



In the Matter of the Bankruptcy of T.S. Kwon Holdings Ltd.

**Trustee's Report to the Creditors
on the Preliminary Administration
July 8, 2010**

Submitted to: The Creditors of T.S. Kwon Holdings Ltd.
 The Office of the Superintendent of Bankruptcy

Submitted by: G. Powroznik Group Inc. of G-Force Group,
 Trustee in Bankruptcy

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ON THE PRELIMINARY ADMINISTRATION**

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1) Background Statement and Causes of Financial Difficulty

T.S. Kwon Holdings Ltd. (the "Company"), was doing business as the Traveller's Inn-Downtown (the "Hotel") at 1850 Douglas Street, Victoria, BC. The Company owns the final Traveller's Inn in Victoria to be placed into bankruptcy and receivership. The Company was not part of the initial Proposal to creditors under the Bankruptcy and Insolvency Act ("BIA") filed by 21 related companies in the summer of 2009 and which subsequently were placed into bankruptcy on September 1, 2009.

The Hotel continued to operate through the spring of 2010 until the Canada Revenue Agency ("CRA") seized the property on April 6, 2010 due to the Company's significant liability for unpaid goods and services tax and interest and penalties. It is our understanding that when the Bailiff took possession of the Hotel on April 6, 2010, some hotel guests were still at the property and some rooms were occupied for up to one week before the Hotel's operations were completely terminated.

On April 22, 2010, Bancorp Financial Services Inc. ("Bancorp"), the second mortgagee, filed a bankruptcy petition with the Supreme Court of British Columbia, and G. Powroznik Group Inc. was appointed Interim-Receiver of the Company on that date as a custodian of the Company's assets until the Court could deal with the petition. On this same date, G. Powroznik Group Inc. took possession of the property from the Bailiff. At the time of the Interim-Receiver taking possession, no guests were on the property and the Hotel has remained closed.

Subsequent to the Interim-Receiver appointment, Coast Capital Savings Credit Union ("Coast"), the first mortgagee, launched a foreclosure action against the Company and also assumed Bancorp's bankruptcy petition.

On June 9, 2010, the Company was adjudged bankrupt by the Supreme Court of British Columbia after considering the bankruptcy petition, and G. Powroznik Group Inc. was appointed Trustee in Bankruptcy, eliminating the Interim Receiver role. Also, on that same date, an Order was granted by the Supreme Court of British Columbia under an application by Coast, appointing G. Powroznik Group Inc. Receiver-Manager of the Company. As at the date of this report, the Hotel remains closed with no immediate plans to re-open it. Coast continues to pursue its foreclosure action and plans to have the Hotel and the related furniture, fixtures and equipment sold later this year either through the foreclosure process or through the current Court supervised receivership process.

2) Preliminary Evaluation of Assets and Details of Security Interest

All the assets remaining in the bankrupt Company are pledged to the secured creditors. We summarize the Company's remaining assets as of June 9, 2010, as follows:

Hotel and Land

The Company has title to the site legally described as Lot A (of lots 629, 630, 631), Plan 25475, Victoria Land District, BC (parcel ID: 002-916-029) or the Civic address of 1850 Douglas Street. The Hotel property itself is characterized as a medium sized hotel property complex (the "Property") occupying a surface area of approximately 1 quarter acre. It was originally constructed in 1973 and is comprised of 78 units. The land size is approximately 22,000 sq ft.

The Hotel has a major problem with its roof as prior leaking has caused damage. The Receiver-Manager is currently obtaining a building assessment to determine areas that need attention. An appraisal of the Property is also currently underway.

The assessed value of the Property by BC Assessment Authority is approximately \$4.4 million. The termination of the Hotel's operations and the poor condition of the roof and possible damage has negatively affected the value of the Property.

We cannot reasonably determine the amount or timing of any recovery from the realization from the Hotel sale at this time but we estimate its value to be no more than \$3.5 million. This estimate is subject to change as a result of the appraisal commissioned by the Receiver-Manager and other relevant information becoming available.

Hotel Furniture and Fixtures

The Hotel comprises 78 fully furnished rooms with standard hotel fixtures. One of our hospitality specialists provided a preliminary liquidation value for the furniture and fixtures at \$1,400 per room or \$109,200 for all the chattels.

Due to previous leaks in the roof there may be water damage to the top floor of the Hotel. We have discounted this value to \$75,000 due to possible water damage.

Cash, Accounts Receivable

On the date of bankruptcy, the Company held no cash (also see section 3 below) and we are not aware of the existence of any accounts receivable. At the date of our earlier appointment as Interim-Receiver, we took possession of \$75.80 in the Hotel safe. There may be a nominal amount of accounts receivables relating to unpaid guest stays around the time the Bailiff took possession of the Hotel. However, at this time, the cost of attempting to piece together receivable records and undertaking collection activities would likely far outweigh any realization from any potential receivables.

Insurance Claim

There is a potential insurance claim for damage caused by prior roof leaks. At this time we are unable to assess the amount, if any, of the recovery from this potential claim.

3) Books and Records of the Bankrupt

We note that the Company does not have an organized set of books or records nor did it have an active recent bank account. The Company maintained no separate accounting ledger for its business activities and the last known financial statements produced were dated December 31, 2008. We have been provided with invoices and other records of liabilities for the Company by an employee of a related company which is the best-available information at this time. Although there is some evidence that daily operating reports were produced locally at the Hotel, it appears detailed revenue and expense figures were not maintained for the operations. Accordingly, it is unclear what the operating results of the Hotel were over the last two years.

Through our preliminary investigation of the Company's available records, we have learned of the transactional flow of funds between a number of related entities. The Hotel's revenues flowed through a third party credit card processor into the bank account of Worldwide Hotels & Resorts (Victoria) Corporation. Funds were then transferred to Traveller's Hotel Holding Corporation or PPSA Secured Advance Corporation depending on the Company's immediate needs for settling the necessary obligations to maintain the Hotel's operations. Traveller's Hotel Holding Corporation would pay the majority of bills while PPSA Secured Advance Corporation paid the staff working at the Hotel. It seems that many of the Company's bills are in the name of other related company names such as Worldwide Hotels & Resorts (Victoria) Corporation, Skyline Estates Ltd., Commonwealth Communications Ltd., and several others.

The transaction flow described above made it difficult for any creditor of the Company to easily effect execution proceedings to collect unpaid debts. It has also made it difficult to obtain a proper accounting of the Company's operations, assets and liabilities. This problem is similar to those experienced by the Trustee in Bankruptcy of the related companies that were placed into bankruptcy on September 1, 2009.

We do not have the information to recreate an income statement for the Hotel at 1850 Douglas Street for recent years and we have been unable to determine the estimated funds that flowed out of the Hotel to related company bank accounts, net of Hotel expenses paid by the related companies. The Company may in fact have claims against other related entities for the net income, if any, generated by the Hotel. The costs of the Trustee engaging in forensic exercises to determine whether any receivables exist, or are collectible, would be significant. Further, there may be no related benefit to the unsecured creditors since any amounts due are likely covered by the security held by Coast and Bancorp. We will discuss this further at the First Meeting of Creditors.

4) Conservatory and Protective Measures

No unusual conservatory or protective measures have been required to date due to the nature of the remaining assets of the estate. In our capacity as Receiver-Manager we have retained a third party security services firm to monitor the Hotel and parking lot after hours to ensure no vandalism or liability issues arise. There was no active business to continue upon our appointment as Trustee or Receiver-Manager since the Hotel

operations were effectively ceased soon after the Bailiff took possession of the Hotel on April 6, 2010.

5) Provable Claims and Description of Creditors

Creditors continue to submit their completed Proof of Claim forms to our office as expected. On the original Statement of Affairs the following liabilities were estimated:

Creditor Type	Amount
Unsecured	\$233,097
Secured	\$5,663,972
Employees	\$28,124
Total Claims	\$5,925,193

As at July 7, 2010, we have received 12 completed Proof of Claim forms. Eleven of these relate to employees of a related company, with claims totalling approximately \$16,100. Total submitted claims to date amount to approximately \$1,590,695. The creditor for which we have received the largest claim to date is Bancorp in the sum of \$1,574,593, of which \$1,100,000 is a secured claim. We anticipate the majority of the 27 staff who worked at the Hotel to file a proof of claim form.

As Trustee, we will facilitate the process of filing employee wage claims with the Federal Wage Earner Protection Program since there are no assets otherwise available for payment of these claims.

The Company's two largest secured creditors are Coast Capital Savings Credit Union and Bancorp Financial Services, totalling \$5,464,479 or 92.2% of the overall estimated claims. Coast holds a first charge mortgage against the Property and a General Security Agreement ("GSA"). Bancorp holds a second charge mortgage against the Property and a GSA as well. The largest unsecured creditor is CRA, with respect to its GST claim, estimated at \$164,416.

Related Party Liabilities

A title search has been performed on the civic address of 1850 Douglas Street, Victoria, BC, and a registered charge against the property in the name of Mr. Najib Asfar was noted. Najib Asfar is the father of the principal operator and officer of T.S. Kwon Holdings Ltd. and the Traveller's Group of Companies, John Asfar. This charge is subordinate to the Coast and Bancorp registered encumbrances. The Company's records indicate that \$76,553 is owed to Najib Asfar, which we have included on the Statement of Affairs. At this time, we have not confirmed whether this security is valid and enforceable against the Trustee. However, it is likely irrelevant as we do not anticipate a distribution to any creditors subordinate to the first mortgagee, Coast.

Also see section 3 for a discussion on potential claims by the Company against other related entities.

6) Legal Proceedings, Reviewable Transactions and Preference Payments

There are no known legal proceedings against the Company beyond the foreclosure proceeding by Coast. It is difficult to conduct a full review of the Company's affairs since a proper set of books and records of the Company does not exist.

Upon our appointment as Trustee in Bankruptcy, we performed interviews with an employee of a related company to determine what payments, if any, had been made before the assignment of the Company into bankruptcy. Our findings are discussed in section 3 of this report.

Without books or records or a company bank account, we have been unable to determine the bank transactions leading up to the bankruptcy to determine what payments, if any, had been made in the period leading to the Company's bankruptcy. We have been able to reasonably determine that staff who worked at the Hotel are owed wages through two pay periods ending April 15, 2010. Although they appear as employees of another related company, their unpaid wage claims appear to be proper claims against the Company.

7) Third Party Deposits, Guarantees, and Possible Conflicts of Interest

As reported above, we have a dual mandate in this matter as we are both Court-appointed Receiver-Manager and the Trustee in Bankruptcy of T.S. Kwon Holdings Ltd. As Trustee in Bankruptcy we have obtained an independent written legal opinion from Fasken Martineau on the validity and enforceability of Coast's security against the Trustee. The legal opinion confirms that Coast's security is valid and enforceable against the Trustee in Bankruptcy. A copy of the opinion is available upon request.

Based on the results of the independent legal review, we conclude there is no conflict of interest with our firm continuing with our separate mandate as Receiver-Manager which may involve a sale of the Hotel and related assets at some time in the future. At this time, we are not currently aware of any unencumbered assets that would produce a possible distribution to the unsecured creditors and in fact believe that there will be a large shortfall to the secured creditors.

We also wish to disclose that Coast has guaranteed the fees and costs of the Trustee in Bankruptcy to administer the bankruptcy of the Company. In addition, Coast has indemnified the Receiver for its fees and costs relating to the receivership of the Company.

8) Projected Distribution and Anticipated Asset Realization

The amount of any distribution will largely depend on the future sale of the Hotel and related assets. At this time, we expect Coast to suffer a shortfall and we do not expect any recovery for creditors subordinate to its priority secured claim.

RESTRICTIONS AND QUALIFICATIONS

This report on the preliminary administration of the Estate of T.S. Kwon Holdings Ltd. (“the Company”) summarizes the Trustee’s findings and conclusions from its review of the Company’s records and other information received, and from its investigations since the date of bankruptcy. It is subject to change based on subsequent findings or receipt of additional information.

In conducting our research and preparing our report, we obtained certain information and representations from an employee of a related company, and other third parties. Information, data and documentation furnished by others was presumed to be reliable and, except as expressly noted in our report, was not verified. Accordingly, G. Powroznik Group Inc. assumes no responsibility for the accuracy of third party information provided. We are pleased to answer any questions you may have.