



**TO MEMBERS AND ALL KNOWN CREDITORS**

2 June 2014

Our ref: ML2S2.34/CG/HUK/20140502

Dear Sir or Madam

**Highlands Insurance Company (U.K.) Limited – in Liquidation**

Please find attached the Joint Liquidators' annual progress report to members and all known creditors in the above liquidation.

If you have any queries in connection with the report, please contact Gary Bray.

You may request a hard copy of the documents:

- In writing to Gary Bray at the address below, or
- By e-mailing [gary.bray@uk.pwc.com](mailto:gary.bray@uk.pwc.com) or
- By telephoning Gary Bray on +44 (0) 20 7213 8900

A copy will be sent free of charge within five business days of receipt of request.

Yours faithfully

For and on behalf of

Highlands Insurance Company (U.K.) Limited (in Liquidation)

A handwritten signature in black ink, appearing to read 'Dan Schwarzmann', written over a horizontal line.

DY Schwarzmann  
Joint Liquidator

*Dan Schwarzmann and Mark Batten were appointed as Joint Liquidators of Highlands Insurance Company (U.K.) Limited to manage its affairs, business and property as agents without personal liability. Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accounts in England and Wales.*

*The Joint Liquidators 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 Liquidation.*

**PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT  
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, [www.pwc.co.uk](http://www.pwc.co.uk)**

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***Highlands Insurance  
Company (U.K.) Limited –  
In Liquidation***

Joint Liquidators' progress report to  
members and creditors for the year  
ended 16 April 2014

16 May 2014

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## **Section 1**      **Summary information**

|  |  |
|--|--|
| <b>The Company</b>                           | Highlands Insurance Company (U.K.) Limited (in Liquidation) (the "Company" or "Highlands UK")                                    |
| <b>Registered number</b>                     | 01190948   |
| <b>Registered office and trading address</b> | c/o PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT  |
| <b>Activity</b>                              | Insurance and reinsurance run-off  |
| <b>Court reference</b>                       | High Court of Justice, Chancery Division, Companies Court. Case No. 7896 of 2007   |
| <b>Liquidators' names and address</b>        | Dan Schwarzmann and Mark Batten (the "Joint Liquidators") of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT |
| <b>Date of appointment of Liquidators</b>    | 17 April 2012  |

### **Contact details for queries**

Gary R Bray  
PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT  
+44 (0) 20 7213 8900  
gary.bray@uk.pwc.com

Chris Goodman  
PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT  
+44 (0) 20 7213 3436  
chris.goodman@uk.pwc.com

## **Section 2**      *Joint Liquidators' progress report*

### **Introduction**

On 1 November 2007 Dan Schwarzmann and Mark Batten of PricewaterhouseCoopers LLP ("PwC") were appointed Joint Administrators of the Company.

As previously reported the Administration concluded on 17 April 2012, being the date the Company went into Creditors' Voluntary Liquidation. However, the Joint Liquidators (also the Joint Scheme Administrators) continued to implement the scheme of arrangement pursuant to Part 26 of the Companies Act 2006 in relation to creditors with claims arising from contracts or policies of reinsurance or retrocession and non-insurance creditors (the "Cedant Scheme"). Further details are provided below.

In accordance with Rule 4.49C of the Insolvency Rules 1986 ("IR86"), this is the Joint Liquidators' second progress report to members and all known creditors and should be read in conjunction with the Joint Liquidators' report dated 16 June 2013, a further copy of which is available on request.

### **Liquidation Committee**

The Joint Liquidators have continued to consult with the Liquidation Committee in relation to all significant issues. The most recent meeting of the Liquidation Committee was held on 21 January 2014. The Joint Liquidators remain very grateful to the members and observer of the Liquidation Committee for their continued assistance and support.

### **Summary of the Liquidators' actions to date**

#### **Cedant Scheme**

During the period Pro Insurance Solutions Limited ("Pro") continued to implement the claims agreement process in accordance with the terms of the Cedant Scheme under the direction of the Joint Liquidators (also the Joint Scheme Administrators). All claims submitted in the Cedant Scheme were agreed by late October 2013 for an aggregate amount of approximately US\$57m.

In February 2014 an initial payment percentage of 15% was set in accordance with the terms of the Cedant Scheme and distributions to Cedant Scheme Creditors were made shortly thereafter. Further payments under the Cedant Scheme may be made in due course, but the timing and amounts are dependent on additional reinsurance recoveries which are subject to significant uncertainties. Further information can be obtained at <http://www.pwc.co.uk/business-recovery/issues/highlands-insurance.jhtml>

#### **Asset management**

The Company's US dollar investments are under the direct control of the Joint Liquidators' specialist treasury team, who continued to manage the assets in a portfolio of interest bearing investment accounts. The investment strategy is subject to regular review to ensure that the risk profile remains acceptable. During the Liquidation interest of US\$10,813.79 and £5,223.56 has been earned on the Company's cash and investment assets.

During the period the Joint Liquidators continued to liaise with the New York Liquidation Bureau ("NYLB") and obtained the release of the National Association of Insurance Commissioners trust fund of US\$2,500,000 in July 2013.

Pro, under the guidance and direction of the Joint Liquidators, continued to progress the implementation of the reinsurance collection strategy. During the Liquidation, reinsurance recoveries, including collections from brokers, have amounted to US\$616,146.29 and £70,047.14.

#### **Statutory reporting**

The Company continues to advise the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") of any material developments in relation to the Liquidation.

## Investigations

No matters have come to light during the last 12 months to suggest that the Joint Liquidators need to conduct any work additional to their review of the Company's affairs prior to the Administration and compliance with their obligations under the Company Directors' Disqualification Act 1986.

## Other matters

The Joint Liquidators have filed a corporation tax return for the year ended 16 April 2013.

## Professional advisers

For ongoing matters the Joint Liquidators have retained the professional advisers that were engaged in the Administration as shown below:

| Service provided             | Name of firm / organisation    | Reason selected                                  | Basis of fees   |
|------------------------------|--------------------------------|--|---|
| Legal advice                 | Clifford Chance LLP            | Specialist insolvency and industry knowledge     | Time costs, subject to pre agreed budget                                    |
| Actuarial                    | PricewaterhouseCoopers LLP     | Specialist industry knowledge                    | Time costs; subject to pre agreed budget and Liquidation Committee approval |
| Insurance run-off management | Pro Insurance Services Limited | Pre insolvency and specialist industry knowledge | Time costs, subject to pre agreed budget                                    |

The Joint Liquidators' choice was based on an evaluation of the advisers' experience and ability to perform this type of work, their knowledge of the complexity and nature of the assignment and the basis of the fee arrangement with them. The Joint Liquidators continue to review the fees charged and are satisfied that they are reasonable in the circumstances of the case.

## Liquidators' remuneration and expenses

As previously reported, during the Administration, the Joint Administrators' fees were fixed under Rule 2.106 IR86 by reference to time properly given by the Joint Administrators and their staff in attending to matters arising. The Liquidation Committee resolved that the remuneration basis agreed in the Administration would continue in the Liquidation.

In accordance with Rule 4.127 IR86, the Liquidation Committee passed the following resolutions approving the Joint Liquidators' costs for the following periods:

- (1) 1 April 2013 to 30 June 2013;
- (2) 1 July 2013 to 28 February 2014; and
- (3) 1 March 2014 to 16 April 2015.

Fees have been drawn pursuant to resolutions (1) and (2) above, and full analyses of costs have been provided to the Liquidation Committee.



A summary of the Joint Liquidators remuneration and expenses is as follows:

|   | Fees £            |
|---|-------------------|
| Approved by the Liquidation Committee and drawn:            |                   |
| For the period 17 April 2013 to 30 June 2013                | 119,500.10        |
| For the period 1 July 2013 to 28 February 2014              | 284,010.35        |
| Liquidation Committee approval obtained, but not yet drawn: |                   |
| For the period 1 March 2014 – 16 April 2014                 | 12,226.55         |
| <b>Total</b>  | <b>415,737.00</b> |

In accordance with the requirements of SIP9, an analysis of the Joint Liquidators' time costs incurred for the period 17 April 2013 to 16 April 2014 is provided in Section 4.

In addition to the information required by SIP9, the Joint Liquidators also provided the Liquidation Committee with a detailed budget and analyses of costs by work activity to enable the Liquidation Committee to fully assess the reasonableness of requests for authority to draw remuneration made by the Joint Liquidators.

The receipts and payments account in Section 3 details expenses met from funds in the Liquidation to 16 April 2014.

### ***Statement of creditors' rights***

An explanatory note providing creditors with a statement of their rights in relation to the Liquidators' remuneration and expenses, and their rights to request further information, can be found online at:

<http://www.icaew.com/~media/Files/Technical/Insolvency/creditors-guides/creditors-guide-liquidators-fees-final.pdf>. A copy may also be obtained free of charge on request to the Joint Liquidators.

### ***Next report and enquiries***

The Joint Liquidators will circulate their next report in 12 months' time. If any creditor has any queries in the meantime, please contact Gary Bray on +44 (0)20 7213 8900.

Signed:



D Y Schwarzmann  
Joint Liquidator  
Highlands Insurance Company (U.K.) Limited

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## Section 3 Receipts and payments accounts

### Sterling Receipts and Payments Account

|   |              | Total to 16 April 2013 | Transactions<br>17 April 2013 to<br>16 April 2014 | Total to 16 April 2014 |
|---|--------------|------------------------|---|------------------------|
| Receipts                                    |              | £                      | £   | £                      |
| Funds transferred from the Administration   |              | 2,073,083.59           | -   | 2,073,083.59           |
| Interest received                           | (i)          | 3,606.88               | 1,616.68  | 5,223.56               |
| Reinsurance collections                     |              | 65,412.14              | 4,635.00  | 70,047.14              |
| VAT recoveries                              |              | 95,574.75              | 772.50  | 96,347.25              |
| Transfers from US dollar account            | (ii)         | 1,500,000.00           | 1,917,000.00                                      | 3,417,000.00           |
| <b>Total Receipts</b>                       |              | <b>3,737,677.36</b>    | <b>1,924,024.18</b>                               | <b>5,661,701.54</b>    |
| <b>Payments</b>                             |              |                        |   |                        |
| Administrators' remuneration                | (iii) & (iv) | 77,702.45              | -   | 77,702.45              |
| Administrators' disbursements               | (iii) & (iv) | 261.55                 | -   | 261.55                 |
| Liquidators' remuneration                   | (iv)         | 624,130.15             | 449,550.20  | 1,073,680.35           |
| Liquidators' disbursements                  | (iv)         | 1,467.18               | 1,022.41  | 2,489.59               |
| Run-off fees                                |              | 1,096,588.11           | 402,453.89  | 1,499,042.00           |
| Other professional costs                    | (v)          | 650,669.31             | 797,157.46  | 1,447,826.77           |
| Legal fees                                  |              | 206,408.54             | 79,128.26   | 285,536.80             |
| Legal settlements                           | (vi)         | 54,000.00              | -   | 54,000.00              |
| Dividend payment to Cedant Scheme Creditors |              | -                      | 109,955.22  | 109,955.22             |
| Statutory costs                             | (vii)        | 35,902.45              | 734.95  | 36,637.40              |
| VAT   |              | 314,155.62             | 265,406.44  | 579,562.06             |
| <b>Total Payments</b>                       |              | <b>3,061,285.36</b>    | <b>2,105,408.83</b>                               | <b>5,166,694.19</b>    |
| <b>Closing balance</b>                      |              | <b>676,392.00</b>      | <b>(181,384.65)</b>                               | <b>495,007.35</b>      |

#### Notes

- (i) Includes interest from money market deposits and current account.
- (ii) Represents transactions undertaken to manage foreign exchange exposures.
- (iii) Relates to outstanding invoices from the Administration which were settled in the Liquidation.
- (iv) Relates to the Joint Liquidators and their staff at their charge out rates. These rates are applicable to staff who are employees of PricewaterhouseCoopers Services Ltd and, where appropriate, parties who are otherwise contracted with PwC.
- (v) Includes actuarial and tax services provided by PwC, amounting to £708,465.96 and £75,816.50 respectively.
- (vi) Settlement with the FSCS in order to conclude HUK's potential exposure to Employers' Liability policies.
- (vii) Includes costs relating to advertising, printing, postage and directors and officers insurance.



## USD Receipts and Payments Account

|  | <i>Total to 16 April 2013</i> | <i>Transactions<br/>17 April 2013 to<br/>16 April 2014</i> | <i>Total to 16 April 2014</i> |
|--|-------------------------------|--|-------------------------------|
|  | US\$                          | US\$   | US\$                          |
| <b>Receipts</b>                              |                               |  |                               |
| Funds transferred from the Administration    | 13,308,328.99                 | -  | 13,308,328.99                 |
| Interest received (i)                        | 5,074.15                      | 5,739.64   | 10,813.79                     |
| NAIC Trust fund (ii)                         | -                             | 2,490,832.83   | 2,490,832.83                  |
| Reinsurance collections                      | 175,955.81                    | 440,190.48   | 616,146.29                    |
| <b>Total Receipts</b>                        | <u>13,489,358.95</u>          | <u>2,936,762.95</u>  | <u>16,426,121.90</u>          |
| <b>Payments</b>                              |                               |  |                               |
| Other professional costs                     | 2,479.88                      | -  | 2,479.88                      |
| Letter of Credit drawdown (ii)               | 2,500,000.00                  | -  | 2,500,000.00                  |
| Bank and investment management charges (iii) | 9,467.26                      | 88.41  | 9,555.67                      |
| Transfer to sterling account (iv)            | 2,408,700.00                  | 3,170,014.54   | 5,578,714.54                  |
| Transfer to Euro account                     | -                             | 201,724.44   | 201,724.44                    |
| Dividend payment to Cedant Scheme Creditors  | -                             | 8,089,474.57   | 8,089,474.57                  |
| <b>Total Payments</b>                        | <u>4,920,647.14</u>           | <u>11,461,301.96</u>                                       | <u>16,381,949.10</u>          |
| <b>Closing balance</b>                       | <u><u>8,568,711.81</u></u>    | <u><u>(8,524,539.01)</u></u>                               | <u><u>44,172.80</u></u>       |

### Notes

- (i) Includes interest from bank account, Letter of Credit and money market deposits.
- (ii) The National Association of Insurance Commissioners trust fund of \$2.5m was drawn down by the Conservator, in accordance with the Conservation Agreement and returned to the Joint Liquidator, less expenses, in July 2013.
- (iii) Includes bank charges from current account and Letter of Credit charges.
- (iv) Represents transactions undertaken to manage foreign exchange exposures.

## Euro Receipts and Payments Account

|   |            | <i>Total to 16 April 2013</i> | <i>Transactions<br/>17 April 2013 to<br/>16 April 2014</i> | <i>Total to 16 April 2014</i> |
|---|------------|-------------------------------|--|-------------------------------|
| <b>Receipts</b>                             |            | €                             | €  | €                             |
| Transfer from US dollar account             | <i>(i)</i> | -                             | 145,000.00   | 145,000.00                    |
| <b>Total Receipts</b>                       |            | <u>-</u>                      | <u>145,000.00</u>  | <u>145,000.00</u>             |
| <b>Payments</b>                             |            |                               |  |                               |
| Dividend payment to Cedant Scheme Creditors |            | -                             | 144,504.77   | 144,504.77                    |
| <b>Total Payments</b>                       |            | <u>-</u>                      | <u>144,504.77</u>  | <u>144,504.77</u>             |
| <b>Closing balance</b>                      |            | <u>-</u>                      | <u>495.23</u>  | <u>495.23</u>                 |

### Notes

- (i) Represents transaction undertaken to manage foreign exchange exposure.

## **Section 4**      **Information in support of the Joint Liquidators' time costs and disbursements from 17 April 2013 to 16 April 2014**

The time charged to the Liquidation is by reference to the time properly given by the Joint Liquidators and their staff in attending to matters arising.

It is the Joint Liquidators' policy to delegate tasks in the Liquidation to appropriate members of staff considering their level of experience and any requisite specialist knowledge, supervised accordingly, so as to maximise the cost effectiveness of the work performed. Matters of particular complexity or significance requiring more exceptional responsibility are dealt with by senior staff or the Joint Liquidators themselves.

Set out below are the relevant maximum charge-out rates per hour worked for the grades of the Joint Liquidators' staff actually or likely to be involved on this assignment. Time is charged by reference to actual work carried out on the assignment. There has been no allocation of any general costs or overhead costs.

| <b>Grade</b>     | <b>£</b> |
|------------------|----------|
| Partner          | 627      |
| Director         | 565      |
| Senior Manager   | 437      |
| Manager          | 370      |
| Senior Associate | 313      |
| Associate        | 202      |

Specialist departments within the Joint Liquidators' firm such as Tax and VAT may charge a small number of hours if and when the Joint Liquidators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour.

| <b>Grade</b>     | <b>£</b> |
|------------------|----------|
| Partner          | 1,075    |
| Director         | 990      |
| Senior Manager   | 755      |
| Manager          | 545      |
| Senior Associate | 410      |
| Associate        | 210      |

All staff who work on this assignment (including cashiers, support and secretarial staff) charge time directly to the assignment and are included within any analysis of time charged. Each grade of staff is allocated an hourly charge out rate which is reviewed from time to time. Work undertaken by cashiers, support and secretarial staff is charged for separately and is not included in the hourly rates charged by partners or other members of staff. Time is charged by reference to actual work carried out on the assignment in six minute units. The minimum time chargeable is three minutes (i.e. 0.5 units).

In common with many professional firms, the scale rates used by the Joint Liquidators may increase to cover annual inflationary cost increases.

There is no statutory requirement for the Joint Liquidators to seek approval to draw expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the Joint Liquidators propose to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the Joint Liquidators' own firm), they must be disclosed and be authorised by those responsible for approving their remuneration. Such expenses are known as "Category 2" disbursements and they must be directly incurred on the case and subject to a reasonable method of calculation and allocation.

The Joint Liquidators' expenses policy allows for all properly incurred expenses to be recharged to the case. Category 2 disbursements are approved by the Liquidation Committee.

In the period 17 April 2013 to 16 April 2014 there were no Category 2 disbursements.

### Other matters

No work has been carried out by subcontractors that could otherwise have been undertaken by the Joint Liquidators or their staff.

The Joint Liquidators have no business or professional relationships with parties responsible for approving the basis of their remuneration or who provide services to the Liquidation where the relationship could give rise to a conflict of interest.

### Summary of the Joint Liquidators' time costs

| Aspect of assignment               | Hours       |            |                |            |                  |             |                | Cost £         | Average hourly rate £/hr |
|------------------------------------|-------------|------------|----------------|------------|------------------|-------------|----------------|----------------|--------------------------|
|                                    | Partner     | Director   | Senior Manager | Manager    | Senior Associate | Associate   | Total          |                |                          |
| Strategy and planning              | 37.5        |            | 56.9           | 0.5        | 137.5            | 1.0         | 233.4          | 91,117         | 390                      |
| Collections / commutations         | 12.0        |            | 57.7           | 0.6        | 123.4            |             | 193.7          | 71,306         | 368                      |
| Creditor claims                    | 4.5         |            | 77.6           |            | 206.2            |             | 288.3          | 99,981         | 347                      |
| Run-off management                 |             |            | 24.4           |            | 14.1             |             | 38.5           | 14,966         | 389                      |
| Accounting and treasury            |             | 1.6        | 10.7           | 7.9        | 39.5             | 73.9        | 133.5          | 34,914         | 262                      |
| Reporting to Liquidation Committee | 8.0         |            | 43.9           |            | 123.6            |             | 175.5          | 62,648         | 357                      |
| Statutory and compliance           | 3.5         |            | 13.3           | 0.7        | 87.2             | 7.7         | 112.4          | 36,382         | 324                      |
| Tax and VAT                        |             |            | 0.1            |            | 6.7              |             | 6.8            | 2,132          | 314                      |
| Legal matters                      |             |            | 5.2            |            | 0.2              |             | 5.4            | 2,292          | 424                      |
| <b>Total</b>                       | <b>65.5</b> | <b>1.6</b> | <b>289.8</b>   | <b>9.7</b> | <b>738.2</b>     | <b>82.6</b> | <b>1,187.3</b> | <b>415,737</b> | <b>350</b>               |

## **Narrative explanation of the Joint Liquidators' work**

### **Strategy and planning**

- Considered and developed strategy, in relation to the closure strategy, including consultation with the Liquidation Committee
- Conducted internal progress and project management meetings
- Consulted periodically with second partner in relation to key issues and progress
- Undertook resource planning and management
- Maintained case information and files

### **Collections / commutations**

*Due to the ongoing nature and commercial sensitivity of certain aspects of work in connection with collections / commutations with some reinsurers, the following is intended to provide a high level overview. Further detail has been provided to the Liquidation Committee.*

- Considered and pursued recovery strategies in relation to the Company's reinsurance assets, including settlements with certain reinsurers
- Managed and implemented the sale of the Company's residual reinsurance assets
- Completed recovery of the National Association of Insurance Commissioners trust fund

### **Creditor claims**

- Managed and directed Pro and the actuarial advisors in reviewing and agreeing claims submitted in the Cedant Scheme
- Reviewed and agreed all remaining claims submitted in the Cedant Scheme in accordance with the claims agreement protocol
- Conducted regular claims agreement progress review meetings
- Liaised with Cedant Scheme Creditors in relation to their claims and any other matters
- Calculated and determined the initial payment percentage to Cedant Scheme Creditors

### **Run-off management**

- Liaised with Pro on a daily / monthly basis as appropriate to manage and monitor assignment progress and relevant issues
- Attended progress meetings with Pro

### **Accounting and treasury**

- Managed liquidity and cashflow on a monthly basis, including periodic review of foreign exchange exposures
- Monitored performance of investments on a monthly basis
- Reviewed and processed incoming invoices and recorded receipts
- Reviewed and monitored budgets for professional service providers
- Undertook quarterly bank reconciliations
- Assisted the Joint Liquidators' actuarial advisors in updating the Cedant Scheme dividend estimate
- Distributed the initial payment percentage to Cedant Scheme creditors



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### Reporting to Committee

- Organised, prepared for and attended two Liquidation Committee meetings
- Prepared and circulated professional services fees reports in April and July 2013 and March 2014 and dealt with queries and matters arising
- Provided periodic updates in relation to key issues
- Responded to ad-hoc queries

### Statutory and compliance

- Prepared and circulated the first Liquidators' annual progress report
- Updated the PRA and FCA, UK Court and Companies House regarding estate progress and other general compliance requirements
- Carried out ad-hoc company secretarial responsibilities

### Tax and VAT

- Liaised with the Joint Liquidators' tax team in relation to the Corporation Tax returns for the year ended 16 April 2013
- Liaised with Joint Liquidators' tax team in relation to the submission of quarterly VAT returns

### Legal matters

- Liaised with Clifford Chance in respect to ad-hoc legal matters

## **Section 5**      *Expenses incurred in the period*

**For the period 17 April 2013 to 16 April 2014**

|                         | <b>£</b>               |
|-------------------------|------------------------|
| <b>Paid</b>             |                        |
| Scheme Adjudicator fees | 9,012.50               |
| Legal fees              | 77,287.42              |
| Run-off fees            | 361,849.69             |
| Sub total               | <hr/> 448,149.61       |
| <b>Unpaid</b>           |                        |
| Run-off fees            | 17,085.17              |
| Sub total               | <hr/> 17,085.17        |
| Overall total           | <hr/> <hr/> 465,234.78 |

Note: VAT is excluded



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