed that in the financial records of LGIE, corresponding liabilities to the three Aldi1 InvestCos and receivables from the six Aldi1 PropCos are also recorded;
- LGIE is in insolvent liquidation with liabilities approaching £40m including the amounts due to the three Aldi1 InvestCos. Its main remaining recorded assets of any value are the above noted receivables from the six Aldi1 PropCos;
- We have examined bank statements and accounting records. We are satisfied that but for a few journal entries that we think may be questionable, the accounting records of all of the companies reflect the actual flows of funds that occurred;
- We have caused the three Aldi1 InvestCos to make claims against LGIE based on accounting records and supported by flows of funds;
- We have also caused the three Aldi1 InvestCos to make claims against five of the six Aldi1 PropCos based on certain agreements signed during 2009 which purport to grant the three Aldi1 InvestCos a secured interest money recovered by LGIE from five of the six Aldi1 PropCos. Amethyst is excluded from these agreements;
- We have found an indemnity document signed by the three Aldi1 InvestCos in 2011 in favour of LGIE which seemingly means that LGIE is indemnified for losses incurred by it on its loans to five of the six Aldi1 PropCos;
- We have received legal advice on the various documents, agreements and flows of funds including the security agreements and the indemnity;
- Finally, we have obtained German legal advice on whether some or all of the six Aldi1 PropCos have an exposure to German real estate transaction tax as a result of declarations of trust signed in late 2008 in favour of the three Aldi1 InvestCos. The advice, based on information currently available suggests that no liability exists.

Current issues

- Stakeholders in the three Aldi1 InvestCos are understandably concerned to recover their investments now that the properties owned by the six Aldi1 PropCos have been sold;
- As liquidators of the six Aldi1 PropCos we must complete the process of adjudicating on the claims that we have received;
- We believe that LGIE was insolvent when it granted the purported security in favour of the three Aldi1 InvestCos in late 2009 and that as a result the security may be challenged as a possible preference;
- We also believe, for the reasons set out earlier in this report, that LGIE has been used as a melting pot of investor money sourced from a variety of different people and companies over the years, including the InvestCos. As a result, there is a taint over every transaction that it has been involved in including those involving the three Aldi1 InvestCos;
- Neither LGIE nor any of the three Aldi1 InvestCos has any money to pursue their claims and recently a creditor has served a statutory demand which the Aldi1 InvestCos in question cannot pay;
- We think it significant that there were no changes to the accounting records of any of the companies after the agreements were signed in 2009. If, as may have been the intent at the time, the agreements were supposed to have the effect of removing LGIE from the structure and instead allow the property companies to recognise the three Aldi1 InvestCos directly, then why did the accounts not change to reflect this?;
- In addition, as a result of our enquiries in to flows of funds, we have found that least €1.36m of investor funds were paid directly to LGIE. This casts a doubt over the validity of some investor claims against the three Aldi1 InvestCos;
- We have found that documents pertaining to transfers between the three Aldi1 InvestCos and LGIE in the critical period June and July 2006 (when the majority by value of transfers occurred) are missing and that as a result we have been unable to conclude our investigations. This has delayed the process of adjudication;
- The debts of the six Aldi1 PropCos to the lending bank were subject to a cross collateral provision which has left Ruby (the last company to sell its properties) with the vast majority (around 85%) of the net sale proceeds. This cross collateral effect would significantly prefer G1 over G2 and G3 as it is the only one of the three Aldi1 InvestCos that has an arguable interest in Ruby pursuant to the documents signed in 2009;
- Audited financial statements of the six Aldi1 PropCos reflect substantial write downs in the value of the properties in financial years 2010 and 2011 however there is no corresponding write down in the audited financial statements of the three InvestCos nor in the books of account for LGIE. We don't know why that is, however it is apparent that financial losses in the six Aldi1 PropCos would not have been apparent to a reader of the audited accounts of the three Aldi1 InvestCos or LGIE. This financial loss may well give rise to a counter claim against the three Aldi1 InvestCos by LGIE pursuant to the above noted indemnity, if that document were to be found valid;
- The three Aldi1 InvestCos may well have grounds to bring claims against a number of parties including former directors, professional advisors, persons involved in the promotion and management of this structure in addition to their claims against LGIE and the six Aldi1 PropCos. However, the three Aldi1 InvestCos have almost no funds and are therefore not in a position financially to pay the costs of any such action.

Appendix 5 – Consolidated property company report

Future strategy

- We refer to section seven of this report regarding our thoughts about a possible compromise arrangement. It is our intention to consult the three Aldi1 InvestCos' stakeholders in this regard. Absent fresh capital, they may have little choice but to compromise as presently the three Aldi1 InvestCos cannot afford to fight a legal battle against the six Aldi1 PropCos or LGIE with current resources;
- Absent any possibility of a compromise, then the three Aldi1 InvestCos will have to await the adjudication of their claims against five of the six Aldi1 PropCos.

Potential recovery of initial investment

- Eventual recovery will depend upon the outcome of the above noted consultation, compromise and adjudication process.

LG Investments Lavender Limited

Update since last report in May 2013

- Previously we reported that Lavender had an apparent interest in Agate and that Agate owned apartments in Bonn, Germany;
- We also reported that the routing of Lavender funds into LGSPI required investigation;
- We have reviewed the Lavender offering document dated in 2007 and found that investors were told Lavender would take an interest in a company, Scilla, which would own apartments in Bonn, Germany. As far as we can tell Scilla has never operated and has never owned any apartments;
- We have found, by review of bank statements, that all of the shareholder funds, around €700k, in Lavender were in fact paid to LGSPI;
- These payments were recorded in Lavender's accounting records as a loan to LGSPI, that was the position in the books when we were appointed and that remains the case today;
- We have found that LGSPI transferred approximately €1.8m to Agate between 2006 and 2007 and that these funds were used to finance the purchase of the Bonn apartments. In late 2009, entered into a purported assignment of its entire interest in Agate in favour of LGSC, approximately €1.8m;
- We found that subsequently, questions were raised by Lavender directors and that as a result, LGSC entered into a purported re-assignment in favour of LGSPI of around half of the amount initially assigned i.e. a partial reversal;
- Finally, we found draft minutes, unsigned but dated 3 October 2012, the day before our appointment as managers of LGIOM, which referred to another purported assignment by LGSPI of the re-assigned amount this time in favour of Lavender;
- We have recently completed the process of selling the eleven apartments in Bonn on behalf of Agate. Presently, there is around €1.4m in its bank account. All related bank debt has been repaid;
- Agate's recorded creditors are LGSC and LGSPI, and they have broadly equal unsecured claims;
- Agate is not yet in liquidation and LGIOM is presently registered as its corporate director. It is a BVI company and we consider it to be insolvent based on its financial records as the amounts that it is purportedly due to LGSPI and LGSC exceed the amount in its bank account.

Current issues

- In common with a number of other structures, Lavender investor money has been paid to LGSPI and we have confirmed this by reference to bank statements and by reference to Lavender accounts;
- Once in LGSPI, that money has been mingled with money from a number of sources;
- There is no documentation, accounting record or loan agreement to support that Lavender has any interest in Agate. However, given the representations that were made to Lavender investors and creditors at the time they made their investments, and having found out what actually happened to their money, there is a resultant taint over Agate which may give Lavender some sort of interest;
- Unfortunately, as we have reported elsewhere in this report, Lavender investors / creditors are not alone in being affected by this sort of problem;
- We are satisfied that LGSPI transferred money to Agate. We are less satisfied about LGSPI purportedly assigning its interest in Agate to LGSC and that around half of that interest was purportedly reassigned back, possibly for onward assignment to Lavender. We are satisfied that the last part of this process, the onward assignment to Lavender was never completed;

Appendix 5 – Consolidated property company report

- Lavender's remaining asset per its books and records is a loan to LGSPI for just over €700K, although there is no loan agreement, funds flows per bank statements support the position shown in accounting records and taken together are *prima facie* evidence that LGSPI owes Lavender around €700k. It may well have claims for interest on that amount as well notwithstanding there being no loan agreement;
- Lavender has no money and it (and by extension its investors / creditors) may well suffer a total loss;
- Lavender may well have grounds to bring claims against a number of parties including former directors, professional advisors, persons involved in the promotion and management of this structure as well as LGSPI. However, it is not in a position financially to pay the costs of any such action.

Future strategy

- We refer to section seven of this report regarding our thoughts about a possible compromise arrangement. It is our intention to consult the Lavender stakeholders in this regard. However, absent fresh capital, Lavender may have little choice but to compromise as presently it cannot afford to fight a legal battle with current resources;
- Absent any possibility of a compromise, then Lavender will have to await the adjudication of its claims against LGSPI;
- Agate is a BVI company and will have to be liquidated so that its creditor position can be fully and finally determined. We would prefer to redomicile it to the Isle of Man to deal with its liquidation here as we think that will be a more cost efficient approach. However, it may not be possible to do this due to Agate being insolvent, presently we are considering options and taking advice.

Potential recovery of initial investment

- Eventual recovery will depend upon the outcome of the above noted consultation, compromise and adjudication process, in the worst case, Lavender will not receive anything because as things presently stand, LGSPI is unlikely ever to be able to pay a dividend to its unsecured creditors.

Lysis Properties PCC Inc

Update since last report in May 2013

- We previously reported that the remaining property owned by Lysis (being a small retail store in Mansfield let to Body Shop) was worth around £465k (less than half of its recorded book value);
- We can report that we have recently agreed to sell the property for £495k (subject to costs and commission) and completion is imminent;
- At that point Lysis is expected to have around £0.9m in cash;
- We have carried out a review of early Lysis activity to establish flows of funds from investors and there are certain matters of concern identified, notably apparent irregularities in the allotment of shares. As a result, we have a concern that shares may not have been allotted properly;
- In addition, we think it unlikely, based on our review, that Lysis has properly formed segregated cells and that as a result there might not be any ring fence of assets for investors;
- There is also a possibility, due to the fact that some investors in some purported “cells” have been paid out in full prior to our appointment, that they may have been preferred over remaining investors;
- In addition, some remaining investors have been partially repaid in the past from other “cells”, giving rise to questions as to whether prior repayments should be taken into account when calculating their possible share of remaining assets;
- Finally Lysis’ books and records, particularly financial records, are in a poor state leading to doubts around their accuracy and reliability for decision making purposes.

Current issues

- Commencing a liquidation process for Lysis after the completion of the sale of its property given that its business purpose will at that point have finished;
- Determination of a suitable and fair basis upon which to decide who is due what from Lysis;
- Possible reconstruction of financial records.

Future strategy

- Lysis appears to have transferred money to LGSPI at various times and may well have a claim against LGSPI in that regard;
- If Lysis is offered a compromise arrangement and the possibility of shares in any new pooled vehicle in lieu of any LGSPI claim, then it is our considered view that Lysis interests would be served by agreeing to such compromise.

Potential recovery of initial investment

- There is too much uncertainty at this time to make a meaningful estimate of potential recovery however given that Lysis has cash assets, investors can anticipate some return at some point.

Mayworth Properties Limited (in liquidation)

Update since last report in May 2013

- We previously reported that Mayworth was managed by LGUK and that AL was the sole director;
- As liquidators of LGSPI, holders of the voting shares in Mayworth, we passed a resolution replacing AL with LGIOM as director in November 2013;
- At that time, we met with the bank which had financed Mayworth as well as the receiver whom the bank had appointed to sell its assets pursuant to a security;
- They explained that the anticipated sales proceeds of two of three remaining apartments in London owned by Mayworth was expected to be sufficient to repay the bank leaving three other apartments and a garage to be sold;
- Mayworth went into creditors voluntary liquidation in January 2014 and we were appointed as liquidators;
- Shortly thereafter the two apartments in London were sold, the bank was repaid and the receiver stood down;
- We sold the third London apartment at auction in February 2014 for £445,000 (gross);
- We appointed agents and have sold one of the two remaining apartments in Leamington Spa for £240,000 (gross) as well as the garage for £14,000 (gross);
- The remaining apartment is in a bad condition, suffering from damp and fungus growth and following a recent inspection by / advice from a builder we have decided to sell the apartment on an as seen basis. Recently an offer for £210,000 has been received and we have accepted it;
- There are indications, based on information received from the Mayworth receiver, that one of the properties in Leamington Spa was being used by LGUK staff;
- At the conclusion of this process, we anticipate that Mayworth will have around £1m in cash available for distribution to creditors and shareholders.

Current issues

- Completing the asset disposal process;
- It appears that some of Mayworth's properties were initially purchased using money from LGIE in 2004. As a result we will have to investigate early flows of investor funds into Mayworth and the initial property purchases to establish whether there are any issues;
- It also appears that money has transferred between Mayworth and LGIE/LGSPI at various times since 2005. As a result, we think that there are likely to be a number of competing claims between Mayworth investors and LGSPI / LGIE for Mayworth's assets;
- We are therefore investigating the dealings between Mayworth, LGSPI and LGIE as part of the liquidation process;
- We will try to determine whether Mayworth has any other as yet unknown assets or liabilities arising from the period when it was under LGUK control.

Future strategy

- A compromise may well be in everyone's interests. This will be considered as part of our ongoing investigations and we will write separately to Mayworth investors in due course.

Appendix 5 – Consolidated property company report

Potential recovery of initial investment

- There is too much uncertainty at this time to make a meaningful estimate of potential recovery however given that Mayworth has cash assets, investors can anticipate some return at some point.

Louis Group Investco Pink Limited and Louis Group Investments Pink 2 Limited

Update since last report in May 2013

- As a result of financial difficulties and breaches of the loan conditions, the primary lender to the property companies associated with the Pink InvestCos made an application to Court in July 2013 that the property companies should be wound up on the grounds that they were unable to pay their debts as they fell due;
- The Court made an order and some of the Pink PropCos went into liquidation on 28 August 2013. Paul Duffy of Ernst & Young LLC, and Benjamin Thom Cains of Ernst & Young LLP were appointed liquidators;
- In September 2013 we filed claims in these liquidations on behalf of the Pink InvestCos as unsecured creditors;
- We wrote to investors in December 2013 to inform of these developments and in that letter we stated that we thought it likely that investors and creditors would suffer a complete loss on their investment in the Pink InvestCos.

Current issues

- The liquidator has recently informed us that as a result of the ongoing property sales process the bank is likely to be repaid in full and there may be a small surplus for the Pink InvestCos.

Future strategy

- Await receipt of surplus property sales proceeds (if any) from the liquidator;
- Keep Pink InvestCos in good standing if possible;
- Commence and carry out an orderly liquidation of the Pink InvestCos.

Potential recovery of initial investment

- Unknown at this stage.

Companies under LGUK management

Summary

- In our report last year we made reference to certain companies which were under the management and control of LGUK / AL;
- LGIOM provided registered agent services to these companies at the date we were initially appointed;
- Historically LGIOM staff were directors and book-keeping services were also provided;
- As we also reported, LGIOM staff explained to us that control of these companies transferred following concerns expressed by them that the companies were insolvent. The timing of the change of control is identified in the table below;
- Based on historical information contained in records held by LGIOM belonging to these companies, we believe that the value of any remaining property is exceeded by the value of bank debt and on that basis we think it unlikely that any meaningful recoveries will be achieved for creditors / investors;
- However, recognising that we have had no involvement in the management of these companies nor access to their current books and records of account, we cannot make any definitive conclusions;
- As part of the process of winding down the affairs of LGIOM and recognising that outstanding fees payable to LGIOM by these companies were unlikely to be paid, we caused LGIOM to resign as registered agent;
- Presently we understand that a replacement registered agent has not been found and that as a result, the majority of the companies have been struck off.

The current situation is as set out in the undernoted table

No	Company Name	Linked Investment Company	Change of control	Comments
1	Emerald Properties Limited	N/A	HC appointed as director 10/5/2011 AL appointed as director 30/1/2012	Struck off - Financial returns for investors considered unlikely.
2	LG Investments Begonia Limited	N/A	JMc appointed as director 10/5/2011	Struck off - Financial returns for investors considered unlikely.
3	LG Investments Marigold Limited	N/A	JMc appointed as director 19/11/2010	Struck off - Financial returns for investors considered unlikely.
4	LG Properties Alpinia Limited	N/A	HC appointed as director 10/5/2011 AL appointed as director 30/1/2012	Struck off - Financial returns for investors considered unlikely.
5	LG Properties Aster Limited	N/A	JMc appointed as director 22/7/2010	Struck off - Financial returns considered unlikely. Appears to have been used to own a church building in Dublin using money from LGSPI.

Appendix 5 – Consolidated property company report

6	LG Properties Chelone Limited	LG Investments Peony Limited	AL appointed as director 30/1/2012	Chelone Struck off - Peony has no liquid resources.
7	LG Properties Eucharis Limited	LG Investments Reed Limited	AL appointed as director 30/1/2012	Eucharis Struck off - Reed has no liquid resources, however it may have a claim against LGSPI and may be an eligible Participant in any compromise.
8	LG Properties Ginger Limited	LG Investments Bloom Limited	AL appointed as director 30/1/2012	Ginger Struck off - Bloom has no liquid resources, however it may have a claim against LGSPI and may be an eligible Participant.
9	LG Properties Lotus Limited	LG Investments Lotus Limited	AL appointed as director 30/1/2012	Properties Lotus Struck off - Investments Lotus has no liquid resources, however it may have a claim against LGSPI and may be an eligible Participant.
10	Sun Stone Limited	N/A	HC appointed as director 10/5/2011 AL appointed as director 30/1/2012	Struck off - financial returns for investors considered to be unlikely.
11	Zircon Properties Limited	N/A	AL appointed as director 12/12/2011	Struck off – Zircon was at one time a subsidiary of LGIOM and appears to have bought/sold flats in the XQ7 development in Manchester, England. Some flats were sold at a mark up to other structures notably Ginger and Investments Lotus creating a possible conflict of interest.
12	LG Properties Persian Limited	N/A	AL appointed as director 7/6/2012 and replaced on 3/10/2013	Struck off - financial returns for investors considered to be unlikely. Involved in the Schloss transaction as described earlier.
13	LG Investments Privet Limited	N/A	AL appointed as director on 7/6/2012 and replaced on 3/10/2013	Struck off - financial returns for investors considered to be unlikely. Parent of Persian.
14	LG Investments Azalea Limited	N/A	AL appointed as director on 22/2/2012 and replaced on 20/5/2013	Has various shareholdings - has not yet been struck off – under our control now but returns considered unlikely.
15	LG Properties Protea Limited	N/A		Has been transferred. Is now under control of new directors and registered agent.

Appendix 5 – Consolidated property company report

16	Mayworth Properties Limited	N/A	HC and JMc appointed in September 2011	In liquidation, under our control - refer to individual Mayworth report.
Other Companies				
17	BL Holdings Limited	N/A		Pending strike off - notice issue 21.01.14 - 15.04.14.
18	BL Investments Limited	N/A		Pending strike off - notice issue 21.01.14 - 15.04.14.
19	Star Direct Limited	N/A		Struck off.
20	Riverland Global Limited	N/A		Not yet struck off – investor returns unlikely.

Commissions and loans

- Notwithstanding LGIOM resigning as registered agent, we have continued to receive bank statements for certain of these companies. These bank statements show a pattern of activity whereby upon receipt of funds which we believe to be rental income, the account balance is transferred, often on the same day, to either LGUK or LGE. These transfers typically have the description “Loan” or “Commission”;
- It is unclear to us whether these transfers have a legitimate commercial purpose and the pattern of activity – effectively these accounts are emptied upon receipt of new funds – is a matter of concern;
- In total, we calculate that the aggregate amounts so transferred during the period since our appointment exceed £800k. We do not know what LGUK / LGE have done with this money, however we consider that it may well be lost;
- Presently none of the entities under our control which have any interest in these companies has sufficient liquid resources to pay for any further investigation or to finance any intervention;
- As these struck off companies are no longer clients of LGIOM, we do not expect that we will provide any future updates and all enquiries should be directed to LGUK. If the situation changes and we become more involved, then we will inform affected parties at that time.

Appendix 6 - Liquidators' and legal fees to 31 May 2014

The fees shown below reflect the position as at 31 May 2014 for both PwC and legal fees.

1. Summary of PwC fees up to 31 May 2014 (excl VAT) – all figures in GBP – total fees by Company

	Paid by Company	Paid by FSC	Approved by Court & paid to date	Pending Court approval	Pending payment	Total fees as at 31 May 2014	Total fees as at 25 May 2013
LGIOM	1,194,748	211,844	1,406,592	108,486	-	1,515,078	692,680
LGSPI	72,266	117,258	189,524	-	8,707	198,231	83,897
LGIE	2,868	79,671	82,539	1,806	20,316	104,661	71,133
LGSC	114,783	-	114,783	2,514	-	117,297	102,260
LGSF	76,007	-	76,007	2,606	-	78,613	53,874
LGSLN	47,179	-	47,179	2,917	-	50,096	26,989
TOTAL	1,507,851	408,773	1,916,624	118,329	29,023	2,063,976	1,030,833

The fees above can be broken down into pre and post liquidation fees as follows:

Appendix 6 - Liquidators' and legal fees to 31 May 2014

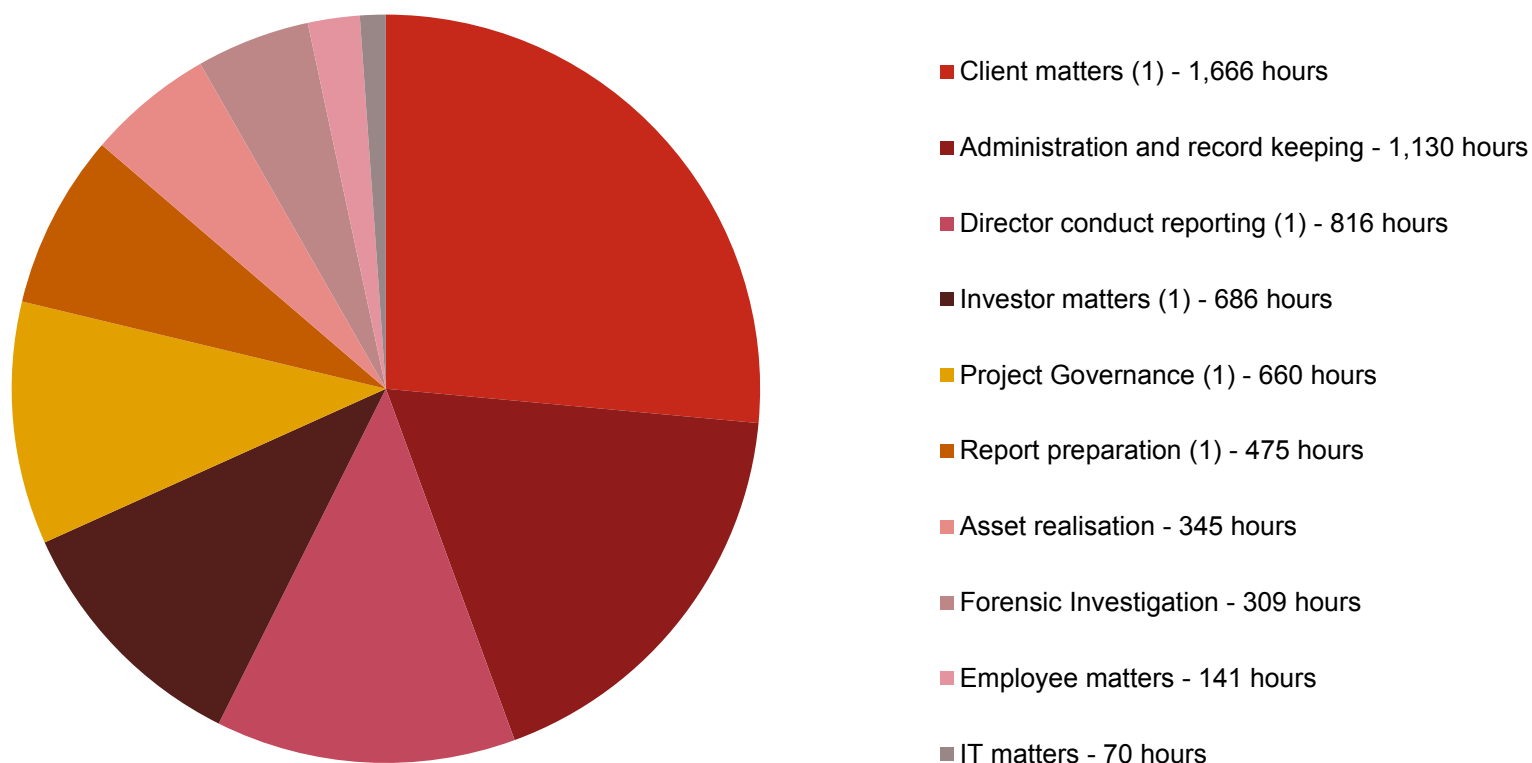
2. Summary of PwC fees up to 31 May 2014 (excl VAT) – all figures in GBP – split pre and post Appointment by Company

	Pre liquidation	Post liquidation	Total fees
LGIOM	340,915	1,174,163	1,515,078
LGSPI	39,416	158,815	198,231
LGIE	37,894	66,767	104,661
LGSC	51,238	66,059	117,297
LGSF	19,142	59,471	78,613
LGSLN	-	50,096	50,096
TOTAL	488,605	1,575,371	2,063,976

3. Work done on LGIOM

The graph below reflects how our time on LGIOM has been spent.

How our LGIOM time has been spent



(1) A part of this time has been recharged to client entities and other companies

Appendix 6 - Liquidators' and legal fees to 31 May 2014

4. Legal fees up to 31 May 2014 (excl VAT) – all figures in GBP – total fees by Company

	Paid by Company	Paid by FSC	Approved by Court & paid to date	Pending Court approval	Pending payment	Total fees as at 31 May 2014	Total fees as at 25 May 2013
LGIOM	128,032	42,326	170,358	9,075	-	179,433	97,882
LGSPI	12,516	33,550	46,066	1,106	2,145	49,317	29,861
LGIE	36,234	-	36,234	717	4,115	37,674	30,828
LGSC	-	36,034	36,034	813	-	40,866	20,986
LGSF	29,470	-	29,470	1,440	-	30,283	18,471
LGSLN	13,769	-	13,769	582	-	14,351	7,584
TOTAL	220,021	111,910	331,931	13,733	6,260	351,924	205,612

Appendix 6 - Liquidators' and legal fees to 31 May 2014

5. Legal fees up to 31 May 2014 (excl VAT) – all figures in GBP – all figures in GBP, split pre and post Appointment by Company

	Pre liquidation	Post liquidation	Total fees
LGIOM	50,175	129,258	179,433
LGSPI	21,256	28,061	49,317
LGIE	22,692	14,982	37,674
LGSC	12,966	27,900	40,866
LGSF	10,305	19,978	30,283
LGSLN	-	14,351	14,351
TOTAL	117,394	234,530	351,924

Louis Group (IOM) Limited (in liquidation)

Report by Michael Simpson and

Gordon Wilson

Joint Liquidators

11 August 2014



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LGIOM FINANCIAL POSITION

The table below is a summary of the financial situation of LGIOM as at 31 May 2014.

Comparator figures from our last report and at the date of our appointment have been provided for reference.

	21 January 2013 £m	Assessment at 31 May 2013 £m	Assessment at 31 May 2014 £m	Comment
Assets				
Fixed assets	Nil	Nil	Nil	Note 1
Trade debtors gross	2.4	2.2	2.6	
Trade debtors (provision)	(1.1)	(2.1)	(2.5)	
Trade debtors (net)	1.3	0.1	0.1	Note 2
Other debtors	0.1	Nil	Nil	
Cash at bank	0.3	0.3	0.2	
LGIOM services	1.0	Nil	Nil	Note 3
Other assets	0.1	Nil	Nil	
Total assets	2.8	0.4	0.3	
Liabilities				
Subordinated loan from LGSPI	0.5	0.5	0.5	Note 4
VAT due on debtors when received	0.3	0.0	0.0	
Liquidators fees and associated legal expenses	0.4	0.2	0.1	
Trade creditors	0.1	0.1	0.1	
FSC*	-	-	0.3	
Prepaid income	0.1	Nil	Nil	
Total liabilities	1.4	0.8	1.0	
Net assets / (liabilities)	1.4	(0.4)	(0.7)	
Contingent liabilities	-	19.8	(57)	Note 5

* This represents finance provided after our appointment by the FSC to meet some of the costs of our work. As post appointment finance, it is repayable in priority.

Note 1 – Fixed assets

There were no fixed assets of any material value owned by LGIOM. Office furnishings were sold to the landlord and offset against rental costs of the office. Computer and other similar equipment remain in use in the work of the liquidation.

Note 2 – Trade debtors

There is a small increase in trade debtors from that previously reported. This is because of further enquiries made by ourselves in which we established that certain billing had been either omitted or calculated incorrectly prior to our appointment.

For the purposes of LGIOM making claims against certain of its debtors, it was necessary to update the figures to the correct amounts however a full provision for that additional amount has been made given the financial situation at many of the debtor companies.

Note 3 – LGIOM Services

LGIOM Services remains in liquidation and is unlikely to return any funds to LGIOM, its main creditor.

Note 4 – Subordinated loan

LGIOM is, per its financial statements indebted to LGSPI.

Note 5 – Contingent liabilities

There has been a substantial increase in the number and amount of contingent claims against LGIOM since our last report, notably from LGSF which has brought a breach of fiduciary duty claim arising from our review of the conduct of LGSF directors supplied under contract by LGIOM. A number of allegations of LGIOM mis-selling investments to a variety of structures and individuals have also been made.

Claim group	Assessment at 31 May 2014 £m
Property syndicate shareholders	3.3
LGSLN loan note holders	0.6
Staff	0.4
Breach of fiduciary duty	40.8
Misrepresentation	3.1
Mis-selling	8.8
	57.0

LGIOM FIDUCIARY SERVICES

We have made substantial progress in terminating the external relationships that LGIOM had with those fiduciary clients which were not part of the property syndication business.

Those external relationships which remain, there are only fourteen remaining structures, are beset with problems, primarily related to lack of funds and exposure to Louis related investments. In such circumstances it is not possible to transfer them to other service providers and thereby relieve LGIOM of the responsibility.

It is possible that certain of these companies may end up being struck off for non-payment of fees however we are in communication with the people who have the financial interests and in some cases fees are being paid as they fall due pending future realisations. We anticipate that the majority of these companies will have to be liquidated or dissolved in due course.

As explained in our report last year, a number of companies had transferred to LGUK management however LGIOM retained a registered agent responsibility. Due to non-payment of fees, LGIOM terminated these relationships and the companies in question have since been struck off.

More detail is provided in Appendix 5. LGIOM retains some of the books and records of these companies as it has a lien. However we are, unfortunately, not in a position to give any advice or to offer much by way of assistance to those who have an exposure to these companies.

The other remaining LGIOM client companies are related to property structures and / or the various liquidations that we are involved in and for those, LGIOM continues to provide registered agent and administrative services. LGIOM does so under new agreements which we have put in place and at fee rates which are substantially discounted but which nonetheless contribute to the costs of running LGIOM in liquidation.

As a general rule, work is done only by LGIOM on the affairs of those client companies who can pay for the work or who are likely to receive some sort of asset recovery in the future from which payment may be deducted. In these circumstances, LGIOM's time is billed but unpaid. In addition LGIOM has made small value payments such as annual fees on certain client companies' behalf to keep them in good standing.

FUTURE STRATEGY

Presently LGIOM has five remaining staff employed by ourselves as liquidators although that level is expected to reduce to four in August 2014. The staff help us with the business of the liquidation and are also involved in the liquidations of the property syndicate companies.

It is financially and operationally efficient for them to be involved and we expect to retain them for as long as current work levels are maintained provided there are funds available to pay their salaries.

We have operated the liquidation thus far from the second floor of the Louis Building in Douglas.

However the cost of maintaining that office is no longer affordable and we have recently decided to relocate to a unit in the Snugborough Trading Estate which will be significantly cheaper yet will meet our anticipated needs. That move is expected to complete in September 2014.

Thereafter, our intention is to continue the next phase of the liquidations, namely consideration of potential compromise and failing that, debt adjudication.

Louis Group Structured Capital Limited (in liquidation)

Report by Michael Simpson and

Gordon Wilson

Joint Liquidators

11 August 2014



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Financial position

The table below is a summary of the financial situation of LGSC as at 31 May 2014.

Comparator figures from our last report has been provided for reference.

	Our assessment At June 2013 £'000	Our current assessment At 31 May 2014 £'000	Further Comments
Investments	-	-	
Cash at bank	240	188	Note 1
Loans including accrued interest (net of provision for loan impairments)	1,250	830	Note 2 & Schedule 1
Sundry other assets	9	-	Schedule 1
Total assets	1,499	1,018	
Loans payable including accrued interest	29,589	29,589	Note 3
Sundry other liabilities	478	590	Note 4
Total liabilities	(30,067)	(30,179)	
Net liabilities	(28,568)	(29,161)	

Note 1 - Cash at bank

The movement in cash balance is mainly due to liquidation and legal fees. We have aimed to keep both as low as possible.

Note 2 - Loans receivable

We understand more now about LGSC's loans situation and in particular how it arose in late 2009 as a result of assignments by LGSPI.

In our last report we highlighted the two structures in which LGSC appears to have an interest where recoveries seemed likely:

LGI Properties Agate Limited

As reported in Appendix 5 of this report, we have completed the process of realisation of Agate's assets and Agate presently has around €1.4m in its bank. There are competing claims to those assets from LGSPI, LGSC and possibly Lavender that fall now to be dealt with. For the purpose of the financial schedule above we have assumed that LGSC has a 50% interest.

LG Properties Sage Limited

As reported in Appendix 5 of this report, we have completed the sale of the land owned by Sage. During that sales process we found out that the sales price which had been agreed a few weeks before our appointment was inclusive of German VAT at 19%. As a result, the net proceeds realised were less than we initially anticipated at just over €0.6m.

There are competing claims to these funds by LGSPI and LGSC. For the purpose of the schedule above we have assumed that LGSC has a 100% interest.

We note that a strengthening of GBP versus € since our last report has further reduced the value of these loans when expressed in GBP.

Having reviewed the loans schedule (Schedule 1) which is a summary of that found by us in LGSC's accounting records, we consider the other positions recorded there on to be worthless for the purposes of this report.

Note 3 - Loans payable

The loan payable is to LGSF and includes accrued interest. LGSF has proved as a creditor and we believe the debt to be due and payable.

Note 4 – Sundry liabilities

We have not yet concluded on the LGSC creditor claims adjudication process however we do not believe that LGSC has a material number of creditors other than LGSF.

Other matters

As explained in section seven of this report, we are considering the merits of a solution involving a pooling of assets. Such a solution would, if implemented based on the current claims situation, mean that LGSC would contribute its remaining cash, plus all of its purported assets (i.e. possible claims against / interests in Agate and Sage as well as a possible interest in LGSA) to the new entity.

In return, LGSF would have to forgive its claims against LGSC in exchange for participating shares in the pool entity. If this were to be achieved it would bring to an end the LGSC liquidation.

Schedule 1 – LGSC loans

Name of borrower	Loan principal £000	Interest accrued £000	Total owing £000	Impairment provision £000	Net value at 29 February 2012 £000	Assessment as at May 2013 £000	Current assessment May 2014 £000
Brantwood Corporation Limited*	553	-	553	503	50	-	-
LG Properties Persian Limited*	2,854	142	2,996	1,033	1,962	-	-
Emerald Properties Limited*	2,001	100	2,101	1,895	206	-	-
LG Enterprises (formerly LG Properties Alpinia Limited)	50	-	50	-	50	-	-
LG Properties Eucharis	442	22	464	464	-	-	-
LG Investments Geranium Limited re Lichen*	1,150	57	1,207	1,207	-	-	-
LG Properties Angelica Limited (in liquidation)	490	24	514	306	208	-	-
LG Properties Agate Limited	610	58	668	189	478	650	440
LG Investments Azalea Limited re Cynara*	948	47	995	734	261	-	-
LG Properties Ginger Limited	736	36	773	773	-	-	-
LG Properties Saffron Limited (in liquidation)	667	33	700	355	345	-	-
LG Investments Azalea Limited re Monarda	739	37	776	776	-	-	-
LG Properties Sage Limited	728	36	764	199	565	600	390
Louis Group Investments Marigold Limited	765	38	803	803	-	-	-
Silver Arrow Limited	532	30	562	562	-	-	-
LG Enterprises Limited (formerly LG Investments Azalea Limited re Protea)	127	-	127	127	-	-	-
LG Properties Dianthus Limited	28	1	29	29	-	-	-
Louis Group Property Investments	868	3	871	216	655	-	-
Sub total	14,288	664	14,953	10,171	4,780	1,250	830
LG SP Investments Limited (in liquidation) (LGSPI) (note 1)	16,119	881	17,000	7,833	9,167	-	-
Total	30,407	1,545	31,953	18,004	13,947	1250	830

Note 1

Schedule 1 – LGSC loans

The loan receivable from LGSPI is secured via a Deed of Guarantee provided by the Alan Louis Family Trust and security over 65% of the issued share capital of LGSA. We have ascribed a value of nil to the Deed of Guarantee and the security over the shares for the purpose of this report as LGSA is in business rescue.

Louis Group Structured Fund PLC (in liquidation)

Report by Michael Simpson and

Gordon Wilson

Joint Liquidators

11 August 2014



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Financial position

The largest recorded asset of LGSF when we were appointed was the loans made to LGSC. We have made a claim on LGSF's behalf against LGSC of around £29.5m representing advances made plus accrued interest.

We believe that to be the amount that is due and payable by LGSC back to LGSF.

As at 31st May 2014 the cash position of LGSF is around £270K. This is down from £340k in our last report due to a combination of liquidation costs and legal fees, in particular investigating / reporting on the conduct of the LGSF board and investigating LGSF's potential claims against LGIOM arising from apparent shortcomings in that conduct.

Asset recovery - claims against LGIOM

LGIOM provided directors to LGSF throughout its life pursuant to a contract for services between the two companies. Those services are subject to regulation in the Isle of Man, and LGIOM was licensed to provide them by the FSC. In addition, LGIOM as a licence holder had to have professional indemnity cover as regards its business.

In November 2012, we caused LGIOM to make a notice of potential claim declaration to its insurer regarding a number of matters, one of which was the possibility that LGIOM had been negligent in the services that it provided to LGSF leading to catastrophic loss.

Unlike many investment funds, there was no asset manager for LGSF, rather the directors assumed the responsibility for investing LGSF assets pursuant to the terms of the offer document. The LGSF directors were also directors of LGSC and as a result they were aware of what LGSC was doing with the money borrowed from LGSF i.e. lending it to LGSPI.

As regards their conduct as directors we believe that there is a case to answer in particular with regard to shortcomings in:

- Due diligence on LGSPI, the principal recipient of LGSF investor funds which was not, in our view, a company which met the "Approved Party" definition in the LGSF offer document;
- Missing clear warning signs that LGSPI, the company to whom LGSF/LGSC was transferring / loaning assets, was in financial distress and continuing to make new loans despite those signs;
- Making new loans to permit interest to be serviced;
- Failing to document loans adequately;
- Failing to monitor individual loans and to demand repayment on a timely basis;
- Reliance on collateral schedules compiled by AL without asking for supporting information to establish the veracity of the details on the schedules;
- Trading LGSF whilst it was arguably insolvent and permitting new subscriptions in/redemptions to be paid out when it is arguable that calculation of NAV should have been suspended.

We consider it to be arguable, based on the work we have done, that LGSF and its board should have recognised at a very early stage that something was very wrong and that all new lending should have stopped pending due and diligent enquiry. However it was not until February 2010, and following the enquiries of a new director not affiliated with LGIOM, that LGSF was eventually suspended.

On advice, we have caused LGSF to make a claim against LGIOM for the full amount of its loss which per the claim we attribute to the above noted shortcomings on the part of its LGIOM supplied board. In turn, LGIOM has brought this to the attention of its insurers pursuant to the notification made in November 2012.

Investors should appreciate that there is a policy limit and this means that even if the claim is accepted in full, the pay out from the insurers would be capped at a much reduced figure. Notwithstanding that limitation, we believe the claim to be worthy of further pursuit and as a result, a detailed statement of claim is being prepared which will be submitted shortly.

There are other possible claims that LGSF might have against other third parties involved in its affairs however as yet we have not carried out any in depth assessment. We will only do so if and when there are the funds to pay for such assessment and if there is sufficient potential for additional recoveries.

Investor claims

A number of investors have made claims against LGSF as creditors. We can see no legal basis for such claims and they have been / will be rejected by us. However we emphasise that this does not affect their positions as LGSF shareholders.

Creditor claims

There are a small number of other parties who have claimed as creditors totalling around £0.1m. These include former directors, the LGSF administrator and custodian, the auditors, the registered agent (LGIOM) and the FSC as regards petition related expenses.

The FSC is in a preferred position under law and will be paid the £34k that they have claimed in priority once a dividend is declared.

The position of other creditors is yet to be determined and there may well be possible counter claims against those parties for amounts over and above the amounts claimed which would be set off.

Compromise

As explained in section 7 of this report, we are considering the merits of a solution involving a pooling of assets and a compromise of claims. Such a solution could, if implemented, mean that LGSF would have to forgive its claims against LGSC in exchange for participating shares in the pool entity.

As liquidators of LGSF, we would have to decide whether such an arrangement was in the overall best interests of LGSF and we would consult with shareholders about that.

It is possible given that there are other client facing entities in the Louis Group that have possible bases of claim against LGIOM for its actions as directors, that a condition of the compromise could be the contribution or assignment into the new pool entity of LGSF's claims against LGIOM arising from breaches of director duty.

Such a contribution may be the right thing to do particularly if a new pool entity had greater financial resources than LGSF to pay for the costs of pursuing that claim, thereby increasing the possibility that it would succeed.

***Louis Group
International (Europe)
Limited (in liquidation)***

Report by Michael Simpson and

Gordon Wilson

Joint Liquidators

11 August 2014



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Financial summary

Using the latest trial balance of LGIE that we found on our appointment as joint liquidators provisionally in October 2012, we made an assessment of LGIE's assets and liabilities to assist the Court in its deliberations on the winding up petition.

We share that assessment below and where necessary due to subsequent developments since our appointment, we have added further comments.

	Per trial balance	Our assessment at June 2013	Our assessment 31 May 2014	Further comment
	£m	£m	£m	
Investment revaluation SA	5.8	Doubtful	Doubtful	Note 1
Loans to Aldi1 companies	6.4	Unknown	Unknown	Note 2
LGUK shareholding	2.5	Doubtful	Doubtful	Note 3
Loan to Alan Louis	5.6	Unknown	Unknown	Note 4
Loan to Nils Hinrichsen	0.6	Nil	Nil	Note 5
Loan to LGIOM	0.5	Nil	Nil	
Other assets	1.5	Doubtful	Doubtful	Note 6
TOTAL ASSETS	22.9	Nil	Nil	
Liabilities				
Loans from LGSPI	6.2	6.2	6.2	Note 7
Loans from Aldi1 companies	6.2	Unknown	Unknown	Note 2
Loans from Messrs Davidson and Furphy	2.0	2.0	2.0	Note 3
Loans from Louis Group Enterprises	0.3	Unknown	Unknown	
Accruals	0.5	Nil	Nil	
Finance FSC	-	-	0.1	
Other liabilities	-	-	0.1	
TOTAL LIABILITIES	15.2	8.2	8.4	
NET ASSETS / (LIABILITIES)	7.7	(8.2)	(8.4)	
Other commitments				
Deed of guarantee in favour of LGSC for LGSPI debt	-	(25.1)	(25.1)	Note 8

Updates to financial analysis

Note 1 – Investment revaluation SA

We continue to monitor the reports from the business rescue practitioner who has been appointed over the affairs of LGSA and a number of other Louis related companies in South Africa. LGIE is both a 40% shareholder in LGSA and has made a claim as unsecured creditor for around £1.3m representing funds transferred over time to LGSA by LGIE.

Based on the reports and the conversation that we had with the practitioner, it seems unlikely that there is any value in the shares nor is there any apparent prospect of a return for LGSA unsecured creditors including LGIE. Rather, the practitioner is selling properties that are themselves subject to secured bank debt with the aim of repaying the banks concerned and his work has been financed in part by additional debt from the banks.

In addition, as previously reported, we have found a document which purports to pledge LGIE's interest in LGSA shares to LGSC as a security for the amounts owed to LGSC by LGSPI. This was not reflected in LGIE's financial records, which continued through out to show the LGSA 40% shareholding as a £5.8m asset of LGIE. If the situation with LGSA changes materially then we will reconsider our present monitoring approach.

However, for present purposes we consider that LGIE's interest in LGSA (both as a shareholder and as a creditor) are most likely worthless.

In the event that there is a compromise and pooling of assets then in all likelihood the LGSA loan and the LGSA shares would go into the pool vehicle where a decision would then be taken about further recovery action as required.

Note 2 – Loans to and from Aldi1 companies

We comment in Appendix 5 of this report on the situation as regards the structure known as Aldi1.

In summary, we have found that LGIE received money in 2006 (around €6m) from the three Aldi1 InvestCos. LGIE accounted for these receipts as namely debts due to the three Aldi1 InvestCos who in turn recorded liabilities as assets the amounts due from LGIE.

Around the same time, LGIE transferred a similar amount to the six Aldi1 PropCos however some records concerning these transfers are now missing. LGIE accounted for these amounts as assets, namely debts due from the six Aldi1 PropCos and in turn they recorded debts due to LGIE.

Some three years later, various attempts were made to put in place documentation pertaining to these transfers the apparent intended effect of which was to cut LGIE's financial interest out. We believe that this was as a result of pressure from certain investors who were concerned because LGIE's involvement was not explained at the time of their investment.

LGIE was in our view insolvent when it signed the various documents in 2009 leading to questions regarding improper preference and doubtful legal effectiveness as regards the documents in question. Such questions appear to have also been raised before, specifically in emails from 2011 in which the auditors of the Aldi1 PropCos commented that the "backdating of a contract does not have substance" and that the documents "would not be enforceable prior to the actual date."

In 2011, another agreement was signed whereby the three Aldi1 InvestCos purportedly indemnified LGIE for its losses on its dealings with five of the six Aldi1 PropCos. This further complicates the situation and may give rise to counter claims by LGIE against the three Aldi1 InvestCos.

All of this has led to a confused and highly uncertain situation whereby doubts exist over who has what rights to the remaining assets in the six Aldi1 PropCos which amount to around €4m.

Investors in the three Aldi1 InvestCos are understandably concerned, however their situation is broadly similar to those investors in other structures whose money has ended up being applied in ways other than what they might have expected. The main difference for them is the existence of the 2009 agreements which may, if valid, afford them greater economic rights.

Neither LGIE nor the three Aldi1 InvestCos have any remaining funds. This means that they are unable to pursue legal recovery options nor to further investigate the merits of their claims. They are also all insolvent.

Taking into account the resultant complexities, we have set out in Section 7 of this report some thoughts for a possible compromise. If such a compromise could be agreed, then the three Aldi1 InvestCos could swap their claims against LGIE and the Aldi1 PropCos for participation in a new pool vehicle and the six Aldi1 PropCos would contribute their assets to the new pool vehicle. LGIE would be relieved of its assets and liabilities and would become itself an asset of the new pool vehicle.

Recently certain investors in the Aldi1 InvestCos have served demands for the return of their money. They have explained in their view that the 2009 agreements are valid. That may or may not be the case and the matter will either have to be determined in a winding up application or by compromise or through our proof of debt adjudication over the six Aldi1 PropCos.

Note 3 – LGUK and Furphy and Davidson loans

Previously we reported that LGIE records show its shareholding in LGUK with a value of £2.5m. We also reported that according to AL and JMc, LGIE had sold its LGUK shares however, we have since established that this is not the case, and that LGIE remains recorded as the sole shareholder.

Recent financial statements filed by LGUK indicate that it remains in financial difficulties and accordingly we consider it appropriate to continue to view this asset as being worthless. We remain unclear on whether LGUK is still trading however we do note that it recently changed its name.

There was a doubt as to whether the two parties who are recorded as creditors of LGIE and whose funds were seemingly used by LGIE to buy back the LGUK shares from Banque Louis SA had some sort of security over these LGUK shares. However that has been clarified and the parties concerned have agreed they have no such claims.

However we consider that Furphy and Davidson have valid unsecured claims against LGIE for around £2m and they would, based on current thinking, be eligible to participate in any new pool vehicle upon them agreeing to release their LGIE claims.

In the event that a compromise can be achieved, then the shares in LGUK would go into the pool vehicle where a decision could be taken about action to liquidate it and realise whatever value remains.

Note 4 – Loan to Alan Louis

We reported previously that according to LGIE records, it has loaned £5.6m to AL. We have commented elsewhere in this report on the correspondence that has exchanged since our last report with AL as regards this debt.

He continues to deny any indebtedness. We disagree and believe that there is ample evidence supporting a substantial claim against him.

In the event that a compromise can be achieved, then we could transfer this “asset” into the pool vehicle where a decision could be taken about action to pursue him through the Courts for recovery.

Note 5 – Loan to Nils Hinrichsen

We reported previously that LGIE records an asset being a loan to Nils Hinrichsen for £600k.

We have enquired further into this and are in no doubt that this money was paid by LGIE to Mr Hinrichsen’s client account at LGIOM. We comment elsewhere in this report that we believe this payment was related to the acquisition by Mr Hinrichsen of 10% of the shares in LGIE.

Mr Hinrichsen denies any liability. We disagree, and believe that LGIE has a case to make a claim against him for the return of this money.

In the event that a compromise can be achieved, then we could transfer this “asset” into the pool vehicle where a decision could be taken about action to pursue him through the Courts for recovery.

Note 6 – Other assets

There are a number of other assets recorded in the books of LGIE which for the purposes of assessment of value we consider to be worthless unless LGIE receives the necessary financial resources to pursue them.

In the event that a compromise can be achieved, then we could transfer these into the pool vehicle where decisions could be taken about recovery.

Note 7 – Loans from LGSPI

LGSPI and LGIE had an inter-company loan account in their financial records. Although the accounts of both companies showed slightly different balances, broadly they reflected that LGIE owed around £6.2m to LGSPI.

As part of any pool / compromise solution this debt would be cancelled as being an inter-company (i.e. not a third party) debt, and both entities would transfer all of their assets to the pool vehicle.

However if a compromise can't be achieved then we will have to determine the validity of the claim as part of the claims adjudication process.

Note 8 – Deed of Guarantee with LGSC

LGIE had entered into a deed of guarantee in favour of LGSC to guarantee the borrowings of LGSPI from LGSC.

We estimated in our report last year that the liability under this guarantee was over £25m.

As part of any pool / compromise solution this debt would be cancelled as being an inter-company (i.e. not a third party) debt, and both entities would transfer all of their assets to the pool vehicle.

However if a compromise cannot be achieved then we will have to determine the validity of the claim as part of the claims adjudication process.

Louis Group SLN Limited

(in liquidation)

Report by Michael Simpson and

Gordon Wilson

Joint Liquidators

11 August 2014

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Financial position

The main asset of LGSLN is shares in LGSF.

The other asset of LGSLN is cash at bank of £167k at 31 May 2014. This cash balance is down from £228k at the time of our last report due to liquidation costs and legal fees.

In so far as we have been able to ascertain, LGSLN has no other assets.

Investor claims

Since our appointment we have received claims from over 90% of known LGSLN loan note holders as regards their loans to / investments in LGSLN.

We are aware that some LGSLN investors have taken / are in the process of taking action against the financial advisers who gave advice regarding the initial investment decisions.

In a small number of cases, investors have assigned their claims against LGSLN in favour of their financial adviser as part of a settlement.

We are also aware that some LGSLN investors have received interest and / or payments from AL and /or certain of his companies pertaining to their investments. In those cases, it may be that we have to make adjustments to claims however we have not as yet made any final determinations. That may also explain why not all LGSLN note holders have come forward with claims. It also explains why LGSPI, which paid out some LGSLN noteholders and effectively stood in their shoes, also has a claim against LGSLN, thereby creating a circular claim loop.

Resolution

Presently it is our proposal that the LGSF will participate in the pool vehicle and as a result, LGSLN (one of the main investors in LGSF) will receive its due share of any pool distributions.

However, to the extent that certain LGSLN noteholders have made claims against LGSPI pursuant to a guarantee which was referred to in the conditions of their LGSLN investments, we will be asking LGSLN claimants to compromise by releasing their claims against LGSPI as part of the pooling process with the aim of ensuring that external investors only participate once in the proposed pool.

LG SP Investments Ltd ***(in liquidation)***

Report by Michael Simpson and

Gordon Wilson

Joint Liquidators

11 August 2014



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Financial summary

Using the latest trial balance of LGSPI that we found on our appointment as joint liquidators provisionally in October 2012, we made an assessment of LGSPI's assets and liabilities to assist the Court in its deliberations on the winding up petition.

We share that assessment below and where necessary due to subsequent developments since our appointment, we have added further comments.

	Per trial balance	Our assessment at 13 June 2013	Our assessment at 31 May 2014	Further comment
	£m	£m	£m	
Investments in Louis Group companies	£3.2	Nil	Nil	Note 1
Loans to and from various Louis property related companies	£5.1	Insignificant	Insignificant	Note 2
Loan to LGIE	£6.2	Unknown	Unknown	Note 3
Loan to Alan Louis	£2.8	Unknown	Unknown	Note 4
Loan to LGIOM	£0.5	Nil	Nil	
Loan to LGUK	£0.1	Nil	Nil	
Loan to Lukas Nakos	£0.2	Unknown	Unknown	Note 9
Other assets	£0.7	Unknown	Unknown	
TOTAL ASSETS	£18.8	Unknown	Unknown	
Liabilities:				
Loans from LGSC	£10.8	£25.1	£25.1	Note 5
PICS Investor Loans	£2.2	£2.2	£2.5	Note 1
Loans from various Louis property companies	£2.7	Unknown	£4.1	Note 2
Loans from Louis Group Enterprises	£1.3	Unknown	Unknown	
Barclays overdraft ref "Alan Loan"	£0.7	£0.7	£0.7	Note 8
Accruals	£0.2	Unknown	Unknown	
Other liabilities	£0.2	Unknown	£0.1	
Finance FSC	-	-	£0.1	
Guarantee and commitments	£1.0	£1.5	£30.8	Note 6
Other amounts guaranteed	£12.0	£12.0	£19.4	Note 7
TOTAL LIABILITIES	£31.1	£41.5	£82.8	
NET ASSETS / (LIABILITIES)	(£12.3)	Unknown	Unknown	

Updates to financial analysis

Note 1 – Investments in Louis Group companies

As we explained in our previous report, the main investment represents shares in LGSF with a book value of £2.3m and an investment in LGSLN with a book value of £0.6m.

We also explained that PICS investors may have an interest in the LGSF shares under the terms of their contracts, whereby LGSPI purportedly agreed to cede those shares in the event that it defaulted on the repayment of the PICS.

The value of PICS claims that we have received so far in the liquidation is similar to the book value of LGSF shares held by LGSPI. Given that the apparent intent of the contract between these PICS claimants and LGSPI envisaged the ceding of LGSF shares in circumstances like those which LGSPI now finds itself in, the PICS claimants may have claims against these shares. We are, on the whole satisfied that the money from these PICS claimants came into LGSPI although we have not yet finalised the adjudication process on their claims.

We refer to Section 7 of this report concerning a compromise. We see merit in affording PICS claimants the opportunity to participate in any pool entity, through holding shares in LGSF. That would mean them agreeing to swap their claims against LGSPI for LGSPI's LGSF shares.

In addition, as reported elsewhere in this report, we see possible merit in LGSLN shareholders compromising their claims against LGSPI in return for LGSPI releasing its claims against LGSLN.

Compromises like this would remove duplication and circularity, and would in our view reduce costs whilst also improving overall recovery prospects.

The remaining investments are considered to be worthless at this time, however they would nonetheless be transferred as part of any pooling arrangement where decisions could then be taken.

Note 2 - Loans to and from various Louis property related companies

We have reviewed the dealings between LGSPI and almost 80 different Louis Group entities in more detail since our last report to establish a firmer understanding of what has occurred as well as which companies might be owed money by LGSPI.

Those companies who are the net lenders to LGSPI are generally under our control as liquidators of LGIOM (the provider of director services) and we are aware that they have each got investors/creditors of their own who are interested in the outcome of their particular company's claims. We have caused these companies (mainly InvestCos) to make claims against LGSPI based on a combination of our own analysis of cash flows and accounting records.

Any new pool entity would have to allow these net lender companies to participate in overall realisations based on the net amount that we estimate has been paid by the companies to LGSPI over time.

LGSPI's claims against the companies that have been net recipients of money from it (i.e. that we believe might be assets of LGSPI) could, as part of a compromise be transferred into a new pool entity and thereafter decisions taken as regards whether any recovery can be pursued. In many cases, there is little apparent prospect of recovery, however we believe that some value may be realised given time and the funds to do the work necessary to support any claims.

Absent a pool type compromise solution, LGSPI has no remaining liquid resources and as a result it will be unable to pursue any recovery actions.

Note 3 – Loans to LGIE

LGSPI and LGIE had an inter-company loan account in their financial records. Although the accounts of both companies showed slightly different balances, broadly they reflected that LGIE owed around £6.2m to LGSPI.

As part of any pool type compromise this debt would be cancelled as being an inter-company (i.e. not a third party) debt, and both entities would transfer their assets to the pool vehicle.

As previously reported, we believe that certain payments for the benefit of AL were transferred through this account by journal entry such that instead of being recorded as due the money to LGSPI, he was recorded as being due the money to LGIE, with a corresponding increase in the debt due from LGIE to LGSPI. This activity and these journal entries are questionable in our view for reasons that we explain elsewhere in this report and are a taint over this “asset” in the books of LGSPI which complicate the recovery process.

Note 4 – Loans to Alan Louis

We reported previously that according to LGSPI records, it has loaned £2.8m to AL. We have commented elsewhere in this report on the correspondence that has exchanged since our last report with AL as regards this debt.

He continues to deny any indebtedness. We disagree and believe that there is ample evidence supporting a substantial claim against him.

In the event that a compromise / pooling of assets can be achieved, then we could transfer this “asset” into the pool vehicle where a decision could be taken about action to pursue him through the Courts for recovery.

Note 5 – Loan from LGSC

As previously reported, we found that LGSPI had borrowed significant sums from LGSC, well in excess of £25m.

As part of any pool / compromise solution this debt would be cancelled as being an inter-company (i.e. not a third party) debt, and both entities would transfer all of their assets to the pool vehicle.

However if a compromise can't be achieved then we will have to determine the validity of the claim as part of the claims adjudication process. This will be complicated due to the general absence of and contradictory nature of the documentation pertaining to this debt.

Note 6 – Guarantees - Barclays Bank and LGSF

We reported last year that LGSPI had made a number of guarantees in favour of third parties, notably Barclays Bank in relation to certain borrowings by Louis related property companies as well as LGUK. Based on those guarantees, Barclays has made over £11m of claims against LGSPI since our appointment.

These claims would rank as unsecured, on an equal basis with investors, were we to admit them and unlike many claims that we are dealing with, there are actually documents to support them. They appear to us to be valid although we have not yet determined on the amount.

Given what we have found out about LGSPI's financial situation since its formation, we don't believe that LGSPI was ever good for the money under these guarantees. As a financial institution, Barclays was under an obligation to know its customer and in this regard, it appears that Barclays may have accepted similar representations as were made to other third parties, notably investors, as to the financial strength of LGSPI and where it got its money.

We have considered whether Barclays could / should have done more due diligence than a “man in the street” as regards these guarantees in light of its regulatory obligations. We have also considered whether, had it done more than it appears to have done, would that perhaps have brought things into the open more quickly than was the case here and / or prevented some of the structures from being put in place to begin with?

What we have found is that Barclays continued to lend to numerous Louis Group property structures with the benefit of first charges over properties, and with the benefit of these substantial guarantees from LGSPI. Whilst they were doing that, investor money was being dealt with in the ways which we describe herein.

We wish to emphasise that we have no evidence to suggest that Barclays has done anything wrong as regards these guarantees and it may be that once the properties whose debts are subject to these guarantees are sold, then the amount actually claimable will reduce.

However until a line can be drawn between Barclays and LGSPI once the last property is sold, then this remains an open item to be dealt with through the claims adjudication process.

On further consideration, it is arguable that LGSPI guaranteed the investments into LGSF on behalf of the investors, as a precaution we have caused LGSF to make a claim to LGSPI, which we have yet to adjudicate on.

Note 7 – Other guarantees including those provided to LGSLN noteholders

Generally, the guarantees relate to amounts invested or loaned by investors in other structures and this, inevitably, has created a problem due to duplicative and circular claims for the same amounts invested.

We hope that those concerned will see the intended logic and fairness in a compromise approach which might involve everyone accepting that they have only one claim, in order that this circularity and duplication problem may be dealt with.

Note 8 – Barclays overdraft ref “Alan Loan”

As reported in our previous report, Barclays have loaned £700k to LGSPI against which they received, we understand, a personal guarantee from AL. Barclays have made a claim against LGSPI for the £700k plus interest and per the LGSPI records this amount is recorded as due and payable to them.

Upon further enquiry, we have found that the £700k was transferred upon receipt by LGSPI to BLH, the holding company for Banque Louis, and that AL issued himself with shares in BLH, some of which were apparently paid for with this money.

As with the Barclays guarantees above, we don’t believe that LGSPI was ever good for the return of this money. Unlike the guarantee claims, this particular Barclays claim also has AL’s personal guarantee.

As reported elsewhere in this report, we have found evidence that the existence of this debt to Barclays was masked in LGSPI financial statements by netting it off against the debts due by AL, thereby making it appear like he owed LGSPI less than he actually did. Was that done because this £700k should in fact be a personal debt of AL? Does this, plus the use that this money has been put to, give LGSPI a possible basis upon which to reject this claim?

In addition, we have also reported that a significant number of the payments servicing AL’s mortgage with Barclays were sourced from LGSPI and paid directly to Barclays. Can LGSPI argue that the mortgage serving payments should either be returned to LGSPI or in the alternative set off against the £700k debt now claimed?

Until now, LGSPI has not had any money to pay the costs of determining answers to these questions, however we will have to somehow do that work as part of any claim adjudication, and we will advise of the outcome in due course.

Note 9 – Loan - Lukas Nakos

This amount was accounted for in the books of LGSPI as an asset at the date we were appointed, reference loan to Mr Nakos. We wrote to him asking for repayment having established that he did indeed receive CHF400k (or around £200k) from LGSPI in late 2007.

Mr Nakos acknowledged receipt of the money. He explained that CHF100k of this was a bonus and the balance was used by him to pay a deposit on a house in Switzerland as part of a planned move by him to head up the Louis business in that country.

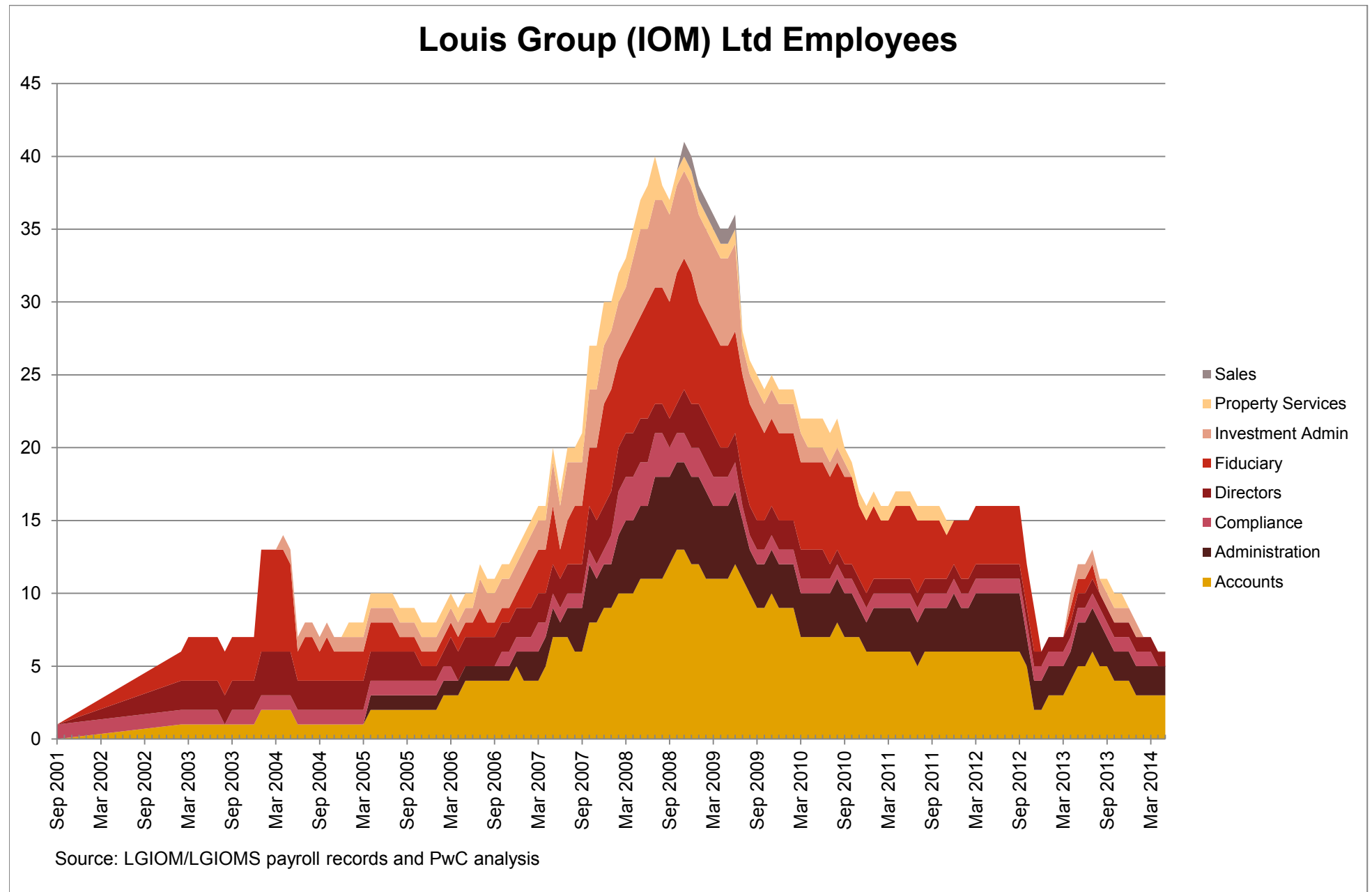
We have established that around the time of this payment, LGIOM payroll records confirm that everyone else on the payroll received a bonus of some sort except Mr Nakos who was, at that time the LGIOM Managing Director. It is therefore entirely possible that Mr Nakos is correct, the CHF 100k was a bonus. However, it was paid from LGSPI, not LGIOM and was made without any apparent deduction of payroll taxes.

With regards the balance, Mr Nakos explained that the move to Switzerland fell through and that the CHF300k was eventually repaid by him and/or his father through the forgiveness of certain other debts owed to them arising from Louis related investments that they had made in South Africa.

As we are not involved in the affairs of Louis Group in South Africa, we have not been able to establish whether this debt forgiveness occurred or not. However even if it did, we have not seen any record that LGSPI accepted that in settlement of the debt nor do we consider the debt to be settled.

Accordingly we remain of the view that a debt of CHF400k is due.

Presently LGSPI does not have the financial resources to pursue recovery, however this “asset” would be transferred into any pool entity and thereafter a decision can be made on whether or not to pursue the matter further.



John McCauley

Subject: FW: Protea

From: Alan Louis
Sent: 13 June 2012 09:30
To: John McCauley
Subject: Protea

Dear John,

You will today receive €30k into the Protea accounts.

- Immediately today transfer 30k from Protea as a loan to LGE.
- Then, sell 30k and buy GBP
- Then, from LGE pay £20k to Simcocks
- Then, from LGE pay £4k to Simon Gladstone (as a A Louis loan)

£ 24096,39

NEIL

I will send you Simon's account details later.

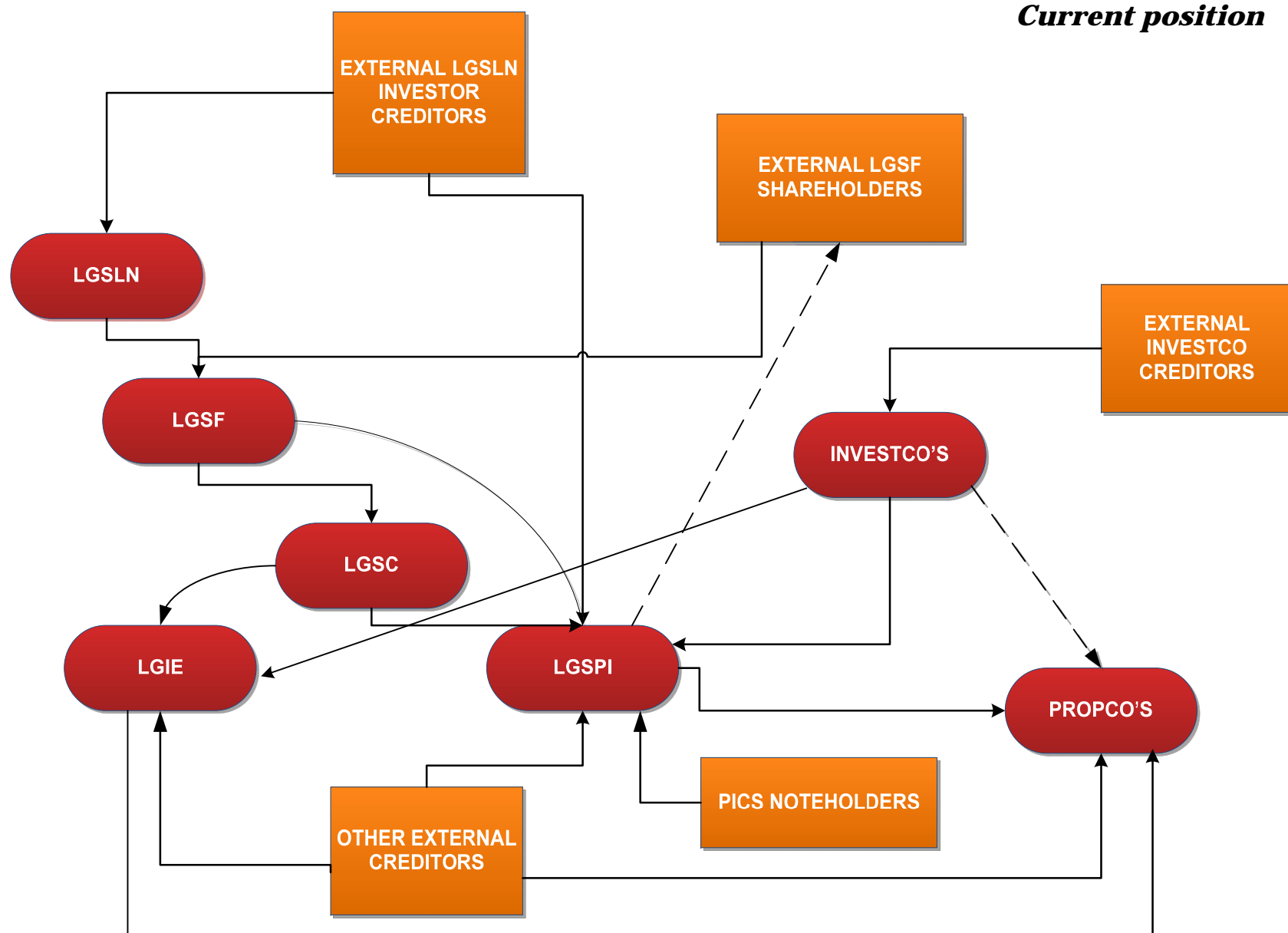
1.2450

Thanks

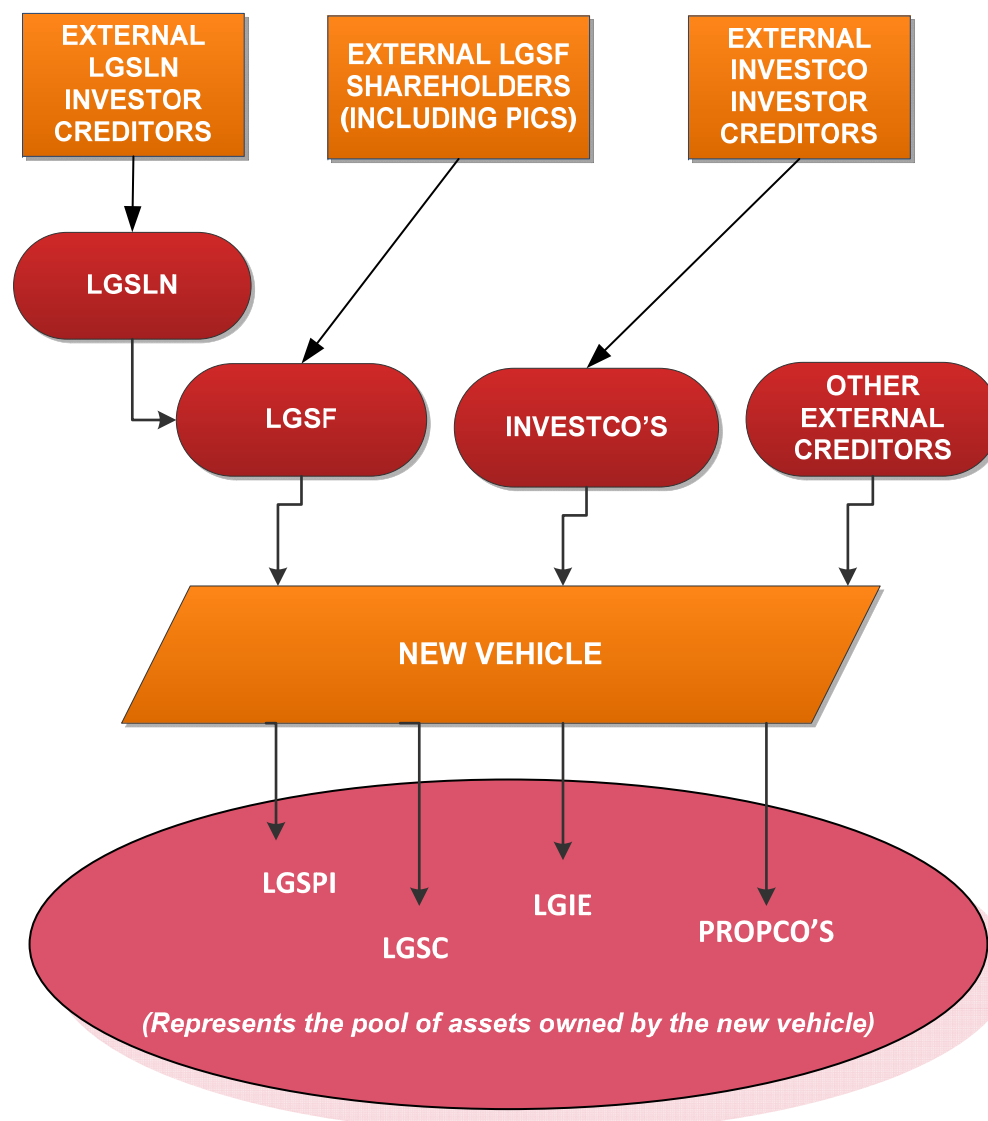
system note £1 = EUR 1.274425

EUR 30000 = £23538,92

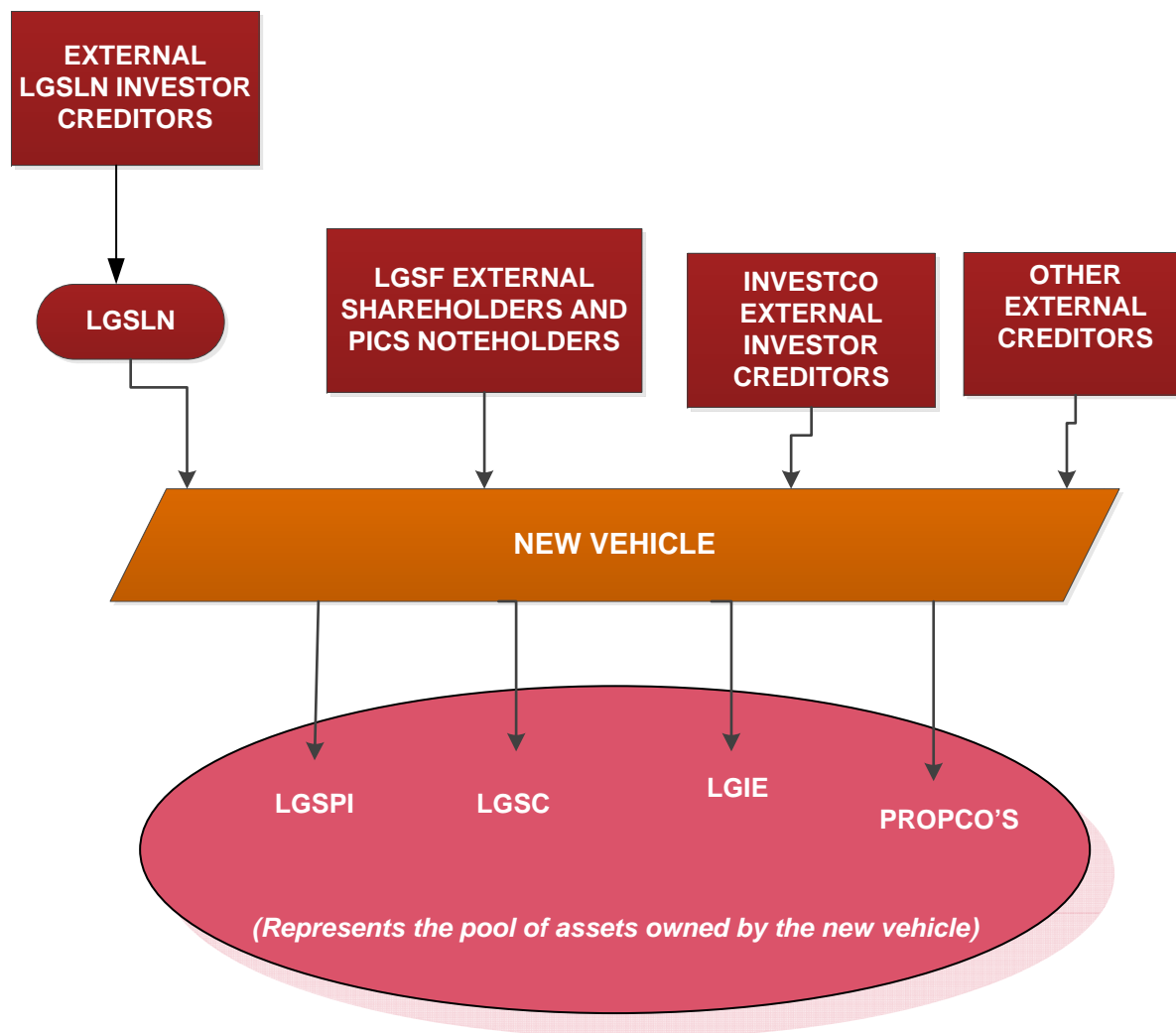
Appendix 15 – Compromise options charts



Possible Compromise – First phase



Possible Compromise – Second Phase



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