

Marrache & Co (“the Firm”) – No 5 of 2010

&

Isaac S Marrache – In Bankruptcy – No 1 of 2010

Benjamin J Marrache – In Bankruptcy No 2 of 2010

Solomon S Marrache - In Bankruptcy No 3 of 2010

Report to creditors

31st May 2012

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Gibraltar**

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1. INTRODUCTION

This is our second report as Joint Liquidators of Marrache & Co ("the Firm") and Trustee in Bankruptcy of the estates of Isaac Marrache, Benjamin Marrache and Solomon Marrache.

At the time of our first report there still existed a number of matters where strategic decisions were yet to be made as well as complex legal issues to be resolved. In addition, due to the volume of information which we still had to examine and analyse, our report had to be brief and we were unable to cover all of the matters we would have liked to.

Accordingly, we now take this opportunity to update you on the work we have carried out, together with the extraordinary challenges we have faced and overcome.

2. BRIEF HISTORY

The Firm operated as an international law firm with offices in Gibraltar, London, Spain, Portugal, Luxembourg and Czech Republic. The firm specialised in the provision of legal and corporate services to both corporate and private clients. It also operated a Trust Company by the name of Cabor Trustees Limited ("Cabor") and a Corporate Management business by the name of Gibland Secretarial Services Limited ("Gibland").

Following an investigation by the Financial Services Commission into the affairs of Cabor and Gibland, all licenses held by Cabor, Gibland and its directors were revoked and Mr Frederick White from Grant Thornton (Gibraltar) Limited was appointed Authorised Administrator. Simultaneously, the Chief Justice of the Supreme Court revoked the practising certificates of the firm's Managing Partner, Benjamin Marrache, and of the Firm's Senior Partner Isaac Marrache.

Shortly after, the premises of the Firm, Gibland and Cabor were taken over by the RGP and Benjamin Marrache, together with his brother Solomon Marrache, the firm's finance partner, were arrested on suspicion of false accounting. Isaac Marrache was arrested and charged with similar offences upon his arrival in Gibraltar at a later date.

3. LIQUIDATION AND BANKRUPTCY PROCEEDINGS AND APPOINTMENTS

Edgar Lavarello of PricewaterhouseCoopers Limited and Adrian Hyde of Chantrey Vellacott DFK were appointed Joint Liquidators of the Firm pursuant to a winding up order made by the Gibraltar Supreme Court on 17 March 2010.

At the time of our appointment the Firm had debts due to trade creditors, former clients and lending institutions totalling £40,678,797.78. On the basis that the Firm's partners are jointly and severely liable for the debts of the Firm, a bankruptcy petition was filed in the Supreme Court against Isaac Marrache, Benjamin Marrache and Solomon Marrache which resulted in the 3 brothers being adjudged bankrupt on 26 November 2010 following an earlier receivership order

(April and May 2010) with Mr Lavarello being appointed Trustee in Bankruptcy and Mr Hyde being appointed Special Manager to their estates.

The Bankrupts strongly contested the applications to make them Bankrupt on the basis that they would be “putting a Scheme to Creditors” but despite having almost a year between the Firm ceasing to trade and the date of the hearing no such scheme was put forward. During the hearing the Chief Justice even invited the debtors to put forward such a scheme, and stated that he had considered adjourning the hearing for that purpose but concluded that there was no credible prospect of such a scheme that merited consideration being put forward. Additionally, under the Bankruptcy Act, schemes of this nature can be put at any time and it has therefore remained open to the bankrupts to put forward proposals, but to date no such scheme has been proposed.

It is important to note that whilst there are four separate and legal standing estates (i.e the Firm, Isaac Marrache, Benjamin Marrache and Solomon Marrache), there are a number of assets and liabilities that overlap estates and with time it may prove impractical to determine what assets or liabilities fall under each separate estate. As a result we have requested all creditors to file a claim against each estate and we will take a sensible approach when it comes to distributing any assets, probably seeking the consent of the Court to our approach.

4. SUMMARY OF OUR WORK TO DATE

By the date of our appointment the Firm had few significant assets. Most of the bank accounts held little or no funds and were in many cases overdrawn, including the Firm’s numerous client accounts. Recoveries have, by necessity, concentrated on assets owned by the Bankrupts.

Several problems have arisen with regards to the Bankrupts’ assets. Almost every asset identified by us is charged to a bank therefore reducing the amount of equity available to creditors. Furthermore, the majority of assets are held in special purpose vehicles be it either a Gibraltar limited company or a trust which, in turn, is then allegedly owned by another Marrache family member and not by the Bankrupts themselves, or by a combination of the two.

On the many occasions where the assets are owned by a Gibraltar company, the shares in the companies are invariably owned by nominees, normally Gibland or Cabor. In these situations the Bankrupts are arguing that the companies or their assets are held as nominees for their wives or siblings or beyond that on trust for the estate of their late parents.

Almost without exception it is our experience, and that of our solicitors, that every conceivable obstacle, whether practical, legal or otherwise has been put in our way. The bankrupts, owners of companies, and the Firm in liquidation have an obligation to assist their Trustees and Liquidators to the best of their ability so that assets can be collected and realised for the benefit of the creditors. In this liquidation the Bankrupts have taken every practical, technical and legal measure at their disposal to prevent the sale or realisation of every asset we might claim.

These measures have included some that you might be aware of such as the publishing by the Marrache family of adverts in the Gibraltar Chronicle warning potential buyers that various properties and other assets are subject to legal challenge.

However, potentially more serious steps taken by the Bankrupts include disputing numerous points on service of proceedings; making communication complicated; adopting delaying tactics in some cases even where there are court orders; not answering questions adequately (citing the pending criminal case against them as an excuse); and repeatedly appealing against decisions of the court.

We are dealing with Bankrupts, two of which, as qualified barristers, have a detailed knowledge of the legal system; have unlimited time to research case law which in many cases is irrelevant to the proceedings; and appear to have unlimited resources in the form of legal assistance (funded by the Gibraltar tax payers). The legal assistance allows the bankrupts to engage legal advisors including senior London Counsel who have come to Gibraltar to argue cases on their behalf. Armed with this arsenal of resources they have taken it upon themselves to argue and appeal on every conceivable matter which has significantly hampered our efforts to realise assets for the benefit of creditors.

In contrast, with respect to all local cases, we have instructed Messrs Cruz & Co, irrespective of whether the Bankrupts have instructed London Counsel in addition to local firms. Cases have been managed by lawyers in Cruz & Co at an appropriate level in an effort to ensure we contain costs without compromising on service. To date we can confirm that we have been successful in all of our applications to Court including several attendances before the Court of Appeal.

The tactics employed by the Bankrupts have undoubtedly required enormous resources not only from our legal advisors, but also from the Joint Liquidators in preparing to defend these applications. This has included the extensive preparation of witness statements to be used in Court hearings as well as attendance at the hearings.

Should we lose a case, we may well be ordered to pay the legal assistance costs, which will need to come out of the creditors' funds. However, despite having won all applications to date, we are unable to recover costs as would be the usual practice when a successful litigant wins a case because the Bankrupts are the beneficiaries of legal assistance. We are therefore faced with the unenviable position that on each occasion that the Bankrupts or their relatives (when entitled to legal aid) can establish that they have a case with any possible prospect of success, the Gibraltar Registrar grants them legal assistance. The test to achieve this threshold is very low in order to allow legitimate litigants who have limited resources the opportunity of pursuing their case and it is not for the Registrar to decide the prospects of such an action. Accordingly, we find ourselves fighting and winning an action brought by one of the Bankrupts only to face a similar or alternative action brought some time later by another of the Bankrupts or their spouse or family members usually with the benefit of legal aid.

In our view this unfair result of the legal assistance system has had a major impact on our costs and will naturally impact on the funds that will eventually be available for distribution to creditors.

We estimate that, to date, our costs in defending these erroneous claims amount to at least £400,000.

Possibly as a result of our success in court, certain of the Bankrupts and their close family have made groundless accusations of unprofessional and unethical behaviour. These have included both direct accusations, and innuendo, of behaving in a manner that is unsympathetic to their religious beliefs. Furthermore, there have been threats of legal proceedings against individuals working as our agents and advisers on a range of issues, including allegations of a defamatory nature; as well as accusations of incurring unnecessary costs when attending court in order to defend the many unmeritorious actions that they have commenced against us.

We should be clear that not all Marrache family members have engaged in this process and these comments are limited to those referred to below. We also add that whilst we have described the legal actions as lacking merit that is based on the results to date. Clearly some actions are still in court and we cannot predict the outcome of those beyond a general statement that our legal advisors have expressed the view that they should not succeed. However the pattern described above is a fair observation of what we have had to face in our capacity as Trustees, Special Managers and Liquidator.

Given that this behaviour will have a direct negative impact on the assets available for distribution to creditors, we provide a detailed analysis of these activities below, together with an assessment of the difficulties we face and the work required in overcoming these issues.

5. LIQUIDATION OF MARRACHE & CO

5.1 First meeting of creditors

In accordance with Gibraltar statutory requirements, Liquidators are required to hold a first meeting of creditors following their appointment and to appoint a Committee of Inspection if required. The function of the Committee is to review the work of the liquidator and to act as a sounding board in matters of policy and strategy. To this effect a first meeting of creditors was held on 13 April 2010 and the following were appointed as members of the Committee of Inspection.

- T & T Trustees Limited - represented by Charles Simpson of Messrs Triay & Triay
- Mr Jim Magner - represented by himself
- Portino Comercio International SA - represented by Mr Charles Salter from Messrs Phillips & Co
- Ms Adela Abrines & Ms Maria Abrines - represented by Mr Stephen Bossino from Messrs Bullock & Co (stepped down from the Committee on 22 September 2011)

- Gibling Secretarial Services Limited (in Liquidation) & Cabor Trustees Limited (in Administration) - represented by Mr Fredrick White from Grant Thornton

The appointment of the Committee of Inspection was sanctioned by the Supreme Court on 11 August 2010, following which we have been holding regular meetings. For your information, the committee has met on the following dates:

- 26 August 2010
- 29 November 2010
- 23 February 2011
- 16 May 2011
- 12 July 2011
- 9 November 2011
- 27 March 2012

At the creditors' meeting the Joint Liquidators provided a preliminary update to the creditors where it was highlighted that the firm had debts of approximately £30 million and few assets to meet its liabilities. This figure later increased to around £40m. Reference was made at the meeting of creditors to the potential bankruptcy of the partners of the firm and that their assets could be used to meet the liabilities of the firm.

Our work as Joint Liquidators can be summarised as follows:

5.2 Review and collection of outstanding trade debts

A review of the Gibraltar debtors revealed that outstanding fees due to the firm were mainly due from clients that had deposited monies in the firm's client accounts which had quite possibly been removed without any obvious or clear authorisation from clients, whilst others were the subject of disputes on grounds of poor work quality, uncompleted work, over-billing and agreed early payment discounts.

The larger debts had been invoiced from the UK practice and accordingly are being pursued in the UK. The main debts are as follows:

5.2.1 Proposed sale of large estate:

An outstanding debt of €75,000 is currently due. This represents an agreed fee for an abortive deal. The invoice has been raised and delivered (June 2011) but the debt has not

been paid. Whilst we are currently working on the collection of this debt, its recovery is not certain.

5.2.2 Delisting of a foreign listed company:

An outstanding debt of £120,000 is due but recovery is pending completion of transaction. Deal expected to progress shortly.

5.2.3 Trust litigation case

An outstanding debt of approximately £1m is disputed on the basis that it is alleged that a private agreement was reached with Isaac Marrache whereby he received £250,000 as settlement of the work done and amounts due to the firm. This position is not accepted by us and we have raised an invoice for the full amount due and delivered this to the trustees for payment. The matter is complex as it involves foreign resident beneficiaries and we may need to instruct solicitors overseas.

5.3 Review of work in progress

We have carried out an in-depth review of work in progress including a review of detailed listings, client files to gauge work undertaken and instructing law costs draftsman in certain cases to raise bill of costs. Our biggest difficulty in this respect has again been centred round the fact that in most cases which involved substantial work in progress, the firm had received monies in advance which means that no further recovery is available. In other cases clients are disputing the debts on grounds of poor work quality, uncompleted work and over-billing. We are not expecting any major recoveries from this area.

5.4 Possession of the Firm's assets

We have located over 400 paintings and other historical artefacts including antique furniture at the Firm's premises. We would point out however that every item of value identified to date is claimed by the Marrache family. It is claimed that works of art as well as furniture (including the boardroom furniture; furniture in Isaac Marrache's office; and furniture in Benjamin Marrache's office) never belonged to the Firm but was on permanent loan from the Marrache family.

Despite numerous and prolonged exchanges of correspondence with their lawyers, the Marrache family have not produced any evidence of substance to support their claim. Nevertheless, we have been left with little alternative but to make an application to court for a judgement to be issued confirming that the assets belong to the Firm. This is another example of the steps taken to frustrate our work and which adds to the costs of the liquidation.

Accordingly, only low value items located within the Firm's offices, such as office equipment and "flat-packed" furniture, over which the Marrache family have made no claim, have been sold.

5.5 Properties and banks

The firm's premises were mortgaged to a bank as security for a loan provided to the Firm, of which £9.4m remained outstanding at the date that the Firm went into liquidation. The bank concerned also holds security over a number of other properties which are either owned by the Bankrupts individually or (as is claimed) jointly with their siblings, on the basis that these properties were inherited from their late parents.

The Firm also had a separate secured loan facility with another bank where the sum of £3.5m was outstanding as at the date of liquidation. This amount is also secured against another set of properties which mainly comprise of the Bankrupts' personal property.

A significant part of our time has been spent in understanding the reasons behind these large borrowings and how a Firm with an average turnover of less than £2 million could have borrowed almost £13 million, ostensibly for the business of the law practice. There are also a number of serious legal issues surrounding the validity of the bank's security given what appears to be a complex ownership structure where some of the beneficiaries (the Bankrupts and in some cases their spouses) are claiming that they were not aware that some of the properties had been mortgaged to support a loan provided to the Firm. We have encouraged the relevant Banks to realise the properties and we continue to work with them to generate the maximum return to creditors without prejudice to our legal position.

Included amongst the portfolio of mortgaged properties are a number of client properties which have also been mortgaged without the clients' knowledge or permission.

Whilst at this moment we are unable to say more on this matter, it has taken up a considerable amount of time and we have had to attend a number of court appearances which again is pushing up the cost of this liquidation. Total costs to date in this area amount to some £170,000.

5.6 Third parties

We have interviewed and questioned numerous third parties believed to have information relevant to our investigations. As matters develop we continuously have to consider interviewing or re-interviewing more. Although it is usual for third parties to assist Liquidators with their investigations, in this case, possibly due to the criminal charges being brought against certain individuals, we have been forced to go to court to obtain necessary court orders which under other circumstances might not have been required. Although we have been successful in obtaining information which has assisted us with our investigations, our work in this respect has not finished yet as we are still receiving further information and are reviewing the position of certain third parties with regards to the firm. Our costs in this respect are currently in the region of £105,000. However, should we feel that further action needs to be taken which would lead us to the recovery of further substantial assets these costs could escalate quite quickly.

5.7 Dealing with files

We have, wherever possible, assisted former clients with tracing their files and had to spend considerable time setting up an archive system to allow us to return any former client files, some of which include original documents such as property title deeds and wills, to their rightful owners. The original Court Order appointing an independent Authorised Administrator came to an end and we found ourselves with over 1,200 large boxes worth of files and documents still stored in the Firm's premises. In addition, when RGP released the Firm's premises back to us, they had removed approximately 100 large boxes of files relevant to its investigation. We were therefore left with a large volume of files relating to the assets of the partners, and the paperwork remaining on the desks of all key fee-earners and their secretaries. In order for us to properly conduct litigation, and deal with disclosure, it was necessary for us to identify and store all of these papers too.

Faced with a notice to quit from the solicitors instructed by the secured lender we had no option but to incur the additional costs of cataloguing, archiving, transporting and storing the remaining client files, firm's files, partners files and all potentially relevant paperwork with a third party. The costs incurred in this exercise amount to some £215,000 and whilst it could be argued that these costs should not be borne by the liquidation we had no choice but to action this matter. We are reviewing the situation to see if any our costs can be recovered.

5.8 The Firm's accounting and banking records

In the early months a major part of our work focused on obtaining information and data from the Firm's accounting and banking records in order not only to trace assets but also to gain an understanding of the reasons behind the demise of the Firm. This included a detailed review of the firm's global client and office accounts which were held with local and international banks in various currencies.

The interrogation of the Firm's email system gave us many leads as to the identity and location of assets and how clients' monies were used by the Firm for purposes that do not appear consistent with the purpose that they were received for.

The biggest difficulty we have encountered is that the Firm maintained accounts on proprietary software, and held manual spreadsheet records on a client by client basis, and in many cases not only were these records inconsistent with one another (manual and computerised records recording the same transaction but in entirely different ways), but they could not be reconciled with the firm's banking records. Consequently, we have had to painstakingly piece together the accounting records. The costs incurred in the process of analysing and understanding the Firm's financial records, which amount to some £390,000, were unfortunate but necessary as the information obtained has given us many leads which may begin to generate the recovery of significant assets.

5.9 Acceptance and review of proof of debts

We have received some 100 completed “proof of debt” forms, which range from trade creditors to clients of the firm who had personal funds held to their credit in the firm’s client accounts. These add up to around £27 million which together with the £13 million due to lending banks, total approximately £40 million.

5.10 Dealing with employees

At the outset of our appointment we had to deal with the Firm’s employees who had effectively lost their jobs as a result of the collapse of the Firm. At the time, the employees were unsure about their position and were seeking our assistance.

We found that whilst the firm had around 30 employees, these were not employed by the Firm but by Kristy Secretarial Services Limited (“Kristy”), a service company operated by the Firm’s partners. Given that Kristy owed over £1.1 million to its creditors which included former employees and the Gibraltar Government in respect of unpaid PAYE and social insurance contributions, a petition was filed with the Supreme Court and Mr Lavarello together with Charles Bottaro from PricewaterhouseCoopers Limited were appointed Joint Liquidators.

Following our appointment as Joint Liquidators, all employee contracts were terminated and all redundancy payments including any accrued holiday and sick pay were met by the Gibraltar Government Insolvency Fund. A subsequent claim of circa £240,000 was filed in the liquidation by the Insolvency Fund and is included in the total figure of £1.1 million referred to above.

Our investigation into Kristy revealed that Kristy was just a service company and did not have any assets to meet its liabilities or indeed any liability of the Firm or the bankrupts. We found that the director of Kristy was a British Virgin Islands corporate director who when contacted appeared to have little information about the company and/or its affairs.

6 BANKRUPTCY OF ISAAC S MARRACHE

6.1 Receiving and Bankruptcy orders

Under Gibraltar law, once the Court makes a finding that the debtor has committed what is described as an “act of bankruptcy”, it proceeds to make a receiving order against the debtor, whereby an official trustee is appointed to safeguard the assets of the debtor. The debtor is then given an opportunity to come up with a scheme of arrangement for approval at by his or her creditors, at a creditors’ meeting convened by the Receiver. If the proposed scheme is not accepted, or if no scheme is put forward (as in this case) the creditors invariably vote that the debtor should be declared bankrupt. A receiving order was made against Isaac Marrache on 4th May 2010 and, following his failure to come up with a scheme of arrangement for his creditors to approve, a bankruptcy order was made on 26th November 2010 against Isaac Marrache.

To date, Isaac Marrache has appealed both the Receiving Order and the Bankruptcy Order to the Gibraltar Court of Appeal on numerous grounds and on both occasions dismissed by the Court of Appeal on every single point raised by his lawyers. Moreover the Court of Appeal have refused permission or leave for a further appeal to the Judicial Committee of the Privy Council (the final court of appeal under our system and in essence under the English legal system the equivalent to what was known as the House of Lords and now the Supreme Court). This Court sits in London. An appeal against the decision of our Court of Appeal not to grant leave does lie with the Privy Council, and so we will now face that challenge, with our lawyers having to travel to London to address this issue, and if permission is granted, the substantive appeal. We may need to instruct London Counsel if we deem it appropriate. Unfortunately, as explained above the legal assistance rules do not allow us to seek costs from the legal assistance fund even though he would be able to seek costs on behalf of that fund if we were unsuccessful. Although the Court of Appeal made it clear in their ruling that leave to appeal was not granted, we cannot stop the Bankrupt from applying direct to obtain such leave, and we believe that he is doing so. Whilst we believe that he has no prospect of success in any appeal, it should be noted that any appeal will merely result in further costs being incurred by ourselves and our lawyers.

The Bankrupts have made a number of accusations against us with respect to costs being incurred by the Liquidators / Official Trustee / Special Manager. These exceptional costs have in the main been incurred in defending the interests of creditors against the appeals launched by the Bankrupts themselves. In this light it is not surprising though extremely regrettable to note that our costs in respect of this Bankruptcy amount to £1,162,405.

6.2 Private Examination

As a good example of how the costs are hugely increased by the conduct of the bankrupts, is the response to our requirement to formally question Isaac Marrache. Under the Bankruptcy Act, the official trustee has the powers to conduct a public or private examination into the affairs of the bankrupt where the trustee in bankruptcy believes that this may assist to better understand the bankrupt's affairs or position regarding assets. Faced with delayed and inadequate answers contained in correspondence we instructed our lawyers to make an application to the Supreme Court to conduct a private examination. This application was strongly contested by Isaac Marrache's lawyers, funded by the legal assistance fund. Objections were made on the basis that if Isaac was to answer the Official Trustees questions this would be prejudicial to him with respect to the upcoming criminal trial.

Our application was, however, successful. Nevertheless, Isaac Marrache appealed the Court's decision (using the legal assistance fund), and this first appeal was to be heard by the Chief Justice in his capacity as ex officio judge of the Court of Appeal. However, this was superseded by a further application by Isaac Marrache (using the legal assistance fund) where he claimed that the Chief Justice was conflicted to act in this case, as a result of a past friendship with Solomon Marrache. This led to the recusal of the Chief Justice. The appeal was then considered on the papers by the Chairman of the Court of Appeal, and finally heard by the Court of Appeal in March 2012. Again, the Court of Appeal ruled in our favour.

Whilst we were successful at every stage, the actions taken by Isaac Marrache have resulted in substantial costs being incurred to the detriment of the creditors. We can only add that Isaac Marrache has verbally confirmed that he may be appealing the Court of Appeal's decision to the Privy Council (again, this is likely to be with the benefit of legal assistance).

6.3 Recovery of assets

Notwithstanding these appeals and counter appeals by Isaac Marrache we have had some success in the recovery and sale of a number of his assets.

In jurisdictions where the legal assistance fund rules are not as generous as in Gibraltar, such as in the UK and in Spain, we issued proceedings, and subsequently secured an agreement with Isaac Marrache's wife which has allowed us to secure the equity in the family home in London valued at £1.2million together with a plot of land at La Hoya, Spain valued at around €200,000. This agreement had to be approved by the Supreme Court which was done on our application. As part of the deal, Mrs Marrache also gave up her interest in any other property including certain works of art, a stamp collection and her share of a luxury apartment at Ragged Staff Wharf, Gibraltar (provided as security to one of the banks as detailed below) and the plot of land at La Hoya. In exchange, the joint liquidators agreed not to pursue an indeterminate, complex and prohibitively expensive claim to part of a New York apartment owned by Mrs Marrache valued at approximately US\$1.6 million to US\$2 million. A significant benefit of making this agreement was that there were limited legal costs associated with securing assets subject to the deal compared with what was likely had the Joint Liquidators been forced to make applications for each asset and respond to each inevitable appeal.

Isaac Marrache is currently living in the luxury apartment at Ragged Staff Wharf which we estimate has a value of £560,000. We have sought possession proceedings to try and sell this property as Isaac Marrache will not voluntarily move out. He claims he needs this property so that when his wife and children visit from New York he can accommodate them. Our view, on the basis that his family have access to other properties, is that this issue can easily be addressed. In any event it is not his creditors' obligation to ensure that he has a luxury apartment at considerable cost available to him. Two years after being declared bankrupt he is still living in this luxury flat at no cost whatsoever, paying no rent or mortgage payments, service charges, etc; and using the legal assistance fund to help him remain there by challenging our rights to possession. Worse still, not only is he not paying the outgoings on the apartment, when we are granted possession, which is our right, the amount recovered for the creditors will be reduced by the amount of any service charges and rates, which must be deducted from the sale proceeds.

Barclays bank has a mortgage over this property, and he seeks to challenge this on various grounds of questionable merit. We are also a party to that litigation. On the basis that we succeed, as we have with all other application to date, we will need to share the proceeds of sale with Barclays Bank.

7 BANKRUPTCY OF BENJAMIN J MARRACHE

7.1 Bankruptcy Order

As in the case of Isaac Marrache, Benjamin Marrache has very recently put us on notice of an appeal to his Bankruptcy Order granted in November 2010. It is very strange for an appeal to be lodged almost 16 months after the date of the Bankruptcy Order when this should have been done within 14 days. The Registrar has granted legal assistance to pursue this appeal which is not only filed long after the deadline but is based on substantially the same arguments and grounds as those put forward by Isaac Marrache, grounds which were unsuccessful at every level. This is a situation unique to us in Gibraltar. In contrast, there is no form of legal assistance or legal aid available to a bankrupt in most European jurisdictions and other jurisdictions such as the UK and the British Virgin Islands. Such actions would only be commenced by solicitors acting on a “no win or no fee” basis, and in considering whether to risk their professional time, they take a more realistic view of the chances of such an action being successful. As a result, the Trustee rarely faces the same level of legal challenges that we have and continue to experience.

Accordingly we have found ourselves fighting and winning an action brought by one of the Bankrupts only to face a similar action brought some time later by another of the Bankrupts.

Clearly we are objecting to this appeal on two grounds, namely the merits, but also the fact that it is out of time. However, this clearly invites more unrecoverable costs and yet another visit to the Court of Appeal.

Benjamin Marrache has been the most vocal of the Bankrupts with respect to accusations made against Trustee and Special Manager, our lawyers and our employees as to the costs being incurred in the Bankruptcy. However, as you will see from the extracts below, he has also been one of the most obstructive of the Bankrupts with costs apportioned to his Bankruptcy amounting so some £780,561 prior to any appeal costs being incurred.

7.2 Personal assets

As part of our investigations we have been able to find an insurance policy held by Benjamin Marrache through a local insurance company. This policy lists a substantial number of high value personal items such as collector's watches and other pieces of jewellery and artwork. When requesting these to be transferred to our control Benjamin Marrache has claimed that these items are all held on trust by him and his wife for the benefit of his children. Despite our numerous requests to Benjamin Marrache to produce any evidence to support his position, no evidence has been forthcoming. We are now left with no alternative but to make another costly application to the Supreme Court and we are at present waiting for a court date. The value of these items according to the insurance policy is set at £110,000. However, based on prior

events, it is possible that Benjamin Marrache and his wife would be granted aid from the legal assistance fund which could further obstruct our claim

7.3 20 Ragged Staff Wharf, Queensway Quay, Gibraltar (Prime Sight Limited)

On 1st March 1995 Benjamin Marrache purchased an apartment at Ragged Staff Wharf, Queensway Quay at a cost of £160,000. The property was purchased in his name and subsequently sold for a consideration of £499,950 to a company ("Prime Sight Limited"). Both Benjamin Marrache and his wife were the beneficial owners of Prime Sight. Although the deed of underlease required payment to be made by Prime Sight Limited to Benjamin Marrache in exchange for title to the property, payment was never made. Two years prior to the collapse of the Firm, Benjamin Marrache transferred his beneficial interest in the company to his wife. As the company never paid Benjamin Marrache for the property, he effectively disposed of his interest to his wife for no consideration. In order to get the property back, or the funds, we have demanded payment of the sum of £499,950 from Prime Sight Limited, and as it has failed to pay, we have petitioned for its winding up. To date this has been contested by both Benjamin Marrache and his wife who is currently claiming ownership of 100% of the property. We should add that the property is currently mortgaged to Barclays Bank and so they lay claim to it as well. In the context of Barclays' claim Mrs Marrache claims that the bank did not properly advise her as to the effect of the mortgage and that, irrespective of her being a qualified UK barrister, she did not know better and should not be bound by the bank's mortgage terms. Although we do not find ourselves party to this litigation, we are pursuing the winding up of Prime Sight Limited given the failure to pay consideration, in the hope that we can expeditiously realise the asset. Clearly we will also need to take into account the Barclays Bank Mortgage going forward.

Most recently, Mrs Marrache is now challenging our petition on new grounds that she has not previously raised, grounds that appear to us to be fanciful at best. The matter is listed for hearing before the Court on 8 June 2012 where there are likely to be directions given prior to a substantive hearing.

7.4 306 Main Street, Gibraltar

Barclays Bank also has a mortgage over this property where Benjamin Marrache, his wife and children currently live. Benjamin Marrache and Mrs Marrache are also objecting to giving up possession of this property as they are contesting the validity of the mortgage on similar grounds to the above. We are also a party to these proceedings and we have filed an application to strike out the defence of Mrs Marrache as it is clear through detailed tracing of funds that the money used for the acquisition of this property did not come from either Benjamin Marrache or Mrs Marrache, save possibly for an immaterial amount, instead coming from client monies. The value of this property is estimated at £1.3 million.

7.5 Israel funds

Our investigations show that shortly before the collapse of the Firm and related entities, Benjamin and his wife were in the process of acquiring two residential properties in Israel, with a combined value in excess of US\$4 million.

After considerable forensic work we were able to prove that most of the monies used to purchase this property came from clients' funds deposited with the firm. In total an amount of US\$538,157 is held by the solicitors formerly instructed by Benjamin Marrache and his wife. These funds were in part returned by the developer following a deal that was reached, and in part repayment of tax liability.

The funds themselves notionally belong 50% each to Benjamin Marrache and his wife. In relation to Benjamin's share, in any event, the funds should be paid to his trustee as an asset of the estate. We utilised a new procedure in Israel for the bankruptcy to be recognised, and asked the Court to order the payment of the monies to the Trustee. After initial objections put forward by the solicitors holding the funds (despite their accepting that they would hold the funds and abide by an order of the Court, they now claim to be acting for Benjamin Marrache. Mr Marrache has submitted a statement referring to his appeal to the Court of Appeal, (lodged 16 months out of time), and complaints against the Trustee and Special Manager, as the main grounds to suggest that the Court should not pay the funds to the Trustee. In addition he argues that the clients whose funds we have identified as having been used for the purchase of the Israeli property have not submitted a claim in the Liquidation. However, this argument has no value as early clients were repaid with the deposits of later clients who have subsequently registered claims in the liquidation when their monies were never repaid. Benjamin Marrache has also sought to confuse the Israeli courts by informing them that the Gibraltar Chief Justice has had to recuse himself and that somehow this will have an impact on his Bankruptcy Order. He suggests that he is "suing" us when really to date other than the appeals, we are not aware of any such legal action. Additionally he has suggested that the Chief Justice was unsympathetic to his religious beliefs by not adjourning court dates. This matter is now pending a further hearing before a senior judge, again incurring further irrecoverable costs.

In relation to Mrs Marrache, the position is yet more perverse. Prior to issuing proceedings in Israel, we initially asked Benjamin Marrache and his wife to agree to the matter being heard in Gibraltar, which they refused. However, once we started proceedings in Israel, Mrs Marrache's lawyers then sought for the matter to be heard in Gibraltar. It appeared for a short period as though lawyers for Mrs Marrache may seek to transfer 50% of the funds to her and the Trustee and Special Manager sought an injunction in Gibraltar such that she could not dispose of the funds in the event that they were paid to her. In addition we sought an order that the funds be returned to Gibraltar pending the Court's decision on ownership. In relation to this latter application Mrs Marrache's Gibraltar lawyer argued before the Court that Mrs Marrache was forbidden to give these instructions by her religious beliefs. In this regard she cited a little known tenet that as a Jew, having committed funds to purchase property in Israel, she was not allowed to then withdraw from Israel. Our proceedings in this action are ongoing and we await a

further hearing date. However, most of our work in this respect has been completed and we were expecting to recover the funds shortly.

Notwithstanding our considerable efforts, matters continue to be complicated by Benjamin Marrache who not only refuses to assist us with the recovery of assets, as is his duty, but now actively seeks to disrupt our work. We believe we will eventually succeed but not before yet more unnecessary expense caused entirely by the behaviour of the Bankrupt and related parties.

7.6 Mercedes Benz Viano G517

Our investigations have shown that, funds for the purchase of a car which is registered in the name of Mrs Marrache came from the a clients account. This is not accepted by Mrs Marrache who initially wrote to us stating that the vehicle had been sold and that she had used the monies to pay for her and her children's living expenses. It subsequently transpired that the vehicle had not been sold and that Mrs Marrache's previous statement was at best careless and ignorant, and at worst, a deliberate attempt to mislead the Joint Liquidators. We have filed an application at the Supreme Court for a declaration that the vehicle is the property of the firm. The cost of this car was circa €56,000 and we expect to realise at least £20,000 from the sale of it.

8.0 BANKRUPTCY OF SOLOMON MARRACHE

8.1 Bankruptcy order

To date Solomon Marrache has not appealed his Bankruptcy Order and costs in this bankruptcy amount to some £234,024.

8.2 Calle Castilla 43, Sotogrande, Cadiz, Spain

Solomon Marrache has handed us the keys to his Sotogrande property so that we may market and sell the property. The property is currently mortgaged to a bank and, given the condition of the Spanish property market, the equity in the property if any is not expected to surpass the £100,000 mark. To date the property has attracted some interested but we have yet to receive any attractive offers.

8.3 10D Pitman's Alley, Gibraltar

Our investigations have revealed that the acquisition of the above property was funded by bank lending and by client funds originating from one of the firm's client accounts on a ratio of 60/40 respectively. Lawyers acting for Solomon Marrache's wife have disputed this position claiming that the funding from the firm's client accounts proceed from a life insurance policy cashed by Solomon Marrache. However, on further investigation we have been able to show that whilst Solomon Marrache did cash a life insurance policy into the Firm's accounts, the monies were used to fund an overdrawn position and the payment for the property did in fact come from other

client monies. On this basis we are in the process of seeking possession of the property. We expect to realise circa £200,000 from the available equity in this property.

8.4 Mercedes C Class Estate G8642C

Mr S Marrache has handed over the keys for his car which we sold for a net realisation of £2,200.

Mr Solomon Marrache approach to his Bankruptcy is what one should have expected as closer to the normal approach. Hence despite complicated issues and complicated ownership structures his Bankruptcy cost to date are not anywhere near those incurred for the other two Bankrupts.

9 BANKRUPTCIES – GENERAL

9.1 First meeting of creditors

In accordance with Gibraltar statutory requirements and following the appointment of an Official Trustee over a bankrupt's estate, the Official Trustee is required to hold a first meeting of creditors at which any scheme of arrangement being proposed by the debtor will be voted on by the creditors. The meetings of creditors for the estates of Benjamin Marrache and Solomon Marrache were held on 2 June 2010 and the meeting of creditors for the estate of Isaac Marrache held on 28 September 2010. On the basis that no scheme of arrangement was put forward by the bankrupts a resolution was approved to adjudge them bankrupt at the respective meetings. This resolution was subsequently sanctioned by the Supreme Court and a Declaration of Bankruptcy Orders issued against the bankrupts.

9.2 General assets

As a result of the Receiving Orders and Bankruptcy Orders made by the Supreme Court we have been working on the realisation of the debtors' assets which can be reported as follows.

9.3 Family properties

The debtors' main assets comprise of a portfolio of family properties which are listed below together with an indication of their market value. Some of these properties were inherited from their late parents and are partly owned with their other siblings as shown below.

Property	Value	Debtors' Approx. Share *
Fortress House	3,600,000	1,540,000
3/5 Cannon Lane	810,000	347,140
197/199 Main Street	1,000,000	430,000
201 Main Street	300,000	130,000
206/210 Main Street	3,000,000	3,000,000
4-8 Pitman's Alley	2,325,000	2,325,000
12 Cannon Lane	330,000	330,000
6-10 Cannon Lane	830,000	830,000
Total	12,195,000	8,932,140

* Debtors' approximate share includes any share attributable to Isaac, Benjamin and Solomon Marrache

9.4 Redthorn Limited

Redthorn Limited ("Redthorn") is a Gibraltar SPV which holds an investment in a German company which in turns owns a number of care homes in Germany. Redthorn was originally set up by Isaac Marrache with his brother Mr A Marrache and two other third parties with ownership being shared equally amongst the four shareholders. The ownership has been complicated by an attempt by Mr I Marrache and his brother to transfer their shares to the other two shareholders after the Liquidation of Marrache & Co but prior to Isaac Marrache being adjudged bankrupt. It appears that no consideration was ever received by the two shareholders and as such the transfer of beneficial interest could be challenged. Our investigations to date indicate that the two third party shareholders are willing to recognise Mr I Marrache and his brother's interest in the investment vehicle. No direct investment appears to have been made into the structure with all the financing coming from Irish Nationwide Building Society ("INBS") which, following its recent collapse, is now run by NAMA (National Asset Management Agency).

It is difficult to assign a value to this investment at this moment in time and we will continue to monitor our position.

9.5 The Boyd Estate Group

The Boyd Estate Group comprises of a Gibraltar SPV which owns 3 other Gibraltar SPVs which in turn owns 3 development properties in Gibraltar. The properties are listed as follows:

- 1/3 Engineer's Lane & 12/26 Turnbull's Lane (The Continental Hotel/Realto)
- 202 Main Street & 1/9 Giro's Passage
- 47 Line Wall Road & 15/17 College Lane (Amar's Bakery)

The Boyd Estate is beneficially owned by two parties, the Marrache share comprising of 57% equally owned by Isaac Marrache, Benjamin Marrache and Mr A Marrache, and a third party that owns the remaining 43 %. All properties were acquired with 100% funding provided by INBS now part of NAMA. The total borrowing of these SPVs was circa £11.4million which was used to acquire the underlying properties. There are no fixed repayment terms as the original funding by the lending bank entitles it to a percentage of profits.

It is difficult to assign a value to this investment at this moment in time and we will continue to monitor our position

9.6 Close & Marrache Bank

Prior to the collapse of the Firm, Isaac Marrache, Benjamin Marrache and Mr A Marrache were in the process of setting up a local bank in partnership with Close Bank. At the time of the collapse of the firm, the bank had not been issued with a banking license and was still in the process of set-up with most costs having been incurred by Close Bank. No return is expected from this investment.

9.7 Property in Las Chapas, Marbella, Spain

Our investigations have revealed a substantial plot in the area of Las Chapas in Marbella, Spain registered in the name of the late Reina Marrache, the bankrupt's mother. This would imply that the property would vest with the children of the late Mrs R Marrache which would include the three bankrupts. This asset has not been disclosed by the bankrupts and we will be taking this up directly with them.

9.8 Property in Casares, Spain

Isaac Marrache and Benjamin Marrache confirmed in their respective Disclosure Statements to owning a one third share of a Spanish company – Mepamua SL – which in turn owns a substantial plot of land in Casares, Malaga, Spain. Without any further information provided by either Isaac or Benjamin Marrache, our investigations have revealed that they hold one third of

Mepamua SL through one of the Firm's "in-house companies"; the remaining two thirds are owned by two Spanish nationals.

The plot of land is 33 hectares and was purchased in 2006 for €1.2 million. However, the land is subject to a legal dispute before the Spanish courts in San Roque, Cadiz, Spain. The claimant is seeking a declaration/order from the courts to render Mepamua SL's purchase invalid. Further work is required to ascertain if any realisations can be achieved from this SPV. For the sake of prudence, this asset has been listed as uncertain in the projections.

9.9 Estate of the Late Reina Marrache

As mentioned in 9.7, the estate of the late Reina Marrache would vest in her children and whilst the position of the family properties seem clear, , it is unclear what other assets are owned by the Estate. It is worth highlighting that the three bankrupts together with their brother Mr A Marrache are the representatives of the estate and are claiming the paintings and other historical artefacts that were located within the firm's premises as set out in 5.4. We believe that the El Calpense collection is included in the estate of Reina Marrache. El Calpense was a local newspaper published in Spanish which has great historical value. The monetary value of this asset is unknown but it is likely to attract interest from the Gibraltar Government.

It is also worth highlighting that our investigations have shown that a total of £880,000 was paid from the Firm's office and client accounts between 2005 and 2010 for expenses relating to the family property, Fortress House, and we will be pursuing a claim for these funds.

9.10 Apartments at Tradewinds, Gibraltar

We have been able to take control of two apartments at Tradewinds, Gibraltar which were originally acquired by Isaac Marrache and Benjamin Marrache as investment properties. These properties were acquired through two Gibraltar SPVs, mainly via bank financing with a small deposit being funded from the Firm's client account. One of the properties is in the process of being sold and the other is being marketed for sale.

9.11 Plot & property in La Reserva, Sotogrande, Cadiz, Spain

We have identified two plots situated in La Reserva, Sotogrande, one of which has a large villa under construction. Both plots were owned by a Spanish holding company which in turn was owned by a Gibraltar SPV. Ownership has been somewhat unclear although we have always believed these plots to be property of the Bankrupts. The large villa had been constructed with bank funding of over €1.5 million. Given the current state of the Spanish property market we found that the value of the property did not meet the bank mortgage and after careful review we decided that the best course of action would be to enter into an agreement "Dacion de Pago" with the bank whereby they keep the property and write off the amount due. The attractiveness of this option was that the bank would not have a claim against the other plot. However, this presented another difficulty as the contractor had registered a charge (prior to our appointment) against the plot for the non payment of amounts due in the sum of €150,000.

In summary, we expect the remaining plot to realise around €300,000 which would provide equity of around €150,000. This would be dependent on the sale price and on whether we could agree a discount with the contractors.

9.12 A S Marrache & Sons Limited

Our work has revealed that the Bankrupts had an interest in this company that holds a tobacco imports license. The shares of A S Marrache & Sons are held in the name of nominees. We believe we have a valid claim over the entire share capital, although the Marrache family claims ownership. An application was made to the Supreme Court where, in the short term, a vesting order was made in our favour whereby which determined that we own at least 43% of the company. As to the ownership of the balance, the Court must make a determination once it hears the evidence. The position is complex as the company's ownership structure is not documented and there are conflicting claims of ownership from 3rd parties. Given these complications we are currently considering a pragmatic approach which would result in the sale of our interest (whatever it might be).

9.13 Payment to family members

Our investigations show that a number of payments were made to various Marrache family members and for the benefit of the Marrache family in general amounting to some £3 million. These funds were paid from both office and client accounts and we are in the process of reviewing these and taking appropriate action based on our findings.

10.0 Our costs to date.

To date we have incurred the following costs. Most of these costs remain due to our firms with only a small portion having been drawn as an interim payment towards our fees. All of our costs require approval by the Supreme Court. It is important to note that a substantial amount of costs have been front loaded over the course of the liquidation and bankruptcies due to the extensive investigation and administration work outlined above. We do not expect to continue to incur substantial costs going forward save for costs to enforce legal proceedings.

	Marrache & Co	Isaac Marrache	Benjamin Marrache	Solomon Marrache	Total
PwC	500,221	301,412	312,489	128,102	1,242,224
Chantrey Vellacot	710,588	595,118	377,446	69,249	1,752,401
Cruz & Co	106,454	123,815	53,225	36,672	320,166
Other legal fees	84,667	142,061	37,401	-	264,129
Other costs	175,922	64,075	6,181	1,393	247,571
Total	1,577,852	1,226,481	786,742	235,416	3,826,491

The fee analysis shown above is only an approximation of the allocation of costs as many of the matters encountered overlap over a number of individuals and the issues dealt with are complex and inter-related.

As a result of the actions taken by the bankrupts and their family against us, a substantial amount of the legal costs have been incurred overseas.

11 Realisation to date

To date we have realised a total of £1,560,791 throughout the 4 different estates. The main realisations amounted to the sale of properties in the sum of £1,332,565 with the remaining realisations being attributable to other assets sold or collected. At present there are a number of realisations in a work in progress stage.

12 Expected distributions to unsecured creditors

The report focuses on the major assets with which we are dealing, and the problems that we are facing. You will no doubt appreciate that by the very nature of the work we are doing, there are issues and claims that we cannot comment upon at this time.

There are still a number of unresolved matters, the success or failure of which will dictate the potential recovery of assets for the benefits of creditors. As explained above, the timing and extent of any potential recovery will be largely dependant on the bankrupts' ability to delay and obstruct our work and duties as officeholders. As a result it is difficult to quantify or predict what level of distribution can be expected from this liquidation, in particular we are working on other possible avenues to recover funds which we are currently reviewing in conjunction with our legal advisors. However, for the purpose of providing an indication, we estimate that any possible distribution could range from £nil pence in the £ to 40p in the £.

Yours sincerely



Edgar C Lavarello
Joint Liquidator



Adrian C Hyde
Joint Liquidator