
Cherry Tree Mortgages Limited – In Administration

Joint Administrators' final progress
report

12 October 2015

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Section 1 Purpose of the Joint Administrators’ final progress report

Introduction

The Joint Administrators (“the Administrators”) are pleased to provide their 14th and final progress report on the Administration of Cherry Tree Mortgages Limited (“Cherry Tree” or the “Company”), pursuant to Rules 2.47 and 2.110 of the Insolvency Rules 1986 (“IR86”).

The Administrators are required to provide a summary of their proposals, which is shown in Section 3 of this report. The Administrators are also required to provide certain statutory information pursuant to Rule 2.47(1)(a) to (d) IR86, which is shown in Section 4 of this report.

Details of the steps taken by the Administrators and the outcome of the Administration are set out below.

Objectives of the Administration

The Administrators have been pursuing the objective of achieving a better result for the creditors of the Company as a whole, than would be likely if the Company were wound up (without first being in Administration).

The specific aims of the Administration were to:

- Protect and control the Company’s portfolios of assets; and
- Realise these assets, including mortgage portfolios, on a managed basis.

Having determined that the objective of the Administration has been achieved, the Administrators are now taking steps to bring the Administration to a conclusion.

Outcome for creditors

On 24 June 2013, the Court gave the Administrators of Cherry Tree permission to agree and pay dividends in respect of the admitted claims of its unsecured non-preferential creditors.

The Company initially had three unsecured non-preferential creditors; Lehman Brothers Holdings Inc (“LBHI”), LBSF No. 1 and Lehman Brothers International (Europe) (“LBIE”).

LBSF No. 1’s claim was ultimately assigned to LBHI via LBSF No.1’s parent, LB UK Financing Limited in July 2015.

The Administrators declared and paid four dividends to the Company’s unsecured non-preferential creditors, as follows:

(i) A first interim cash distribution of 9 pence in the £ in September 2013;

(ii) A second interim cash distribution of 40 pence in the £ in September 2014;

(iii) on 13 August 2015, a third interim distribution was paid, comprising:

- A distribution in specie of Cherry Tree’s claim against Mable Commercial Funding Limited (“Mable”) to LBHI, with an estimated realisable value of £19,277, equating to a dividend of 0.07 pence in the £; and
- A cash distribution in the sum of £3,500 to LBIE in settlement of its interest in Cherry Tree’s claim against Mable.

(iv) A fourth and final distribution of 5.305 pence in the £ was paid on 24 August 2015.

Changes in officeholder

Creditors may recall that upon an application to the High Court of Justice, an order was made on 30 November 2009 that SA Pearson and MJA Jervis be appointed as Joint Administrators.

A further order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Administrators and that DY Schwarzmann, MJA Jervis and DA Howell cease to be Joint Administrators of the Company.

Exit route from Administration

In accordance with Paragraph 84, Schedule B1 of the Insolvency Act 1986 (“IA86”) and as envisaged by the Administrators’ proposals, which were approved by creditors on 18 December 2008, a notice will be filed at the Registrar of Companies to move Cherry Tree from Administration to dissolution. The Company will be dissolved three months after registration of the notice.

Discharge

As referred to earlier in this report, SA Pearson, GE Bruce and JG Parr were appointed as Administrators of Cherry Tree by the Court.

In June 2015, the Court approved the Administrators' application to have the timing and method of their discharge made consistent with that of the originally appointed Administrators.

Consequently, Cherry Tree's Joint Administrators will all be discharged from liability pursuant to Paragraph 98(1) Schedule B1 IA86 in respect of any action of theirs as Administrators 14 days from the date of ceasing to act as Administrators of the Company, in accordance with a resolution passed by the Company's creditors on 3 June 2015.

Signed:



GE Bruce
Joint Administrator
Cherry Tree Mortgages Limited

AV Lomas, SA Pearson, GE Bruce and JG Parr were appointed as Joint Administrators of Cherry Tree Mortgages Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the administration.

Section 2 Joint Administrators' actions

Background

The principal activity of Cherry Tree was an investment in the equity release mortgage portfolio of More 2 Life Limited with funding procured from LB SF No.1.

Administrators' actions to date

The sale of Cherry Tree's entire mortgage portfolio was completed on 30 July 2009 for total consideration of £14.2m.

The Administrators realised a further c.£1.15m in respect of the sale of tax losses to other group companies.

As outlined in Section 1 of this report, Cherry Tree has declared and paid dividends to its unsecured non-preferential creditors totalling £14,330,740 and equivalent to a distribution of 54.305 pence in the £, in addition to the distribution in specie and corresponding payment to the minority creditor detailed in Section 1.

Mable Claim

Creditors may recall that the Administrators submitted an unsecured, non-preferential claim against Mable for £159k, which was admitted for dividend purposes. The Company has received £38k in respect of this claim, equating to 24.1 pence in the £.

The Mable Claim was the sole remaining unrealised asset in the Cherry Tree estate and the Administration was due to come to an end on 30 November 2015, unless further extended.

In May 2015, the Administrators consulted with creditors regarding the disposal of the Mable Claim to expedite closure of the Administration, thereby saving time and costs, whilst preserving value for the Company's creditors.

The Administrators put forward the following resolutions, which were unanimously supported by Cherry Tree's creditors:

1. That the Joint Administrators be authorised to make a third interim distribution of the Company's unsecured non-preferential claim for £159,264 in the Administration of Mable Commercial Funding Limited (the "Mable Claim") to the Company's majority creditor, Lehman Brothers Holdings Inc.

2. That the Joint Administrators be authorised to make a third interim distribution to Lehman Brothers International (Europe) in respect of its share in any potential further distributions that may be received in respect of the Mable Claim in the sum of £3,500.

On 13 August 2015, the Administrators paid the distribution in specie and cash payment to creditors in accordance with the resolutions passed.

A further, final cash distribution in the sum of £1,399,955 was made on 24 August 2015, bringing the total sum distributed to creditors to £14,330,740, equivalent to 54.305 pence in the £.

There being no further matters remaining, the Administrators consider that the objectives of the Administration have been met. Accordingly the Administration is now being brought to a conclusion.

Section 3 Summary of the Joint Administrators' proposals

The following proposals for achieving the purposes of the Administration were approved by the Company's creditors on 18 December 2008. There have been no major amendments or deviations from the proposals.

1. The Administrators will continue to manage and finance the business, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for the Company's creditors as a whole than would be likely if the Company had been immediately liquidated.
2. The Administrators may investigate and, if appropriate, pursue any claims that the Company may have under the Companies Act 1985, the Companies Act 2006 or the IA86 or otherwise. In addition, the Administrators shall do all such things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of the Company or to maximise their realisations or for any other purpose incidental to these proposals.
3. The Administrators will at their discretion establish in principle the claims of the unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement / scheme or arrangement and the costs of so doing be met as a cost of the Administration as part of the Administrators' remuneration.
4. The Administrators may at their discretion make an application to Court for permission to make distributions to unsecured creditors under Paragraph 65(3) Schedule B1 IA86.
5. A creditors' committee will be established for the Company if sufficient creditors from the Company are willing to act on the committee. The Administrators propose to seek the election of a creditors' committee and to consult with them from time to time. Where the Administrators consider it

appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.

6. The Administrators will consult with the creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators shall either apply to court or seek consent from the appropriate classes of creditors for an extension.
7. The Administrators may use any one or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including:
 - a) The Administrators may place the Company into creditors' voluntary liquidation. In these circumstances, it is proposed that Dan Yoram Schwarzmann, Anthony Victor Lomas and Derek Anthony Howell be appointed as Joint Liquidators and any act required or authorised to be done by either any or all of them. In accordance with Paragraph 83(7) Schedule B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved, OR
 - b) The Administrators may formulate proposals for a company voluntary arrangement ("CVA") and put them to a meeting of the Company's creditors and shareholders for approval. If the CVA is approved, the Administration will be brought to an end by notice of the Registrar of Companies on completion of the Administration under Paragraph 84 Schedule B1 IA86, following registration of which the Company will be dissolved three months later, OR
 - c) Once all of the assets have been realised and the Administrators have concluded all work within the Administration, the Administrators will file a note under Paragraph 84(1) Sch.B1 IA86 with the Registrar of Companies, following

registration of which the Company will be dissolved three months later or apply to court under Paragraph 79 Sch. B1 of the Administration to be ended, OR

d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Schedule B1 IA86, following registration of which the Company will be dissolved three months later. If permission is not granted the Administrators will place the Company into creditors' voluntary liquidation or otherwise act in accordance with any Order of the Court.

8. The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Schedule B1 IA86 in respect of any action of their as Administrators at a time determined by the creditors committee or, if no creditors committee apportioned, by the general body of creditors.

9. The Administrators fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff to their firm's usual charge-out rates for work of this nature and that disbursements for services provided by the Administrators own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No.9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead.

Section 4 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8953 of 2008
<i>Full name:</i>	Cherry Tree Mortgages Limited
<i>Trading name:</i>	Cherry Tree Mortgages Limited
<i>Registered number:</i>	05529374
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	CJ Patrick (resigned 28/11/08), EW Marley Shaw (resigned 28/11/08)
<i>Company secretary:</i>	Clifford Chance Secretaries (CCA) Limited (resigned 01/12/08)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	13 October 2008
<i>Current Administrators' names and addresses:</i>	GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The original appointment of Administrators was made by the directors of the Company, 25 Bank Street, London E14 5LE.
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	The High Court of Justice has granted five successive extensions to the Administration period to: 30 November 2010, 30 November 2011; 30 November 2012; 30 November 2014 and more recently to 30 November 2015.
<i>Proposed end of the Administration:</i>	The Administrators are now pursuing closure of the Administration by way of dissolution.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 9p in the £ to unsecured non-preferential creditors on 20th September 2013. A second interim dividend of 40 pence in the £ was paid on 12 September 2014. A third dividend of £3,500 was paid to LBIE on 13 August 2015 and assets in the value of £19,277 were distributed in specie to LBHI equating to 0.07 pence in the £. A fourth and final dividend of 5.305 was paid to unsecured non-preferential creditors on 24 August 2015.
<i>Estimated values of the prescribed part and Cherry Tree's net property:</i>	Not applicable as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings.

Section 5 Financial Information

Receipts and payments account

An account of the final receipts and payments in the Administration for the period to 6 October 2015, is set out in Section 6.

Key movements during the period include:

- Administrators' final remuneration of £118,704 plus VAT, as detailed in the section below;
- Administrators' disbursements of £20,000 relating to the storage and subsequent destruction of Company records and working files;
- Statutory advertising costs of £17,134 in relation to the third and fourth dividend notices; and
- A final dividend distribution totalling £1,399,955 made to unsecured non-preferential creditors.

Administrators' remuneration

The Company's unsecured creditors previously resolved that the Administrators' remuneration be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached at Section 7 of this report is a summary of the Administrators' time costs for the period 1 April 2015 to 6 October 2015, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £86,309 plus VAT, comprising 220.20 hours at an average hourly rate of £392.

During the course of the Administration, remuneration of £878,345 plus VAT has been drawn in respect of time costs incurred to 6 October 2015.

Section 6 Final Receipts and Payments Account

	As at 12-Oct-15 GBP (£)	Movements GBP (£)	As at 12-Apr-15 GBP (£)
Receipts			
Sale of mortgage portfolio	14,201,068	-	14,201,068
Inter-company debtors	38,383	-	38,383
Sale of tax losses	1,154,184	-	1,154,184
Tax function costs recharged	29,710	-	29,710
Interest received gross	232,252	-	232,252
Total	15,655,597	-	15,655,597
Payments			
Legal fees	153,279	3,176	150,103
Pension related legal costs	25,570	-	25,570
Employee costs	20,210	18,447	1,763
IT costs	5,741	-	5,741
Joint Administrators' remuneration	878,345	118,704	759,641
Joint Administrators' Category 1 disbursements	2,370	-	2,370
Joint Administrators' Category 2 disbursements	20,000	20,000	-
Statutory advertising	37,616	17,134	20,482
Irrecoverable VAT (see note 1)	178,226	31,793	146,433
Total	1,321,357	209,254	1,112,103
Distributions to unsecured creditors			
1st dividend of 9p in the £, declared in September 2013	2,375,042	-	2,375,042
2nd dividend of 40p in the £, declared September 2014	10,555,743	-	10,555,743
3rd dividend declared August 2015 (Note 2)	3,500	3,500	-
4th dividend of 5.305p in the £, declared August 2015	1,399,955	1,399,955	-
Total	14,334,240	1,403,455	12,930,785
Cash in hand/ (movement in year)	-	(1,612,709)	1,612,709
Cash in hand is represented by			
HSBC (non-interest bearing)	-	(1,612,709)	1,612,709
Total Cash	-	(1,612,709)	1,612,709

Notes:

(1) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.

(2) A cash distribution totalling £3,500 has been made during the period to Cherry Tree's minority creditor in lieu of its share of any future distributions made in relation to the receivable due from Mable.

Section 7 Joint Administrators' time costs for the period 1 April 2015 to 6 October 2015

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	3.35	1,480	5.60	1,610	8.10	1,896	17.05	4,986
Strategy and Planning	20.65	15,964	18.70	8,333	52.10	15,101	7.20	1,652	98.65	41,050
Statutory and Compliance	1.10	960	15.20	6,715	32.40	9,843	33.80	7,857	82.50	25,375
Tax and VAT	10.50	10,541	1.10	811	6.30	2,545	2.00	389	19.90	14,286
LBIE Recharges	0.13	85	0.18	73	1.19	321	0.60	133	2.10	612
Grand Total	32.38	27,550	38.53	17,412	97.59	29,420	51.70	11,927	220.20	86,309
Average Hourly Rate		851		452		301		231		392

Current Chargeout Rates:

Grade	Business Recovery Services		Specialist	
	Max £/hr		Max £/hr	
	From 1 January 2015	From 1 July 2015	From 1 January 2015	From 1 July 2015
Partner	873	899	1,225	1,262
Director	765	788	1,076	1,108
Senior manager	512	527	905	932
Manager	431	444	660	680
Senior Associate	360	371	490	505
Associate/Support Staff	229	236	229	235

The Administrators' remuneration has been fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. The minimum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.

Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown given an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Narrative of the Joint Administrators' time costs for the period 1 April 2015 to 6 October 2015

Accounting and Treasury - £4,986

- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into bank accounts; and
- Dealing with compliance matters relating to funds.

Strategy and Planning - £41,050

- Preparing for cash and non-cash distributions to unsecured non-preferential creditors;
- Reviewing financial information including updating the Estimated Outcome Statement;
- Discussions regarding strategy for the closure;
- Discussion regarding strategy for the distribution in specie of Mable Claim;
- Regular team meetings and discussions on case progression; and
- Updating strategy documents and preparing for the closure of the Administration

Statutory and Compliance - £25,375

- Preparation for closure including bringing case files up to date;
- Preparation of the Administrators' 13th and final progress reports;
- Preparation of receipts and payments account for reports to creditors;
- Preparation of detailed remuneration summary;
- Circulating progress reports to creditors;
- Statutory filings at Companies House and Court;
- Liaising with Administrators on statutory issues;
- Preparation of the Administrators' six monthly review summary;
- Dealing with statutory issues;
- Managing Administration database; and
- Reviewing of time costs in preparation for billing.

Tax and VAT - £14,286

- Discussions regarding distributions and closure strategy;
- Preparation of post-appointment tax computations;
- VAT reconciliation and preparation of VAT returns;
- Review of documents and discussions regarding tax provision; and
- Seeking clearance from HMRC.

LBIE Recharges - £612

- This is an apportionment of the costs incurred by Lehman Brothers International (Europe) associated with the administration companies.