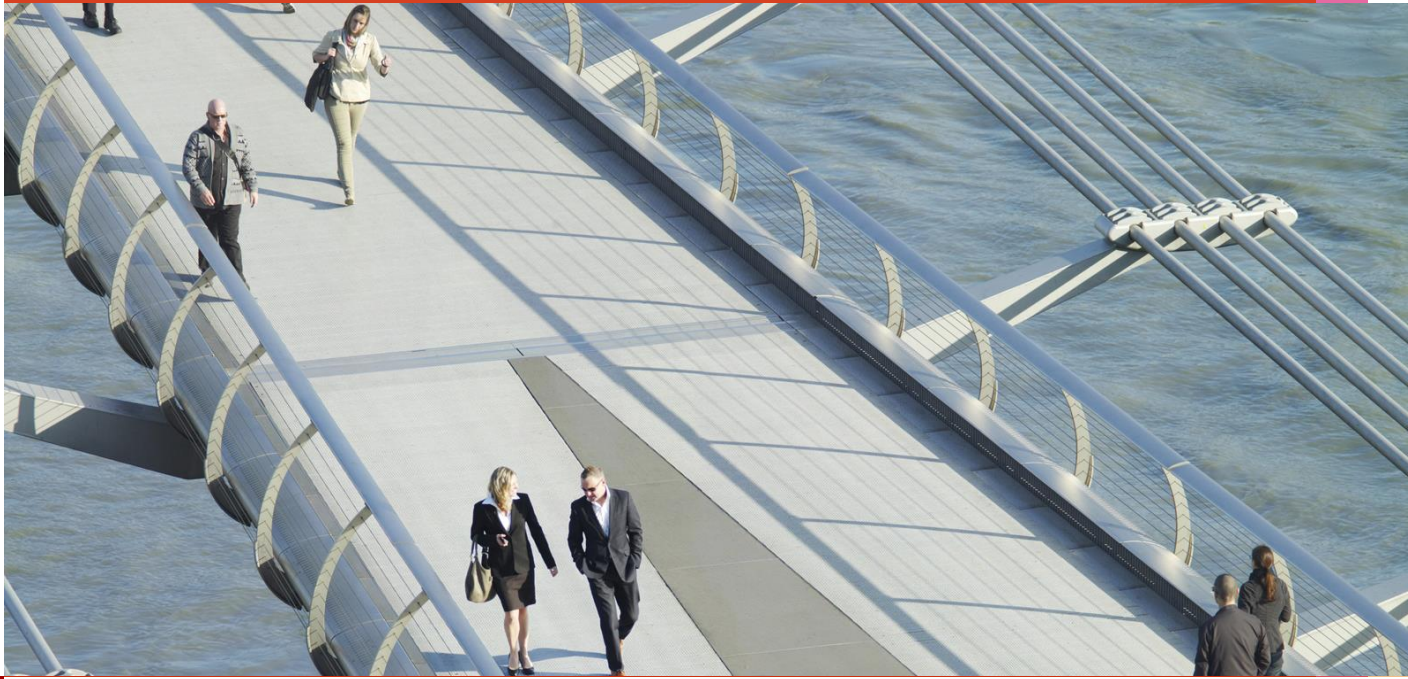


Advisory

Harlequin Boutique Hotel Limited – in Bankruptcy

First report to creditors

12 June 2018



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***Basis of
Preparation***

This report has been prepared solely for the purpose of providing a report of the Trustee of the Estate of Harlequin Boutique Hotel Limited (“the Company”), a bankrupt to all known creditors of the Company in accordance with the Barbados Bankruptcy and Insolvency Act, 2001.

Disclaimer

This report is provided for the sole benefit of the Creditors of the Company. In the event that this report is obtained by a third party, or used for any purpose other than in accordance with its statutory purpose or as otherwise provided by law, any such party relying on the report does so entirely at their own risk and shall have no right of recourse against the Trustee, PwC, their partners, directors, employees, professional advisers or agents (“PwC Parties”). None of the PwC Parties accept any liability or assume any duty of care to any third party (whether it is an assignee or successor of another third party or otherwise) in respect of this report.

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Oliver G. Jordan
Trustee

Email:

TrusteeHBHL@bb.pwc.com

Website:

<https://www.pwc.com/bb/en/services/harlequin-boutique-hotel-limited.html>

Short link:

<https://pwc.to/2sopxr1>

PricewaterhouseCoopers EC Inc.
The Financial Services Centre
Bishop's Court Hill, P.O. Box 111
St. Michael, Barbados

To all known creditors

12 June 2018

Harlequin Boutique Hotel Limited (in Bankruptcy) (“HBHL”)

Dear Sir / Madam,

I am pleased to provide this first report to creditors in relation to the Estate of Harlequin Boutique Hotel Limited, which was adjudged to have entered bankruptcy on 12 January 2018 by the Supreme Court of Barbados and by way of Order of the Honourable Sir Marston Gibson C.J. which was entered and perfected on 23 January 2018.

I understand and appreciate the uncertainty and confusion expressed by investors of the H Hotel (otherwise known as Quin Two) project in Barbados. The Harlequin Group consists of various entities around the Caribbean (most of which are in various stages of insolvency proceedings) and there is significant complexity given the lack of clarity on intra-group transactions and the absence of full financial records for HBHL.

This report provides a summary of the current position of the Estate and the outstanding issues, along with the next steps required that my team and I will undertake over the coming months.

We will continue to provide information and updates to creditors through our dedicated website, and request that any queries in relation to HBHL are directed through our dedicated email address. Contact details are shown opposite.

Yours faithfully,

The Trustee of the Estate of Harlequin Boutique Hotel Limited, a bankrupt.

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Glossary

Our report includes a number of terms and short descriptions, which we define alongside

Term	Definition
HBHL, the Company	Harlequin Boutique Hotel Limited
HPSVG	Harlequin Property (SVG) Limited
FSCS	Financial Services Compensation Scheme
Trustee or Bankruptcy Trustee	Mr. Oliver Gregory Jordan of PricewaterhouseCoopers EC Inc.
Date of Bankruptcy	12 January 2018
we, our	PwC Eastern Caribbean Inc. and its employees, as agents of the Trustee
Estate	The Estate of Harlequin Boutique Hotel Limited
Hotel, Property	The site of the previous Allamanda Beach Hotel, which had been marketed under multiple names by Harlequin including 'H Hotel' and 'Quin Two'
BIA	Barbados Bankruptcy and Insolvency Act 2001
DoA	Deed of Assignment
Preconco	Preconco Limited

Term	Definition
BWA	Barbados Water Authority
MoH	Ministry of Health
BBD\$	Barbados Dollar
GBP	Great British Pound
USD or US\$	United States Dollar

Executive Report

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Background to the Company and Bankruptcy

Background

Harlequin Boutique Hotel Limited (“HBHL”, “the Company”), is a company incorporated under the laws of Barbados with company number 34927.

HBHL is part of a Group of entities (“the Harlequin Group”, or “Group”) situated across the Caribbean including Barbados, Cayman Islands, St Lucia, St Vincent and the Dominican Republic – most of which are in different stages of insolvency proceedings.

All entities within the Harlequin Group are or were under the ultimate beneficial ownership of Mr. David Ames.

The Company’s primary activity was to own the previous Allamanda Beach Hotel, and redevelop the site to construct a 69 room hotel on Hastings Beach boardwalk in Christ Church on the southwest coast of Barbados. It was set to be the debut of Harlequin’s lifestyle H brand, and had previously been referred to as the Quin Two and H Hotel.

We understand that the majority of construction work was carried out during 2012, with construction ceasing on or around January 2013. Since this time there has been minimal work carried out on the site and as a result the overall condition of the site has deteriorated.

HBHL did not own a bank account. The Harlequin Group maintained only one bank account for all entities, which we understand was previously held by Harlequin Management Services (South East) Limited, a UK entity, and later by Harlequin Hotels and Resorts (Cayman) Ltd, a Cayman entity. As specific project funds were not segregated in this account, it appears that disputes in other Group entities caused a lack of funds that led to the financial deterioration of HBHL.

Bankruptcy proceedings

On 28 November 2017 a Bankruptcy Petition was filed to the Supreme Court of Barbados by Preconco Limited, claim number BRI 2017, No.4.

On 12 January 2018, the Honourable Sir Marston Gibson K.A., Chief Justice ordered that:

1. *“The Respondent Harlequin Boutique Hotel Limited be adjudged bankrupt by virtue of a receiving order hereby made pursuant to Section 4 (10) of the Bankruptcy and Insolvency Act 2001 Cap 303.*
2. *Mr. Oliver Gregory Jordan be appointed the licensed trustee of the property of the bankrupt pursuant to Section 4 (13) of the Bankruptcy and Insolvency Act 2001 Cap 303.”*

The Order of the Honourable Sir Marston Gibson K.A., Chief Justice was entered and perfected on 23 January 2018.

Statement of Affairs***Financial records received from the Company***

To date, the Trustee has been in contact with and received information from the following individuals:

- Mr. David Ames (Company Director and Shareholder) and his Solicitor
- The Harlequin Group Accounts Manager
- The Harlequin Group Accounts Supervisor

Whilst we have received a significant volume of investor files, including contracts and correspondence, we have not been able to obtain sufficient financial records as at the Date of Bankruptcy.

The Trustee understands that this is largely as a result of operations at the Company ceasing in early 2013, the resulting loss of staff, and ultimately as the license of the Company's accounting record system expired and was not renewed in March 2016.

The financial information received for HBHL to date is complex, unclear and appears to be mixed with other legal entities.

Ability to prepare a Statement of Affairs

The Trustee cannot place reliance on the financial data received to date without significant further examination and cost, and as a result cannot provide a Statement of Affairs as at the Date of Bankruptcy.

The Trustee therefore reports over the following pages, the Assets of the Estate that we are currently aware of, and the list of claims received to date. These represent the current position based on our analysis and understanding to date, and are subject to change.

Assets of the Estate (1 of 4)

Details the assets of HBHL and key information in relation to the assets

Identification of assets

The Trustee has not been able to obtain a definitive listing of assets as at the Date of Bankruptcy.

We have pursued multiple lines of enquiry to identify potential assets of the Company, as follows:

Property

We have identified one asset, being the site and partial construction of the Hotel, as shown in the table opposite and detailed on the following page.

Bank accounts

We understand from management and have confirmed with local banks, that the Company did not have any bank accounts in Barbados. We understand that all monies received from investors (and any other source) were pooled into a single account held in the UK, owned by Harlequin Hotels and Resorts (Cayman) Ltd, a company registered in the Cayman Islands.

Intercompany assets

As a result of the complex integrated operations of the Harlequin Group, there may be amounts due from other Harlequin entities, including cash balances relating to HBHL. The Trustee will continue to investigate this, however given the current financial position of other Harlequin entities, recovery of these assets may be limited.

Current listing of HBHL assets

Assets identified as at 8 June 2018	BBD\$
Property (H Hotel development)	TBC
Total assets of the Estate	TBC

Assets of the Estate (2 of 4)

The Hotel

The single property asset of the Estate is the site of the previous Allamanda Beach Hotel situated in Hastings, Christ Church, Barbados which had been marketed under multiple names by Harlequin including 'H Hotel' and 'Quin Two'.

The images opposite and overleaf show the current state of the site, consisting of the foundations and basic structure of two buildings.

Valuation

The site was originally intended to be constructed and operated as a hotel and would have attracted a certain valuation on that basis.

However, as the asset was not developed as planned the current value is limited to the existing development that consists of land and partial construction of two buildings.

The asset would need to be valued on this basis taking into account relevant market conditions in Barbados as it becomes available for sale.

Given the site is the sole asset of the Estate; that there is no other source of funds; and that Trustee has not yet been funded, the Trustee has not yet undertaken a valuation of the site.

The Trustee will in due course (once the issues outlined on the following page are resolved) seek permission from the Inspectors to obtain an updated valuation as part of the disposal of this asset.

Images of the Hotel (January 2018)



Assets of the Estate ***Images of the Hotel (January 2018) (continued)*** ***(3 of 4)***



Key issues in relation to the Property

The Trustee is aware of the following issues in relation to the sole asset of the Estate.

Analysis is ongoing in respect of these issues and the Trustee will provide an update to Creditors in due course.

1. Secured interest in the property

The Trustee has received secured claims from two third parties, both of whom obtained a secured interest through final charging orders granted by the Supreme Court of Barbados. Total secured claims in the Hotel totalling BBD\$467,739.

2. Dispute in respect of the ownership of the Property

On or around 17 April 2018, the Trustee received a claim from Mr. Craig Waterman and Ms. Lisa Taylor, together the joint trustees of the estate of Harlequin Property (SVG) Limited (“HPSVG”). The claim was filed pursuant to Section 57 of the BIA and asserted ownership of the sole asset of HBHL.

The Trustee formally disputed this claim under Section 57 (2) of the BIA on 30 April 2018, and subsequently received a notice of appeal from HPSVG on 15 May 2018.

The appeal is scheduled to be heard before a judge of the High Court during September 2018.

Assets of the Estate (4 of 4)

Key issues in relation to the Property (cont.)

3. Contractual option to acquire the Property

Preconco Limited (“Preconco”) has asserted possession of a contractual option to purchase the asset at fair market value.

On 5 June 2018 the Trustee received notice that Preconco is exercising this option based upon a valuation that had been obtained from quantity surveyors BCQS International.

The Trustee is currently consulting with legal counsel in relation to this option agreement.

4. Environmental Issues

Background

During early 2018 a leakage of sewage significantly impacted the south coast of Barbados, an area popular with tourists.

Raw sewage has been observed rising out of the drainage systems and pooling on the sides of the roads along the south coast, affecting many hotels, restaurants and other businesses.

In late February 2018, the Trustee was alerted to the fact that the Barbados Water Authority (“BWA”) were in the general vicinity of the Hotel to investigate the source of the accumulation of sewage in this area.

The site of the Hotel contains two depressed sections of land, which became filled with a mixture of sewage and rainwater. It was not clear whether the sewage ran onto the site from elsewhere or a sewerage pipe had burst beneath the site.

Upon being made aware, the Trustee immediately reached out to the BWA to investigate the issue and seek remediation. At the request of the BWA, the Trustee obtained several quotations for ‘backfilling’ the site, whereby the depressed land would be filled using a mixture of specific rocks and stones.

The Trustee has facilitated access to the site for the BWA on several occasions, where the sewage has been pumped away from the site.

During a site visit by the Ministry of Health (“MoH”) in April 2018, a representative advised that an uncapped sewage line was identified and rectified, that backfilling was no longer required and that the MoH would dispatch representatives every 21 days to treat the area.

On 28 May 2018 the Trustee received a letter from the BWA stating that the site has continued to be monitored since the above mentioned site visit, and that pooling had not reoccurred.

To date, the BWA has not been able to conclusively identify and correct the sources of the sewerage along the south coast area.

The Trustee remains in frequent contact with both the BWA and the MoH to ensure this issue is resolved permanently, and will provide an update in due course.

Legal complaint

During April 2018, the Trustee received notice from the legal representatives of a local restaurant that shares a boundary with the site, detailing a nuisance complaint resulting from the ponding of sewage on the Hotel site.

The Trustee through his legal counsel has responded to the complaint as is currently in dialogue with the complainant in order to resolve the issue.

Summary of Claims Received (1 of 3)

Sets out the current claims received against HBHL

Identification of Creditors

In the absence of information received from the Company, the Trustee's listing of potential creditors is limited to Proof of Claims which have been lodged.

The list shown on the following page comprises those who have lodged properly executed Proof of Claim forms as at 8 June 2018 and is for information purposes only.

Analysis of these claims is ongoing; the Trustee has not yet formally adjudicated on these claims for the purposes of being admitted as a creditor of the Estate and participating in any potential future distribution(s).

Current listing of HBHL claims

Claims received as at 8 June 2018	BBD\$
Secured	467,739
Preferred	114,762
Unsecured	37,562,775
Total claims	38,145,276

Summary of Claims Received (2 of 3)

Harlequin Boutique Hotel Limited, in Bankruptcy

Listing of properly executed Proof of Claim forms lodged with the Trustee as at 08 June 2018

If you have submitted a Proof of Claim and are not included in the list shown, there may be an issue with your Proof of Claim. Please check your emails for correspondence from us, or contact the Trustee at TrusteeHBHL@bb.pwc.com

Note A: Foreign Exchange rate used per OANDA as at the date of Bankruptcy and is for indicative purposes only. The Trustee will determine the official FX rate when adjudicating on claims for the purposes of future distributions.

Name of Claimant	Claim Currency	Claim Amount (Foreign)	FX Rate (Note A)	Claim Amount (BBD\$)	Class (Secured, Unsecured, Preferred)
Harlequin Property (SVG) Limited	GBP	7,371,500.00	2.70235	19,920,373	Unsecured
Financial Services Compensation Scheme (FSCS)	GBP	4,000,267.28	2.70235	10,810,122	Unsecured
Do Lobo Management Limited	GBP	255,000.00	2.70235	689,099	Unsecured
Barbados Revenue Authority	BBD			652,968	Unsecured
Joseph Licata	GBP	231,000.00	2.70235	624,243	Unsecured
J. Licata	GBP	180,000.00	2.70235	486,423	Unsecured
NF Holding Inc.	BBD			433,853	Unsecured
R. Davis	GBP	156,000.00	2.70235	421,567	Unsecured
R. Sheldrick	GBP	153,000.00	2.70235	413,460	Unsecured
Versatile Construction Inc.	BBD			362,851	Unsecured
Versatile Construction Inc.	BBD			349,950	Secured
Preconco Limited	BBD			278,712	Unsecured
J. Jackson, C Bedford and N Sesum	GBP	98,460.00	2.70235	266,073	Unsecured
C. Goodman	GBP	84,000.00	2.70235	226,997	Unsecured
S. Williams	GBP	78,000.00	2.70235	210,783	Unsecured
W. Rogers	GBP	78,000.00	2.70235	210,783	Unsecured
P. and H. Brabner	GBP	78,000.00	2.70235	210,783	Unsecured
S. Shergold	GBP	76,500.00	2.70235	206,730	Unsecured
J. Hollely	GBP	75,000.00	2.70235	202,676	Unsecured
Black Pearl Associates Ltd	GBP	75,000.00	2.70235	202,676	Unsecured
Carlton Family Pension Trust	GBP	75,000.00	2.70235	202,676	Unsecured
M. Coombs	GBP	71,000.00	2.70235	191,867	Unsecured
Allan Simmons, Simmons Electrical	BBD			136,000	Unsecured
D. and J. Hollely	GBP	45,000.00	2.70235	121,606	Unsecured
Preconco Limited	BBD			117,789	Secured
Barbados Revenue Authority	BBD			114,762	Preferred
A. Inniss	BBD			36,923	Unsecured
C. Branch	BBD			27,463	Unsecured
Ready Mix Limited	BBD			8,031	Unsecured
K. Cordieu	BBD			7,036	Unsecured
Total				38,145,276	

Duplication of Claims for voting

The Trustee has observed multiple instances where there is a duplication of claim in respect of an individual investor contract, as detailed further on the following page.

The Trustee has not yet adjudicated on the admission of these claims in order to participate in any potential future distribution(s).

Therefore, **for the purposes of voting at the first creditors meeting only**, the Trustee has proposed, in accordance with Section 85 of the BIA, to mark all duplicated claims as objected to which will allow each party to vote in full on their respective claim submitted.

This does not prejudice the position as a claimant.

Summary of Claims Received (3 of 3)

Update on the Duplication of Claims

The Trustee has observed multiple instances where there is a duplication of claim in respect of an individual investor contract. This duplication arises due to claims from the following parties:

Harlequin Property (SVG) Limited (“HPSVG”)

HPSVG has made a claim in relation to an indemnity clause within a Deed of Assignment (“DoA”) dated 19 September 2012, between HPSVG and the Company.

The claim is in relation to all investor contracts with HPSVG that are included within the Schedule of Contracts appended to the DoA.

Financial Services Compensation Scheme (“FSCS”)

FSCS protects consumers when financial services firms fail. It is the compensation scheme for customers of UK financial services firms authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

FSCS has paid out compensation to numerous Harlequin investors, many of which are investors that had contracts with HPSVG.

On payment of compensation, the FSCS takes an assignment of the investor’s rights to claim against the company that they originally arranged their investment through and any relevant third parties (including a relevant Harlequin entity). The FSCS stands ‘in the shoes’ of the original investor, and as a result has lodged a claim in relation to FSCS compensated investors.

Investors

Several investors have also claimed against HBHL in respect of their contracts with Harlequin in relation to the H Hotel / Quin Two project.

Those investors who either have a contract with HPSVG or have been FSCS compensated are highly likely to be in duplication to those claims received from HPSVG or the FSCS.

Those investors of H Hotel (or Quin Two) that have a contract with an entity other than HPSVG, and have not been FSCS compensated, are unlikely to be affected by the duplication of claims.

Adjudication of duplicated claims

The Trustee can only admit one party as a valid creditor in respect of a given contract, in order to participate in any potential future distribution(s).

There is significant complexity in determining whether a party has a valid claim against HBHL in relation to a given contract due to the existence of the DoA and FSCS compensation.

We are aware that investors have been informed by Harlequin management that the DoA effectively transfers their contract from HPSVG to HBHL. This would appear to be a significant over-simplification of a legal document.

The Trustee is currently investigating both the validity and powers of the DoA, along with other key matters in relation to investor contracts. Our work is still ongoing and the Trustee will provide an update in due course.

Receipts and Payments

The Trustee is currently unable to provide a schedule of receipts and payments due to the Estate receiving no receipts from the Date of Bankruptcy to 12 June 2018 from which any payments would have been made.

As a result, the table below summarises the costs incurred to 31 May 2018 that have currently been borne by the Trustee.

These costs will rank in priority to unsecured creditors in accordance with Section 113 (1) (b) (ii) and (iii) of the BIA.

Costs of the Estate as at 31 May 2018	BBD\$
Legal Fees	57,173.86
Statutory Filings	835.00
Statutory Publications	3,088.56
Insurance	1,502.50
Remedial Works	1,453.23
Total costs of the Estate	64,053.15

Trustee remuneration

Fees to 31 May 2018

As the Estate does not have a bank account and there have been no asset realisations, the Trustee has not drawn any remuneration from the Estate.

The Trustee in due course will seek approval of accrued fees in accordance with Section 208 of the BIA.

The fees accrued by the Trustee to 31 May 2018 are BBD\$228,179. Fees of the Trustee would rank in priority to unsecured claims of the Estate under Section 113 (1) (b) (ii) of the BIA.

Future Fees

Should the Trustee be affirmed during the course of the first creditors meeting, we set out below the relevant charge-out rates per hour worked for the grades of staff that may be involved on this assignment.

Time is charged by reference to actual work carried out on the assignment in six minute units. The minimum time charged is three minutes (i.e. 0.5 units).

Position	Hourly Rate (USD\$)
Partner	540
Director	490
Senior Manager	398
Manager	303
Senior Associate	195
Experienced Associate	145
Associate	103

In common with all professional firms, scale rates increase from time to time over the period of the administration of each bankruptcy case.

Anticipated realisation and projected distribution

Based upon the Trustee's current view of the assets of, and claims against the Estate

Anticipated realisation and projected distribution

The Estate currently consists of one asset – the Hotel – which is subject to the current legal action being brought by HPSVG.

Should HPSVG be successful in their assertion of ownership of the Hotel, it would be highly likely that the Estate would not have any assets to liquidate.

As a result, until either this legal matter is resolved or any additional assets are identified, the Trustee is unable to provide a summary of anticipated realisation and projected distributions.

Other matters

Other information the Trustee is required to provide or considers useful to inform to creditors

S.187 Conservatory and Protective measures

The Trustee has not found it necessary to undertake any conservatory or protective measures under Section 187 of the BIA.

S.75 Reviewable Transactions and Preference Payments

At this stage, the Trustee does not consider there to be any reviewable transactions in the 12 months preceding the Date of Bankruptcy, as set out within Section 75 of the BIA.

Legal counsel

The Trustee has engaged the services of Christopher Hamel-Smith S.C. and David Hamel-Smith to act as legal counsel regarding the various issues concerning the Estate of HBHL.

The Appointment and Role of Inspectors

In accordance with Section 93 of the BIA, “*at the first or subsequent meeting of creditors, the creditors shall appoint one or more, but not exceeding 5, inspectors of the estate of the bankrupt for the purpose of overseeing the administration of the estate of the trustee bankrupt.*”

The Supervisor of Insolvency, as Chair of the first meeting, will call for nominations for Inspectors at this meeting.

Statement in relation to S. 169

In respect of Section 169 of the BIA, the Trustee does not act or intend to act for or assist a secured creditor of the estate to assert any claim against the estate or to realise or otherwise deal with the security that the secured creditor holds.

Next Steps

Outlines the actions to be undertaken by the Trustee and their estimated timeline

Area	Next Steps	Timeline
Ownership of the Hotel	<ul style="list-style-type: none"> • Prepare for and attend the hearing in respect of the ownership interest asserted by HPSVG 	<ul style="list-style-type: none"> • The appeal will be heard before a judge of the High Court during September 2018
Environmental Issues	<ul style="list-style-type: none"> • Continue to work with the BWA and MoH to manage the sewage ponding at the site • Continue to engage with the local restaurant in order to achieve a mutually satisfactory result 	<ul style="list-style-type: none"> • Immediate / ongoing
Identification of Assets	<ul style="list-style-type: none"> • Examination of HBHL management and further analysis of information received to identify any potential assets of HBHL 	<ul style="list-style-type: none"> • 1-2 months
Preconco option	<ul style="list-style-type: none"> • Respond to the notice to exercise option received from Preconco, including analysis of the validity and powers under the option agreement and how this may interact with the contested ownership of the Hotel 	<ul style="list-style-type: none"> • 1-2 months
Ongoing claims process and legal adjudication of claims (including where claims are duplicated)	<ul style="list-style-type: none"> • The Trustee will begin the process formally calling for claims and adjudicating on those claims once the ownership position of the Hotel has been clarified and that it is clear funds will be received by the Estate 	<ul style="list-style-type: none"> • To begin should the final court judgement in respect of the Hotel be found in favor of HBHL



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