

The Insolvency Act 1986

Administrator's progress report

Name of Company
Mercury Tax Group Limited

Company number
04853949

In the
High Court of Justice, Leeds District
Registry

Court case number
2469 of 2009

We (a) Robert Alexander Henry Maxwell of Begbies Traynor (Central) LLP, 9th Floor, Bond Court, Leeds, LS1 2JZ and Edward Klempka of Begbies Traynor, 9th Floor, Bond Court, Leeds, LS1 2JZ

Administrators of the above company attach a progress report for the period

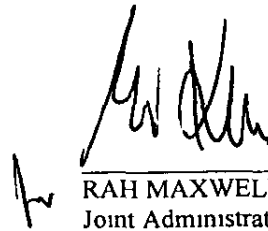
from

to

9 September 2011

8 March 2012

Signed


RAH MAXWELL
Joint Administrator

Dated

Contact Details*

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

Begbies Traynor (Central) LLP

9th Floor, Bond Court, Leeds, LS1 2JZ

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DX Number

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Companies House, Crown Way, Cardiff, CF14 3UZ

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A37 07/04/2012 #26
COMPANIES HOUSE

SATURDAY

Bob Maxwell and Edward Klempla were appointed joint administrators on 9 September 2009

The affairs, business and property of the Company are being managed by the joint administrators, who act as the Company's agents and without personal liability

Mercury Tax Group Limited – In Administration

Progress report of the joint administrators pursuant
to Rule 2.47 of The Insolvency Rules 1986

Period: 9 September 2011 to 8 March 2012

Important Notice

This progress report has been produced by the administrators solely to comply with their statutory duty to report to creditors on the progress of the administration. The report is private and confidential and may not be relied upon, referred to, reproduced or quoted from, in whole or in part, by creditors for any purpose other than this report to them, or by any other person for any purpose whatsoever.

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1. INTERPRETATION

<u>Expression</u>	<u>Meaning</u>
"the Company"	Mercury Tax Group Limited (In Administration)
"the administration"	The appointment of administrators under Schedule B1 to the Insolvency Act 1986 on 9 September 2009
"the administrators"	Bob Maxwell of Begbies Traynor (Central) LLP, 9th Floor, Bond Court, Leeds, LS1 2JZ and Edward Klempka of Begbies Traynor (Central) LLP, 9th Floor, Bond Court, Leeds, LS1 2JZ
"the Act"	The Insolvency Act 1986 (as amended)
"the Rules"	The Insolvency Rules 1986 (as amended)
"secured creditor" and "unsecured creditor"	Secured creditor, in relation to a company, means a creditor of the company who holds in respect of his debt a security over property of the company, and "unsecured creditor" is to be read accordingly (Section 248(1)(a) of the Act)
"security"	(i) In relation to England and Wales, any mortgage, charge, lien or other security (Section 248(1)(b)(i) of the Act), and (ii) In relation to Scotland, any security (whether heritable or moveable), any floating charge and any right of lien or preference and any right of retention (other than a right of compensation or set off) (Section 248(1)(b)(ii) of the Act)
"preferential creditor"	Any creditor of the Company whose claim is preferential within Sections 386, 387 and Schedule 6 to the Insolvency Act 1986

2. STATUTORY INFORMATION

Name of Company	Mercury Tax Group Limited
Trading name	Mercury Tax
Date of Incorporation	1 August 2003
Company registered number	04853949
Company registered office	9th Floor, Bond Court, Leeds, LS1 2JZ

3 DETAILS OF APPOINTMENT OF ADMINISTRATORS

Names of administrators	Bob Maxwell, a Licensed Insolvency Practitioner of Begbies Traynor (Central) LLP, 9th Floor, Bond Court, Leeds, LS1 2JZ and Edward Klempka, a Licensed Insolvency Practitioner of Begbies Traynor (Central) LLP, 9th Floor, Bond Court, Leeds, LS1 2JZ
Date of administrators' appointment	9 September 2009
Court	High Court of Justice, Leeds District Registry
Court Case Number	2469 of 2009
Persons making appointment	Directors of the Company
Acts of the administrators	The administrators act as officers of the court and as agents of the Company without personal liability. Any act required or authorised under any enactment to be done by an administrator may be done by any one or more persons holding the office of administrator from time to time.
EC Regulation on Insolvency Proceedings	The EC Regulation on Insolvency Proceedings (Council Regulation (EC) No 1346/2000) applies to these proceedings which are 'main proceedings' within the meaning of Article 3 of the Regulation.

4. PROGRESS DURING THE PERIOD

Attached at Appendix 1 is our abstract of receipts and payments for the period from 9 September 2011 to 8 March 2012

Directors' loans

At the date of the Joint Administrators appointment, loans of £1.2m, £94,000, £37,000 and £1,000 were due to the Company from Neil Masters, Jane Donaghue, Jacqueline Masters and Dan Smith respectively

The loan accounts of Mr Smith and Mrs Masters have been settled and Mrs Donaghue's account is not being pursued as there is currently insufficient evidence to prove that monies are due to the Company

We have exhausted our efforts to come to an amicable settlement with Mr Masters regarding his loan account. We have instructed a forensic analysis of the account and in conjunction with our solicitors we are currently in the process of considering the best course of action to take to recover this balance.

Trespass Claim against HMRC

The claim made by the Company against HM Revenue & Customs ("HMRC") for Trespass occurring in November 2007 has been finalised, including agreement on costs.

The full financial impact on the Company is not reflected on the Receipts and Payments account for the current period as monies received are still held with our solicitors. A settlement of £35k was agreed together with a contribution to costs of £15k, both in the Company's favour. However, the various costs of pursuing the claim (primarily expert forensic accountant reports and legal fees) are approximately the same as the settlement and the net impact on the Company is therefore nil.

As the claim progressed and as more information came to light it became increasingly clear that the Company's claim was weak. An initial claim by the Company for approximately £8m was lodged prior to the Administration but was based on a spurious loss of profits calculation which both we and our appointed forensic accountants, PKF LLP, considered to have no substance.

To prove any loss, the Company had to show that customers decided not to continue to use the Company's services as a direct result of HMRC's actions. The Company's accounts showed an upturn in work after the Trespass (when we would have expected a decline) and key customers of the Company prior to Administration were either reluctant or unable to confirm that the actions of HMRC had resulted in them withdrawing business.

In light of the above and in line with our agent's and solicitor's advice we sought to negotiate a settlement to compensate for tangible damages occurring on the day of the Trespass. Given the lack of evidence, we consider the result to be a success given the potential adverse costs of investigating the claim.

Deferred consideration

The collection of the Company's contingent debts (and progression of the underlying tax mitigation schemes) has been removed from Dramatic Sight Limited ("DSL").

Prior to removal, DSL was obligated to pay the Company £50k per month from 9 March 2010 onward until £1.2m was received. £544k of deferred consideration payments and £59k of contingent debtors have been received in the period under review. In addition to these amounts a further £305k has been received in the period 9 March 2012 to 29 March 2012.

I am continuing to pursue the remaining balance from DSL. However, it is likely that it is now insolvent and no further monies will be received. Whilst this is disappointing, the £644k received to date represents income which has been received without the Company relinquishing any of its assets.

Contingent debts

The Company has contingent debts estimated at £32.0m. These debts only become payable if tax mitigation schemes sold by the Company prior to the Joint Administrators' appointment are deemed acceptable by HMRC or, more likely, the Courts.

DSL was progressing the schemes. However, as detailed above, the agreement has now been terminated.

The collection process has now been outsourced to another agent, SN-BTG Contingent Fee Company ("SN-BTG"). Creditors should be aware that this Company is wholly owned and directed by Simon Wilson, a director of Dramatic Sight Limited. We have engaged the services of a tax partner at PricewaterhouseCoopers ("PWC") to undertake a review of actions taken by SN-BTG in order to ensure that it has the capability to manage the pursuit and collection of the Company's contingent debts.

If PWC reports that SN-BTG can't meet its obligations and is unable to implement reasonable recommendations to rectify this, then the agreement will be terminated. With this in place, SN-BTG was considered to be the most appropriate agent to take forward collection as Mr Wilson has knowledge of the position and was willing to pay £305k together with ongoing monthly payments equal to the amount of deferred consideration which DSL failed to pay. No other interested party was willing to offer monies upfront in this manner.

In the coming weeks, we will establish, with PWC and SN-BTG, the next steps in relation to the Company's tax mitigation schemes. Once an initial assessment has taken place, I will be in a position to report back to creditors.

Debts which may have crystallised in relation to the Liberty scheme are still being investigated. £264k in relation to this class of assets has been received to date.

Costs of Realisation

In addition to the amounts detailed above, the following costs have been paid in the period or remain accrued as at 8 March 2012:

As previously reported, discussions with Addleshaw Goddard have been ongoing in relation to legal fees incurred. In addition to the amounts already paid, time costs of £109k are outstanding. We have recently agreed with Addleshaw Goddard that a full and final settlement of £80k will be paid in relation to these costs. This is in recognition of the significant legal costs incurred in the Administration to date.

At the date of this report, costs paid in relation to the Trespass claim total £21k (including £5k paid in the period). Further costs of £30k have yet to be paid in relation to associated legal fees.

Debt collection costs of £3k have been paid in this period relating to the pursuit of potentially crystallised debts from the Liberty scheme.

Other incidental costs are detailed in the attached receipt and payments account at Appendix 1.

5. ESTIMATED OUTCOME FOR CREDITORS

Secured creditor

At the date of the Joint Administrators' appointment, HSBC Bank plc ("the Bank") had outstanding lending to the Company of £1 72m. The Bank secured this lending by way of legal mortgages over the Company's two long leasehold properties. Following the sale of both properties by the Joint Administrators, the Bank's lending, including interest and charges, was repaid in full.

Preferential creditors

Preferential claims of employees for arrears of wages, salary and holiday pay totaled £5,304. A distribution of 100p in the £ was paid to preferential creditors from realisations made from floating charge assets of the Company.

Unsecured creditors

The level of unsecured creditors was estimated at £5 1m by the directors in their statements of affairs at 9 September 2009. However, to date we have received claims totaling £24 4m, including a claim of £8 7m from HMRC and a claim of £10 5m from Barclays Bank Plc.

There are a number of potential contingent creditor claims relating to the contingent debtors detailed earlier in this report. Certain introducers who sourced the participants for the various tax mitigation schemes believe they are entitled to a percentage amount once the Company receives a contingent debt. The quantum that becomes due to the introducer is variable but is usually around 25% of the contingent fee received by the Company. These contingent liabilities, should they exist, are estimated to total approximately £12m (assuming all contingent debts are collected).

As previously reported, it is anticipated that a return to unsecured creditors will be in the region of 5p in the £ to 25p in the £. The exact quantum of distribution will depend primarily upon the outcome of the contingent debt collection and final quantification of the two largest unsecured claims. The timing of any return is also, primarily, dependent on these two factors but is likely to be at least 12 months. It should be noted that if no further realisations are made, for whatever reason, then there will be a nil return to unsecured creditors.

Prescribed Part for unsecured creditors pursuant to Section 176A of the Act

Section 176A of the Act provides that, where the Company has created a floating charge on or after 15 September 2003, the administrator must make a prescribed part of the Company's net property available for the unsecured creditors and not distribute it to the floating charge holder except in so far as it exceeds the amount required for the satisfaction of unsecured debts. Net property means the amount which would, were it not for this provision, be available to floating charge holders out of floating charge assets (i.e. after accounting for preferential debts and the costs of realising the floating charge assets). The floating charge holder may not participate in the distribution of the prescribed part of the Company's net property. The prescribed part of the Company's net property is calculated by reference to a sliding scale as follows:

- ☐ 50% of the first £10,000 of net property,
- ☐ 20% of net property thereafter,
- ☐ Up to a maximum amount to be made available of £600,000

An administrator will not be required to set aside the prescribed part of net property if

- ☐ the net property is less than £10,000 and the administrator thinks that the cost of distributing the prescribed part would be disproportionate to the benefit, (Section 176A(3)) or
- ☐ the administrator applies to the court for an order on the grounds that the cost of distributing the prescribed part would be disproportionate to the benefit and the court orders that the provision shall not apply (Section 176A(5))

To the best of the Joint Administrators' knowledge and belief, there are no unsatisfied floating charges created or registered on or after 15 September 2003 and, consequently, there is no net property as defined in Section 176A(6) of the Act and, therefore, no prescribed part of net property is available for distribution to the unsecured creditors

6. THE ADMINISTRATORS' REMUNERATION AND DISBURSEMENTS

As previously reported, the Joint Administrators' remuneration is fixed by reference to the time properly given by the Joint Administrators (as Joint Administrators) and the various grades of their staff calculated at the prevailing hourly charge out rates of Begbies Traynor (Central) LLP for attending to matters arising in the administration and they are authorised to draw disbursements, including disbursements for services provided by their firm (defined as Category 2 disbursements in Statement of Insolvency Practice 9), in accordance with their firm's policy, details of which accompanied the *Statement of Proposals of the Joint Administrators for Achieving the Purpose of the Administration pursuant to Paragraph 49 of Schedule B1 to the Insolvency Act 1986 and Rule 2.33 of the Insolvency Rules 1986*

The relevant resolutions were approved at the initial meeting of creditors held on 30 November 2009 and also at the rerun, ordered by the Court and held on 16 February 2011, pursuant to Rule 2.106 of the Rules

Total remuneration drawn to date in accordance with the approved resolution in respect of remuneration amounts to £401,966. Total time spent to 8 March 2012 on this assignment amounts to 1,896 hours at an average composite rate of £290 per hour resulting in total time costs to date of £550,301

In addition to the above, Category 1 disbursements of £263 have been accrued and paid in the period, bringing total Category 1 disbursement accrued and paid to £3,721

The following further information as regards time costs and expenses is set out at Appendix 2

- ☐ Begbies Traynor (Central) LLP's policy for re-charging expenses/disbursements
- ☐ Begbies Traynor (Central) LLP's charge-out rates
- ☐ Narrative summary of time costs incurred
- ☐ Table of time spent and charge-out value

7. ASSETS THAT REMAIN TO BE REALISED

As detailed above, the collection of the Company's contingent debts and progression of the underlying tax mitigation schemes has been removed from DSL. I am in the process of outsourcing the collection process to SN-BTG and if successful this will unlock associated contingent debts

As discussed above, should SN-BTG be successful in undertaking the collection process, they are to make good the arrears owed to the Company from DSL, and have currently paid £305k

We are pursuing the loan account of Mr Masters and, more generally, investigating transactions undertaken prior to the appointment of the Joint Administrators. Potential realisations from these sources remain unclear

As previously reported Creative Tax Recruitment Limited ("CTRL"), a 51% subsidiary of the Company entered into a Company Voluntary Arrangement on 18 November 2010. An inter-company debt of £497k was owed by CTRL. It was originally forecast by the Supervisor of the CVA that a distribution of 24p in the £ would be received over a five year period. There has subsequently been a variation to the terms of the CVA whereby

creditors will receive 4p in the £. It is expected that a first and final distribution of £19,866 will be received shortly

8. OTHER RELEVANT INFORMATION

Report on Directors conduct

As detailed in the Joint Administrators' statement of proposals, the Administrators have a duty to submit a report to the Department for Business, Innovation and Skills on the conduct of the directors. The Joint Administrators have complied with their duties in this respect.

Connected party transactions

In accordance with SIP 13 and SIP 16, creditors are referred to my previous reports in which the sale of business and assets to DSL was declared as a pre-packed, connected party transaction.

Investigations

At the creditors meeting held on 16 February 2011, a modification to the Joint Administrators' proposals was put forward which stated that the Joint Administrators should undertake "A full investigation into the directors' conduct and the conduct of any relevant third parties, including but not limited to matters arising out of the employee benefit trusts and the guarantee given to Barclays Bank Plc, and to report any recommendations to creditors as to proposed action with a view to seeking approval from creditors to pursue litigation."

Prior to this modification being put forward, we had already begun investigations into, amongst other matters, the two issues detailed above. Following our investigation, we are of the opinion that claims in relation to these issues could be brought against one or all of the directors.

The unsecured claim received from Barclays Bank plc relates to a corporate guarantee for provided by the Company to support the purchase of an airplane by Coldstream sarl (a Luxembourg based business controlled by Neil Masters). There appears to have been no commercial benefit to the Company in guaranteeing the purchase as the airplane was not used for Company business (nor was it ever likely to be given the nature of the Company's business). The guarantee was signed by Neil Masters on behalf of the Company and we have been advised by the other directors of the Company that they were unaware of this commitment.

The action of agreeing the guarantee has had a negative impact on creditors by virtue of the increase to unsecured creditor claims and, therefore, the dilution of funds which may become available.

Substantial Employee Benefit Trusts were entered into by the Company from 2005 to 2007. The legitimacy of using Employee Benefit Trust is an area of contention and not one on which the Joint Administrators can opine. However, we have considered the use of Employee Benefit Trusts by the Company in the context of the removal of monies to the detriment of creditors. The deductions against taxable profits sought via the Employee Benefit Trusts were as follows:

Year ending 31 December 2005	£562,500
Year ending 31 December 2006	£600,000
The 16 month period ending 30 April 2008	£9,590,000

During April 2008 legislation was brought in which prevented the Company from selling Liberty. This had a dramatic effect on the Company's performance and it was unable to meet its ongoing costs and service historic liabilities. Had the monies not been taken out of the business through the Employee Benefit Trusts detailed above (in particular that in relation to the period ending 30 April 2008), the Company may have been able to service its liabilities.

We are continuing to gather information on the above and once we are satisfied that we have sufficient information, we will call a meeting of creditors to discuss whether action should be taken

9. CONCLUSION

We will continue to pursue the outstanding assets of the Company detailed in Section 7 of this report

It is intended that the Company will move to Creditors Voluntary Liquidation shortly in order to support a full investigation of historic transactions and, on the basis of current estimates, to make a distribution to unsecured creditors. However, this can not be done whilst litigation is ongoing as proceeding will be disrupted and the Liquidators would become open to personal liability

We will report again in approximately six months time or at the conclusion of the Administration, whichever is the sooner



R A H MAXWELL
Joint Administrator

Dated 29 March 2012

ADMINISTRATORS' ACCOUNT OF RECEIPTS AND PAYMENTS

Statement of Affairs	From 09/09/2011 To 08/03/2012	From 09/09/2009 To 08/03/2012
SECURED ASSETS		
2,450 000 00	Leasehold Land & Property -	2,230 655 29
	Goodwill and Intellectual Property -	6 00
	Interest on Completion Monies -	2,745 96
	Rent -	35,000 00
	Shares & Investments -	1 00
	Insurance refund -	693 33
		<u>2,269 101 58</u>
COSTS OF REALISATION		
	Office Holders Fees -	72,966 42
	Office Holders Expenses -	868 08
	Legal Fees -	55 985 15
	Agents/Valuers Fees -	47 097 36
	Insurance -	5,338 69
	Property Expenses -	430 00
	Ground Rent & Service Charge -	8 568 17
	Surplus to Floating -	298,616 12
	Bank charges -	190 29
		<u>490,061 28</u>
SECURED CREDITORS		
	HSBC Bank plc -	1,779 040 30
		<u>1,779,040 30</u>
ASSET REALISATIONS		
	Surplus to Floating -	298 616 12
14,858 00	Furniture & Equipment -	14,850 00
	VAT Refund -	20 00
716,164 00	Book Debts -	9,424 50
32 000 000 00	Contingent Debts 14 000 00	59 419 28
1 103 982 00	Director Loans -	12 490 88
	Deferred Consideration 57,641 71	543 561 71
	Subsidiary Options -	1 00
	Employee Claims -	1 00
		<u>938,384 49</u>
COST OF REALISATIONS		
	Debt Collection Costs 3 000 00	9 415 00
	Specific Bond 264 00	792 00
	Office Holders Fees 50 000 00	329,000 00
	Office Holders Expenses 263 14	2 852 62
	Meeting Room hire -	1 095 66
	Agents/Valuers Fees 200 00	1,440 75
	Legal Fees -	86 924 66
	Counsel Fees 500 00	97,171 12
	Trespass Claim Costs 4,700 00	21,460 00
	Tax Advice 300 00	33,145 00
	Statutory Advertising -	465 70
	Bank Charges 27 60	162 10
	Adverse Legal Costs -	67 500 00
		<u>651 424 61</u>
PREFERENTIAL CREDITORS		
	Tax on preferential dividend -	861 08
	RPO -	3,064 97
	DE Arrears & Holiday Pay -	2 239 23
		<u>6 165 28</u>
	<u>12,386 97</u>	<u>280,794 60</u>
REPRESENTED BY		
	Vat Receivable	1 040 00
	Bank 1 Current	279 754 60
		<u>280 794 60</u>

ADMINISTRATORS' TIME COSTS AND EXPENSES

- a Begbies Traynor (Central) LLP's policy for re-charging expenses/disbursements,
- b Begbies Traynor (Central) LLP's charge-out rates,
- c Narrative summary of time costs incurred, and
- d Table of time spent and charge-out value

BEGBIES TRAYNOR CHARGING POLICY

INTRODUCTION

This note applies where a licensed insolvency practitioner in the firm is acting as an office holder of an insolvent estate and seeks creditor approval to draw remuneration on the basis of the time properly spent in dealing with the case. It also applies where further information is to be provided to creditors regarding the office holder's fees following the passing of a resolution for the office holder to be remunerated on a time cost basis. Best practice guidance¹ requires that such information should be disclosed to those who are responsible for approving remuneration.

In addition, this note applies where creditor approval is sought to make a separate charge by way of expenses or disbursements to recover the cost of facilities provided by the firm. Best practice guidance² requires that such charges should be disclosed to those who are responsible for approving the office holder's remuneration, together with an explanation of how those charges are calculated.

OFFICE HOLDER'S FEES IN RESPECT OF THE ADMINISTRATION OF INSOLVENT ESTATES

The office holder has overall responsibility for the administration of the estate. He/she will delegate tasks to members of staff. Such delegation assists the office holder as it allows him/her to deal with the more complex aspects of the case and ensures that work is being carried out at the appropriate level. There are various levels of staff that are employed by the office holder and these appear below.

The firm operates a time recording system which allows staff working on the case along with the office holder to allocate their time to the case. The time is recorded at the individual's hourly rate in force at that time which is detailed below.

EXPENSES INCURRED BY OFFICE HOLDERS IN RESPECT OF THE ADMINISTRATION OF INSOLVENT ESTATES

Best practice guidance classifies expenses into two broad categories.

- *Category 1 disbursements (approval not required)* - specific expenditure that is directly related to the case usually referable to an independent external supplier's invoice. All such items are charged to the case as they are incurred.
- *Category 2 disbursements (approval required)* - items of incidental expenditure directly incurred on the case which include an element of shared or allocated cost and which are based on a reasonable method of calculation.

(A) The following items of expenditure are charged to the case (subject to approval)

- Internal meeting room usage for the purpose of statutory meetings of creditors is charged at the rate of £100 (London £150) per meeting,
- Car mileage is charged at the rate of 40 pence per mile,
- Storage of books and records (when not chargeable as a *Category 1 disbursement*) is charged on the basis that the number of standard archive boxes held in storage for a particular case bears to the total of all archive boxes for all cases in respect of the period for which the storage charge relates.

¹ Statement of Insolvency Practice 9 (SIP 9) – Remuneration of insolvency office holders in England & Wales

² Ibid 1

- BTG Tax, an entity within the Begbies Traynor Group, has reviewed the creditor claim of HM Revenue & Customs and provided advice surrounding the most appropriate way to progress the Company's mitigation schemes to maximise realisations from the contingent debts. An invoice for this work totaling £32,845 has been paid. Charge out rates applicable to BTG Tax and their involvement in this case is set out below

Grade of staff	Charge-out Rate (£ per hour)
Partner	300
Director	280
Manager	210

- BTG Global Risk Partners, an entity within the Begbies Traynor Group, has undertaken a forensic analysis of the loan account of Mr Neil Masters. An invoice for this work has not been raised but costs are estimated at £6,500. The current charge out rates applying to work carried out by BTG Forensic are as follows

Grade of staff	Charge-out Rate (£ per hour)
Partner	250
Senior Manager	175
Assistant Manager	120

(B) The following items of expenditure will normally be treated as general office overheads and will not be charged to the case although a charge may be made where the precise cost to the case can be determined because the item satisfies the test of a *Category 1 disbursement*

- Telephone and facsimile
- Printing and photocopying
- Stationery

BEGBIES TRAYNOR CHARGE-OUT RATES

Begbies Traynor is a national firm. The rates charged by the various grades of staff that may work on a case are set nationally, but vary to suit local market conditions. The rates applying to the Leeds office as at the date of this report are as follows

Grade of staff	Charge-out Rate (£ per hour)
Partner 1	450
Partner 2	395
Director	375
Senior Manager	350
Manager	300
Assistant Manager	250
Senior Administrator	220
Administrator	180
Trainee Administrator	150
Support	150

Time spent by support staff for carrying out shorter tasks, such as typing or dealing with post, is not charged to cases but is carried as an overhead. Only where a significant amount of time is spent at one time on a case is a charge made for support staff.

Time is recorded in 6 minute units

SUMMARY OF OFFICE HOLDERS' TIME COSTS

CASE NAME	Mercury Tax Group Limited
CASE TYPE	Administration
OFFICE HOLDERS	Robert A H Maxwell and Edward Klempka
DATE OF APPOINTMENT	9 September 2009

1 CASE OVERVIEW

1.1 This overview and the time costs analysis attached is intended to provide sufficient information to enable the body responsible for the approval of the office holders' fees to consider the level of those fees in the context of the case

1.2 Complexity of the case

This is a significantly complex case due to the nature of the work undertaken by the Company and the contingent nature of some assets and liabilities

1.3 The office holders' effectiveness

The joint administrators secured a sale of the business and some assets of the Company. This sale was originally structured such that all creditors and costs of realisation will be paid in full. However, since this time the creditor position has materially increased and it now appears that the unsecured creditors will receive a material percentage distribution. The collection of book debts has subsequently been removed from the purchaser and no further deferred consideration payments are expected, however, the sale still improves the anticipated return to unsecured creditors from that of a liquidation, the only realistic alternative in this instance.

All fixed charge assets have now been realised and a significant quantum of unencumbered assets (including £544k of deferred consideration) have also been realised.

1.4 Nature and value of property dealt with by the office holders

The Company owned two long leasehold properties, both of which have now been sold. In addition, the Company has contingent debts thought to be worth approximately £32m. The value in these contingent debts may only be realised if ongoing legal cases are pursued.

1.5 Anticipated return to creditors

Secured and preferential creditors will be paid in full from asset realisations. Unsecured creditors are currently estimated to receive a distribution of between 5p and 25p in the £.

1.6 Time costs analysis

An analysis of time costs incurred between 9 September 2009 and 8 March 2012 prepared in accordance with Statement of Insolvency Practice 9 is attached showing the number of hours spent by each grade of staff on the different types of work involved in the case, and giving the average hourly rate charged for each work type.

The time costs analysis provides details of work undertaken by the office holders and their staff following their appointment only.

In addition to the above, Pursuant to rule 2.67(1)(c) of the Insolvency Rules 1986, the office holders consider that the sum of £30,410 plus VAT is also properly recoverable in relation to work undertaken prior to their appointment consisting of determining whether it was reasonably likely that the purpose of administration would be achieved and completing the required statements of the proposed administrators. The sum is calculated as follows

	Partner(s)	Director(s)	Manager(s)	Total Hours	Time Cost	Average Hourly Rate
Hourly Rate	£395	£375	£300			
Pre-appointment Time	38.1	0	51.2	89.3	£30,409.50	340.53

1.7 The views of the creditors

The joint administrators wrote to creditors on 11 September 2009 and 23 September 2009 to provide initial details of the joint administrators' strategy. The views of the creditors were also taken into account at meetings held on 30 November 2009 and 16 February 2011. The secured creditor and significant unsecured creditors (including HMRC and Barclays) have also been regularly informed of progress.

1.8 Approval of fees

The joint administrators were granted approval to draw fees in relation to time properly spent at a meeting of creditors held on 30 November 2009. This approval was withdrawn by a Court of Appeal Judgement dated 7 December 2010 and subsequently reinstated at the rerun creditors meeting held on 16 February 2011.

1.9 Approval of Expenses and Disbursements

As above, certain expenses and disbursements have been paid under a resolution granted at the meetings of creditors held on 30 November 2009 and 16 February 2011. The joint administrators have proposed to creditors that all outstanding and future expenses and disbursements will be paid as expenses of the Administration, as and when funds permit.

1.10 Category 2 Disbursements

In accordance with the resolution previously obtained in relation to expenses and disbursements, the following Category 2 disbursements and disbursements which should be treated as Category 2 disbursements have been charged to the case since the date of my appointment.

Other amounts paid or payable to the office holder's firm	
Type and purpose	Amount £
Mileage – Travel to business premises	£121.04
TOTAL	£121.04

In addition to the above, the joint administrators have instructed both BTG Tax and BTG Global Risk Partners to perform work on behalf of the joint administrators. Work undertaken by BTG Tax relates to the provision of Tax advice and costs of £32,845 have been incurred and paid. Work undertaken by BTG Global Risk Partners relates to forensic work undertaken in relation to the loan account of Neil Masters. Costs of £6,500 have been incurred but not yet settled.

1 11 Other professionals employed & their costs

Eddisons Commercial Limited has been engaged to value the Company's fixtures and fittings. They have been paid on a time costs basis for this work, together with disbursements incurred. Eddisons has also valued Thorpe Park and disposal of this property, for which, 2% of gross proceeds plus disbursements was paid.

Knight Frank LLP assisted with the sale of the London Flat and was paid 2% plus disbursements.

Addleshaw Goddard is providing legal advice to the Joint administrators and will also assist with any conveyancing work. Addleshaws' fees will be paid on a time cost basis together with any disbursements incurred. Counsel fees will be paid as part of Addleshaws disbursements.

Addleshaws also instructed Counsel to assist with the defence of the legal action undertaken by HMRC. Counsel was paid on a time cost basis together with any disbursements incurred.

Addlestone Keane has been instructed to pursue the *non-contingent debt* and also deal with the Trespass claim against HMRC. Non-contingent debt collection is being undertaken at a rate of 10% of gross collections. Work in relation to the Trespass claim is being undertaken on a time cost basis together with any disbursements incurred (it is likely that Counsels fees will also be required in this instance).

2 EXPLANATION OF OFFICE HOLDERS' CHARGING AND DISBURSEMENT RECOVERY POLICIES

- 2 1 Begbies Traynor (Central) LLP's policy for charging fees and expenses incurred by office holders is attached as part of this appendix.
- 2 2 The rates charged by the various grades of staff who may work on a case are also attached as part of this appendix.

3. SUMMARY OF WORK CARRIED OUT SINCE OUR LAST REPORT

Since the date of our appointment, the following work has been carried out:

- Pursuing non-contingent debts and Directors' loan accounts,
- Progression and settlement of the Company's claim for Trespass against HMRC,
- Liaising with Nominees of the CVA of CTRL to discuss repayment of the inter-company debt,
- Defending legal action undertaken by HMRC,
- Pursuing deferred consideration from DSL,
- Pressing DSL for progression of tax mitigation schemes and development of alternative strategies,
- Negotiating with SN-BTG to continue book debt collection and
- Dealing with general creditor queries

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