

Our Ref NSW/DG/LK/P11288/PF 7

To the creditors

Recovery and Reorganisation

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15 November 2013

Dear Sirs

John Palmer - In Bankruptcy (the Bankrupt) In the High Court of Justice No 6750 of 2004

1 Introduction

- 1.1 I write further to my appointment as Joint Trustee in Bankruptcy of the Bankrupt, together with James Earp, and provide a report on our progress as regards realising the assets in the estate.
- 1.2 Due to the large volume and international spread of creditors and limited funds available in the estate, we decided that regular postal updates would not be sent to creditors in order to save costs of postage and translation that would have been incurred.
- 1.3 We also write to creditors to provide two options available to them as compensation for the loss of their timeshare entitlement.

2 Asset realisations

- 2.1 Most of the resorts have now been sold and after payment of taxes due to the Spanish authorities and other local costs, there was little equity available to the estate.
- 2.2 Due to the poor market conditions and the potential for embargoes to be placed over the apartments by the Spanish authorities who were owed monies from the estate, we were forced to cease timeshare operations for the resorts of 'Club La Paz' and 'Tenerife Royal Gardens' and sell the freehold of each apartment separately.
- 2.3 All units at Tenerife Royal Gardens have been sold and only 1 unit remains at Club La Paz which we hope to have sold in the near future.
- 2.4 Other than a matter referred to in Section 3, I am not aware of any other potential assets.

3 Monies held at Spanish Courts

- 3.1 In order to dispose of the Spanish properties, €500,000 was deposited with the Spanish Courts in order to lift embargoes placed on some of them.

- 3.2 As soon as the remaining unit at Club La Paz has been sold, our lawyers will be seeking to recover the monies held by the Spanish Courts. We are advised that this could take years and there is no guarantee that the action will succeed.

4 Prospects of a return to creditors

- 4.1 The only prospect of a dividend to the unsecured creditors from the estate would be if we were successful in recovering monies held at the Spanish Courts. As noted above, it could take many years to recover this money. Even if we are successful, after costs of recovery, any dividend would be minimal. Total unsecured claims are estimated to be in the region of €6.7m, so a dividend could be as low as between 3 to 5 cents in the €.
- 4.2 There will be no surplus funds available to creditors from the sale of the resorts and properties because of:
 - The Spanish Tax Authorities penalising the bankruptcy estate for the Spanish Companies not paying taxes when they were due, which has meant that in some cases the tax bill has more than doubled from the original reassessment;
 - Various authorities placing registered charges and embargoes against the properties vested in the bankruptcy estate. Should these embargoes have been executed, as would have been the imminent result from non-payment, the authorities would have gained possession of the properties and sold them at auction for a vastly discounted price thus reducing the monies to be paid to the bankruptcy estate;
 - Pursuant to European Union Regulation on Insolvency the Spanish Tax Authorities must be paid in priority before we can repatriate any monies from Spain to the bankruptcy estate. There will not be sufficient funds in the estate to satisfy these liabilities;
 - The Spanish property market has declined by over 50% which has meant that the priced obtained for the apartment have been less than half that was anticipated. In addition, the Spanish banks have been off loading their repossessed properties at substantially discounted prices and at the same time offering purchasers 100% mortgages. This has meant that it is very difficult to compete with banks in the Tenerife property market; and
 - In order to enable us to sell the properties in Tenerife we had to pay €500,000 to the Spanish Court for them to lift the embargo to enable us to sell the properties in Tenerife. However, as detailed above, we hope to recover this amount for the benefit of the bankruptcy estate; and
 - The complexities of the case has necessitated a considerable outlay in terms of professional costs in order to achieve any realisations; and

Chartered Accountants

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A list of members is available from our registered office.

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A list of personnel permitted by Grant Thornton to accept appointments as insolvency practitioners and of their respective authorising bodies may be inspected at the above address.

- The Spanish Tax authorities continue to bring criminal complaints against the estate which we are continually having to defend and are likely to have to do so for some considerable time.

5 Proposed offer for former time share owners

- 5.1 As the prospect of a dividend for the creditors from the estate are very poor and in order to mitigate the losses of former timeshare owners, we have contacted a number of timeshare companies to seek alternative compensation to timeshare owners.
- 5.2 In summary, the offer is:

Option One

- i to exchange your claim in the bankruptcy for the right to use a week at **either** the resort of Onagrup Hotels and Resorts **OR** Diamond Resorts International.

Onagrup Hotels and Resorts are offering creditors a floating week in one of the nine resorts at the following locations:

- Mallorca
- Malaga
- Salou
- Denia
- Torrevieja
- La Manga del Mar Manor
- Andorra

Diamond Resorts International are offering creditors a fixed week at the Sunset Bay Club in Tenerife, Spain.

I have enclosed an information pack from Onagrup Hotels and Resorts and Diamond Resorts International at Appendix A and Appendix B respectively, for your reference. Each pack details the management charge applicable to each offer.

If you wish to take up either option, please contact your chosen resort prior to 1 January 2014 quoting the bankruptcy reference "John Palmer, HCJ 6750/2004", using the contact details provided below and in the enclosed documents.

If you have any queries as regards these options, you will need to discuss this with Onagrup Hotels and Resorts and/or Diamond Resorts International. I will not be able to provide any further information regarding each proposal.

To clarify, the contact details for each resort are as follows:

Diamond Resorts International
Tel: 0845 359 0010
Email: cuhsmdiamondresorts.com

Onagrup Hotels and Resorts
Tel: + 34 932 029 610
Email: customercare@onagrup.net; or

Option Two

Should you choose not to accept an exchange, your claim in the bankruptcy will remain. We comment in section 4 on the future prospects of recovery and the timescale.

- 5.3 Creditors must make a decision on whether to take up Option One. You may wish to seek your own independent legal or other advice. I cannot advise you on whether to accept or reject the offer, but should you choose to accept the offer of a timeshare week, you would need to inform me in writing. I have also asked the resort companies to confirm if this offer is taken up.

6 Receipts and payments account

- 6.1 I attach a receipts and payments account for the period 9 May 2005 to 29 July 2013 at Appendix C.
- 6.2 As shown on the receipts and payments accounts, I currently hold €20,368 in the bankruptcy account. Please note that there are insufficient funds in the estate to settle the outstanding fees and expenses of the bankruptcy.

7 Trustees costs and remuneration

- 7.1 In accordance with Statement of Insolvency Practice (SIP 9), we enclose at Appendix C a summary of our time costs for the period 9 May 2005 to 29 July 2013 by grade of staff and type of work which shows total time of 8,276.27 hours and total time costs of £2,640,516.19, representing an average hourly rate of £319.05. I have included a brief description of the work undertaken since the onset of the bankruptcy for your reference.
- 7.2 At the meeting of the Creditors Committee dated 28 October 2005, a resolution was passed authorising the Joint Trustees and their English legal advisers, Irwin Mitchell, to draw fees on a time cost basis plus an additional uplift on their standard charge out rates based on recoveries into the bankruptcy estate. Due to the issues referred to in Section 4 of this report, the Joint Trustees and Irwin Mitchell have had to accept a significant shortfall on our costs incurred in this matter.
- 7.3 To date, we have drawn Joint Trustee's fees and expenses of €291,805 and €159,216 respectively.

8 Future correspondence

- 8.1 Irwin Mitchell provide creditors with regular updates on the Bankruptcy which summarises the recent asset realisations and significant events. This update can be accessed via the below link:

<http://www.irwinmitchell.com/activities/about-john-palmer-timeshare-fraud>

- 8.2 I will upload a further update to the remaining creditors via the Irwin Mitchell website in due course.

Yours faithfully



Nicholas Wood

Joint Trustee

Email: Keira.shortland@uk.gt.com

Enc.

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Appendix A

Onagrup Hotels and Resorts proposal



ONAGRUP – Our proposal.

We are pleased to present you a solution, reflected in a settlement agreement for your credit concerning the bankruptcy procedure 6750/2004, our proposal is that you and your family become part of the prestigious Onagrup Club Vacations with exclusive benefits for your vacation and personalized attention.

Access to the Vacation club – your certificate.

The admission to Onagrup Vacations is the gateway to a new world of possibilities and advantages. With a **TITLE CERTIFICATE** our partners have the right to use and enjoy a week's holiday in any of the destinations of the Club and at any time of year.

This certificate is sent along with a contract. The signature and acceptance of these means to enjoy the benefits and rights mentioned and only entails the obligation to pay an annual maintenance fee and no other payments. Such fee is assessed for the year 2013 as follows:

- Use of the Timeshare/s in units up to 4 people: € 402.39 (taxes included).
- Use of the Timeshare/s in units up to 6 people: € 447.13 (taxes included).

The Floating System

Unlike other holiday products and the former operation of timeshares, our floating system does not require travelling in a specific week of the year or to a specific resort. Now our partners are free to decide when and where they wish to travel within our destinations, they can change the resort without extra costs and take full advantage of their Club.

What advantages will you enjoy?

- Access to 9 resorts located in prestigious international destinations as:

- Mallorca
- Málaga
- Salou
- Denia
- Torrevieja
- La Manga del Mar Menor
- Andorra

- Possibility of affiliation to international exchange companies that will give you access to thousands of destinations and resorts worldwide, the value of membership for two years is of (one hundred and forty eight) 148,00 £.

- Free internal exchanges so that travelling within our club has no cost.

- Possibility to split the use of the timeshare in several weekends.

- Exclusive discounts on holiday products such as ski passes, tickets to Port Aventura, access to Caldea (the largest spa centre in Europe), car rental, etc.

- Possibility of additional weeks.

- Exclusive offers and packs.

- Online management of your maintenance fees

- Personalized service in 7 languages including English, Russian, German, Spanish or French.
- Multilingual Reservation service to manage your reservation requests.

Special Promotion for affiliation to INTERVAL INTERNATIONAL

With the acceptance of this proposal, you will have a promotional two-year free membership to Interval International, so you can enjoy this service.

Further information:

Get to know our group visiting www.onagrup.net. To get more details and information about this promotion, please go to www.onagrup.net/en/documents. On this section you will find:

- Contract form.
- INTERVAL Promotion and Contract Form.

Personalized Customer Support Phone Number: +0034 93 202 96 10
Email: customer care@onagrup.net

Quality Assurance and Reliability

Our group, with 12 years of experience and a clear projection in the future, offers an innovative model of vacation and security. The ability that has characterized us to adapt to the needs of the market and the constant evolution of the business model have become our best assets to grow as a group. A demonstrated ability in the application of two business models: a holiday club in timeshare regime and the commercialization of our resorts through a hotel operation. This versatility is further supported by the success in the two types of business and attests to the quality of our management. A solid and growing group that brings confidence to project a bright future.

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Appendix B

Diamond Resorts International proposal



SunSet Bay Club

Tenerife, Canary Islands, Spain

SunsetBay Club and Diamond Resorts International®

Sunset Bay Club (operated by Diamond Resorts International®) is located a short walk from Fanabe Beach, and is fully affiliated to RCI, one of the world's leading vacation ownership exchange companies, offering Sunset Bay Club members worldwide exchange opportunities. Sunset Bay Club is a fixed week and apartment club. Members (upon payment of the Sunset Bay Club annual maintenance fee) are entitled to occupy their apartment at Sunset Bay Club or on payment of RCI membership and exchange fees are at liberty to exchange through RCI.

With its relaxed and friendly atmosphere, the village-style resort is one of the top destinations in Playa de Las Americas. All apartments are well equipped and have large balconies. The area is surrounded by beautiful landscaped gardens. On site there are two large swimming pools surrounded by palm trees and a warm welcome is waiting in the friendly restaurant and bar.



DIAMOND RESORTS
INTERNATIONAL

Diamond Resorts International® will offer a free transfer to the qualifying Creditors of the John Palmer bankruptcy. Creditors will receive a fixed week in an apartment of an equivalent type for each week formerly held at the time of the bankruptcy filing.

Sunset Bay Club Maintenance Fees for 2013

Apartment type	Management fee
Studio	£ 315
One Bedroom	£ 357
Two Bedroom	£ 430
Three Bedroom	£ 430



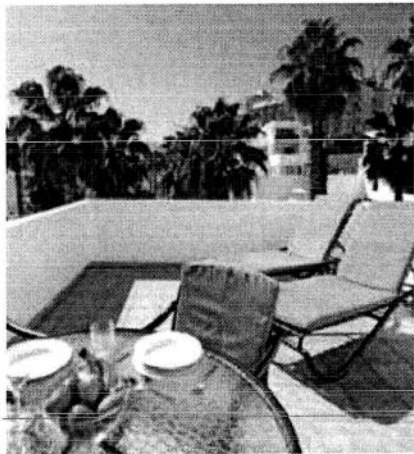
Activities nearby

- Bars
- Beach
- Fishing
- Golf course
- Gym
- Nightlife
- Restaurants
- Sauna
- Shopping area
- Squash
- Tennis courts
- Water sports



Resort facilities on-site

- Balcony/ Terrace
- Bar
- Children's pool
- Full kitchen
- Hair dryers
- Ironing facilities
- Laundry facilities
- Maid service
- Outdoor pool
- Patio
- Playground
- Poolside bar
- Reception cash facility
- Restaurant
- Satellite TV
- Supermarket
- Telephone
- Television



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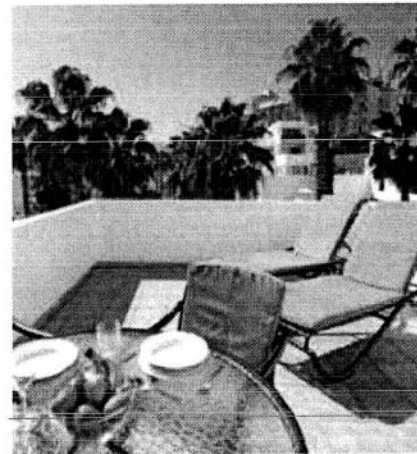
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- Reception cash facility
- Restaurant
- Satellite TV
- Supermarket
- Telephone
- Television



Appendix C

Receipts and payments account
for the period from 9 May 2005
to 29 July 2013

Appendix C	
John Palmer - In Bankruptcy	
Summary of receipts and payments for the period 9 May 2005 to 29 July 2013	
RECEIPTS	From 09/05/2005 To 29/07/2013 (€)
Proceeds from realisations of timeshare resorts:	
Club La Paz	2,613,700
Island Village Heights	3,700,000
IVH 36 Units	1,150,000
Flamingo	4,500,000
Tucca Park	12,074,821
Tenerife Royal Gardens	10,465,041
Los Olivos	7,130,285
Parque Del Sol	1,270,000
Tax refund	4,703
VAT refund of overpayment	745
Bank interest	1,096
	42,910,391
Spanish tax and authorities debt	(26,539,131)
Legal fees	(2,893,687)
Professional fees in connection with the administration of the Spanish companies and sale of the Spanish resorts and properties	(2,331,176)
Professional fees - other	(724,201)
Settlement Agreement regarding Island Village Heights	(109,119)
Ransom sum payable for sale of Spanish resorts and properties	(262,500)
Spanish supplier debt	(3,631,106)
Mortgage redemption	(593,314)
Refund payment of property deposit to Spanish property agents	(200,000)
Trustees fees	(291,805)
Trustees expenses	(159,216)
Staff liquidation fees	(4,330,601)
First National Trust Company	(54,050)
Dixcart fees regarding Madeiran co. management fees	(253,401)
Counsel's fees	(101,241)
Tax advice	(138,200)
Valuer's fees	(19,405)
Disbursements of Official Receiver	(1,491)
Secretary of State fees	(95,084)
VAT irrecoverable	(159,299)
Meeting room hire	(335)
Bank charges	(946)
Department of Trade and Industry fees	(715)
	(42,890,023)
	20,368
Notes:	
The Bankrupt was not VAT registered	
Cash balance held on interest bearing Insolvency Services Account	

Appendix D

Time cost analysis for the period from 9 May 2005 to 29 July 2013

Appendix D

John Palmer - In Bankruptcy
SIP 9 Time cost analysis for the period from 9 May 2005 to 29 July 2013

	Partner		Manager		Senior Professional		Admin / Support		Total		Average Hourly Rate (£)
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	
Administration and Planning	111.60	49,366.50	232.85	76,632.00	442.30	107,273.75	368.38	42,619.05	1,155.13	275,891.30	238.84
Legal	593.20	270,247.50	131.00	44,430.25	370.05	89,664.50	6.30	881.75	1,100.55	405,224.00	368.20
Correspondence with debtor	0.00	0.00	26.75	7,703.75	54.20	9,997.50	14.60	2,135.00	95.55	19,836.25	207.60
Creditors	77.40	35,856.50	133.40	44,044.25	822.24	198,810.89	1,038.95	155,749.25	2,071.99	434,460.89	209.68
Treasury	1.40	701.50	45.00	15,713.75	210.60	55,771.05	76.10	12,397.20	333.10	84,583.50	253.93
Investigations	226.60	94,291.00	23.60	6,574.00	110.80	23,111.25	39.40	4,295.00	400.40	128,271.25	320.36
Realisation of Assets	2,002.90	1,006,009.50	369.95	110,470.50	704.10	170,300.25	42.60	5,468.75	3,119.55	1,292,249.00	414.24
Grand Total	3,013.10	1,456,472.50	962.55	305,568.50	2,714.29	654,929.19	1,586.33	223,546.00	8,276.27	2,640,516.19	319.05

Administration & Planning
Includes; case set up; case strategy planning; initial research and review of information; statutory obligations; dealing with Spanish taxation liabilities of Spanish companies and properties; attendance at meeting related to Spanish taxation matters;

Legal
Includes: correspondence with Irwin Mitchell; drafting witness statements; drafting affidavits; legal correspondence regarding lifting embargoes against Spanish properties; legal aspects of property sale; resolving ownership of resort disputes; attendance at Court hearings; executing settlement agreement, Section 366 IA1986 application; dealing with administration and liquidation of Spanish companies; drafting updates for Irwin Mitchell bulletin.

Correspondence with debtor
Includes: Preparation and attendance at interview with John Palmer; correspondence regarding Section 366 IA1986 application; monthly reports to debtor.

Creditors
Includes: correspondence with creditors; correspondence related to timeshare proposals offered to creditors; notices to creditors.

Treasury
Includes: dealing with receipts and payments in to the estate bank account; monitoring and administering payments related to the Spanish companies

Investigations
Includes: review of bankruptcy books and records for additional assets; preparation and attendance at interview with Christina Kerley; property and vehicle searches; bank analysis; asset searches in Spain; correspondence with related third parties.

Realisation of Assets
Includes: confirming ownership of assets; instructing valuation of assets; site visits; correspondence with property agents; drafting sale documentation; dealing with Spanish authorities.

Disbursements and disbursements for the period from 9 May 2005 to 29 July 2013

Detail	£
Advertising	12,991.18
Bonding	1,600.00
Company Searches	2,277.78
DVLA Searches	20.00
Land Registry searches	124.00
Translation	2,790.22
Travel and meeting expenses	115,315.23
Storage	153.34
Professional fees	16,071.21
Postage	1,579.44
Legal fees	14,022.51
Total	166,944.91

Charge out rates

	Hourly rate, from 1 July 2011 (£)	Hourly rate, from 1 July 2012 (£)	Hourly rate, from 1 July 2013 (£)
Partner	560	580	600
Manager	360	375	390
Senior Professional	275	285	295
Admin/Support	150	155	160