



IN THE HIGH COURT OF JUSTICE

Case No: BSL2020H000856

BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES

BUSINESS LIST (ChD)

IN THE MATTER OF LENDY LTD (in administration)

AND IN THE MATTER OF THE INSOLVENCY ACT 1986

B E T W E E N:

(1) LENDY LTD (in administration)

(2) MARK JOHN WILSON

(3) PHILIP RODNEY SYKES

(4) DAMIAN WEBB

(the second to fourth Claimants in their capacity as joint administrators of  
Lendy Ltd)

Claimants

- and -

(1) LIAM BROOKE

(2) TIM GORDON

(3) LP ALHAMBRA LIMITED

(4) RFP HOLDINGS LIMITED

Defendants

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**DEFENCE OF THE FIRST AND THIRD DEFENDANTS**

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1. Unless otherwise stated, references to paragraphs below are references to paragraphs of the particulars of claim. For convenience, the defence uses the nomenclature, abbreviations and headings (adapted when otherwise tendentious) used in the particulars of claim. References to D1, D2 etc are to the first Defendant, second Defendant etc.
2. Save as specifically admitted below, D1 and D3 deny each and every allegation contained in the particulars of claim as if the same were herein set out and separately traversed.

**(I) THE PARTIES**

3. Paragraphs 1-7 are admitted.



## (II) BACKGROUND

### *The Company's business*

4. In the period from in or around September 2010 to in or around September 2011, D1 worked as a self-employed sales and marketing consultant for a Swiss-incorporated company. His line manager was Anthony Smith ("AS"), a Swiss national.
5. AS is and was a person with significant experience in the financial sector and who, over a number of years, has built a network of contacts both in the UK and overseas comprising high net worth individuals, financial advisers, brokers and other market participants. D1/D3 understand that AS has, during his career, successfully raised many millions of pounds for investment funds.
6. In mid-to-late 2010, D1 and D2 were working on a business idea, then at an embryonic stage of development, to develop a "peer-to-peer" lending platform pursuant to which non-market participants could lend money directly to borrowers. D1 and D2 were of the view that such a business, which would involve (to use the jargon) the disintermediation of the traditional bank-borrower relationship, would enable: (i) non-market participants to receive higher rates of interest compared to more conventional financial products; (ii) borrowers to access funds more efficiently; and (iii) the operator of the platform to generate revenue without any or any significant credit risk.
7. At the end of 2010, D1 approached AS to see if he would be interested in partnering with D1 and D2 in developing the business idea. AS declined to partner with D1 and D2 but said that, given his experience and contacts in the financial sector, he would likely be able to assist in growing the business in return for appropriate remuneration.
8. Accordingly, at some point in or around February 2011, D1, D2 and AS entered into what was described as a "collaboration agreement". D1 has requested a copy of the collaboration agreement from AS as D1's only copy was left in the drawer of his desk at the offices of the Company (together with related documents) upon the Company entering administration. D1 will also request that the Administrators provide a copy ahead of disclosure, assuming it is in their possession or control.



9. The collaboration agreement set out a roadmap for the development of a peer-to-peer lending business as follows.
  - 9.1. D1 and D2 were to operationalise their business idea and build the aforesaid peer-to-peer lending platform.
  - 9.2. D1 and D2 were to raise and pay £400,000 to AS as part of what the parties called and understood to be a "guarantee" of sums likely to become owing to AS in the future. Properly analysed, the £400,000 was a payment on account to AS.
  - 9.3. Once £400,000 had been paid to him, AS would assist D1 and D2 in generating business for the peer-to-peer lending platform, i.e. by introducing lenders and borrowers to the platform.
10. In the period June 2011 to in or around December 2012, D1 and D2 were able to raise £400,000. AS directed D1 and D2 to pay the sum of £400,000 to a bank account controlled by AS and the payments were made in several tranches. In fact, throughout the period that is relevant to this claim, AS chose to operate through a number of corporate vehicles which he controlled, including Delpane, Laurus or Emporis, which are hereafter referred to as "**the Smith Companies**".
11. D1/D3 do not know the precise ownership and control structure of the Smith Companies but at all material times they: (i) were not directors of the Smith Companies; (ii) did not own (directly or indirectly) the Smith Companies or any part of them; (iii) had no interest (legal, equitable or otherwise) in the Smith Companies or the assets of the Smith Companies; (iv) did not and could not exercise control over the actions of the Smith Companies; (v) had no access to the bank accounts of the Smith Companies; (vi) were not signatories of the bank accounts of the Smith Companies; and (vii) had no control over the funds of the Smith Companies. The previous sentence also applies to the other companies referred to in the particulars of claim, namely Argo, CAM and Conduit Nominees.
12. Shortly before the payment of the final tranche of the aforesaid £400,000, the Company was incorporated for the purpose of building the peer-to-peer lending platform. For a short period starting in February 2013, the Company operated a non-peer-to-peer loan book in the marine sector (so as to test the lending market in a sector that had lower loan values and lower capital requirements) and paragraph 8 is therefore admitted. Some of the £400,000 previously paid to AS



was advanced by AS to the Company to assist with its working capital requirements.

13. Following incorporation, D1 and D2 worked to build the peer-to-peer lending platform. It became operational in or around November 2013 when the website savingstream.co.uk was launched. From that point to in or around late 2015, the Company's business model worked as follows.

13.1. Those who wished to borrow money (hereafter, "**a Borrower**" or "**Borrowers**") would provide details of the loan they were seeking on the platform. Those who wished to lend money (hereafter, "**a Lender**" or "**Lenders**") would use the platform to identify a Borrower they wished to lend money to.

13.2. A Lender would lend money to the Company in respect of an identified Borrower and the Company would, by way of back-to-back loan, lend an equivalent sum to the identified Borrower. The loan would be secured over assets of the Borrower, who was limited to borrowing 70% of the secured property value as determined by a third-party professional valuer.

13.3. It was a condition of each loan made by a Lender to the Company (and confirmed in advice received from counsel at the time) that the Company was only liable to repay the Lender to the extent that the Company recovered some or all of the back-to-back loan from the Borrower. Accordingly, there was no or no significant credit risk to the Company arising out of the making of a loan to a Borrower. A Lender was typically paid 12% per annum in respect of a loan, such interest rate reflecting the fact that, despite security having been obtained over assets of the Borrower, peer-to-peer lending carried a degree of risk.

13.4. The Company generated income by being paid (e.g. by way of arrangement fees, a portion of the interest paid by a Borrower etc) for providing the peer-to-peer lending platform. The Company generated profit of approximately £5 for every £100 advanced through the platform.

14. Save to the extent that they are consistent with paragraph 13 of the defence above, paragraphs 9 and 10 are denied.



15. To the extent that an etymological debate about the meaning of 'peer-to-peer' is of any relevance to the issues in this case (which is denied), it is likely that the FCA would regard the aforesaid business model as being "peer-to-peer" and would regard a company operating such a business model as being a "*P2P platform operator*" as that term is defined in the FCA's Glossary.
16. Following the Company's incorporation, D1 and D2 (in their capacity as directors) continued to engage and collaborate with AS with the view to AS assisting the Company in generating business through the introduction of Lenders and Borrowers to the platform as envisaged in the collaboration agreement.
17. To the best of D1's recollection, the collaboration agreement was varied so as to add the Company as party. The second and third sentences of paragraph 8 of the defence above are repeated. Alternatively, the aforesaid discussions and collaboration gave rise to an oral contract to which the Company was a party or a contract arising out of the parties' conduct.
18. The material terms of the contractual arrangement between the parties ("the Contract") were as follows.
  - 18.1. AS would generate business for the Company through the introduction of Lenders and Borrowers to the peer-to-peer lending platform.
  - 18.2. AS would be remunerated by the Company for the provision of such services. AS would be entitled to reasonable remuneration, calculated by reference to the amount of business he generated for the Company.
19. Pursuant to the Contract, AS began to generate business for the Company.
20. Largely as a result of the work of AS, the Company experienced high levels of growth in the financial years 2014 and 2015 as summarised in the table immediately below.

Year	New Lenders	Gross lending volume	Secondary market volume	Lendy Revenue
FY2014	1,409	£12,729,464	c.£1,800,000	£1,364,936

FY2015	4,255	£64,009,950	c.£23,000,000	£18,999,903
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21. The aforesaid financial performance was particularly notable given that the Company had launched a new peer-to-peer lending platform in an undeveloped market.
22. An interrogation of the Company's database, currently in the possession of the Administrators, will reveal the precise amount of business that was generated by AS. D1/D3 believe that the majority of the Company's revenue and profitability for FY2014 and FY2015 was attributable to the work of AS. D1/D3 will seek permission to interrogate the Company's database ahead of trial.
23. In or around late 2015, the Company, on the advice of its lawyers, opted to change the contractual documentation underpinning the operation of the peer-to-peer lending platform. From that point onwards, the Company operated a business model that was economically identical (or near-identical) to that set out in paragraph 13 of the defence above, save that it acted as agent for the Lenders rather than entering into back-to-back loans. Accordingly, paragraph 11 is admitted.
24. In the financial years 2016 and 2017, the Company continued to experience high levels of growth, as summarised in the table immediately below.

Year	New Lenders	Gross lending volume	Secondary market volume	Lendy Revenue
FY2016	6,966	£160,310,963	c.£121,000,000	£29,199,126
FY2017	6,115	£117,606,747	£84,000,000	£32,168,580

25. By way of example, in April 2016 alone the Company attracted over £10,000,000 of money from Lenders. This was largely due to the work of AS. The Company would not have achieved the success it did without the work of AS.
26. Indeed, by 31 December 2016 (only three years after the Company had launched a new peer-to-peer lending platform in an undeveloped market), the Company had net assets of £2,935,596 having made a profit of £2,606,351 in FY2016. Its net assets had increased to £3,540,722 by 31 December 2017 as a result of having made a profit of £605,126 in FY2017.



27. As a result of the aforesaid financial performance, the business of the Company was of significant value. In 2016, D1 and D2 engaged in discussions with an investment banker with a view to finding a buyer of the Company. A valuation of £100m-£150m was referred to in those discussions.
28. As aforesaid, a significant contributing factor to the continued growth of the Company in this period was the work of AS. D1/D3 believe that the majority of the Company's revenue and profitability for FY2016 and FY2017 was attributable to the work of AS. The final sentence of paragraph 22 of the defence above is repeated.
29. Paragraph 12 is admitted. Despite a decline in the volume of lending activity and an increase in non-performing loans, the Company was solvent and profitable at all material times.

*The Payments*

30. As to paragraph 13.
  - 30.1. The Payments were made to the Smith Companies on the instructions of AS in discharge of sums owed to AS pursuant to the Contract. Alternatively, if the services were provided by the Smith Companies rather than AS personally then the sums were owed to the Smith Companies (and the Contract was accordingly amended by the parties' conduct to make the Smith Companies parties to it).
  - 30.2. Whether the Payments were made to AS personally or to companies controlled by him was not material to D1 provided that: (i) the sums paid were sums actually owing for services rendered; (ii) AS identified the bank accounts into which such sums were to be paid; and (iii) the Payments amounted to a good discharge of the sums owed.
31. Although D1/D3 have no reason to doubt the accuracy of paragraphs 14 and 15, they cannot admit or deny those paragraphs (save for the final sentence of paragraph 15.3) as they do not own, control or have any interest in the Smith Companies. The prior relationship between D1 and AS was as described in paragraphs 4-9 of the defence above.
32. As to paragraph 16.



32.1. The Payments were made on the instructions of AS to accounts that were controlled by AS.

32.2. D1/D3 understand that the Payments were made to accounts in the name of, or operated on behalf of, the Smith Companies because this is what D1 was told by AS. However, D1/D3 cannot confirm this as they did not have access to the bank accounts of the Smith Companies, were not signatories of the bank accounts of the Smith Companies and had no control over the funds of the Smith Companies.

32.3. The second sentence of paragraph 16 is noted.

33. Paragraph 17 is admitted. The Payments were properly recorded when they were paid (and not just after January 2015) in the Company's books and records.

34. Paragraph 18 is denied. Paragraphs 4-29 of the defence above are repeated. D1/D3 further plead as follows.

34.1. In the period August 2014 to March 2015, D1, D2 and AS would speak each month (or thereabouts) and agree the number of Lenders and Borrowers introduced and deposits raised by the work of AS. A fee would be agreed and then paid by reference to the commercial value of the services provided.

34.2. From April 2015 onwards, it was agreed between D1, D2 and AS that a reasonable level of monthly remuneration was £100,000 for work relating to introducing Lenders and £100,000 for work relating to introducing Borrowers. This monthly fee was subject to monthly (or thereabouts) conversations between D1, D2 and AS to confirm that the fee was appropriate by reference to the commercial value of the services provided.

34.3. The sums identified by the Administrators as having been paid to Emporis were for work introducing non-UK Lenders to the Company and were agreed at a rate £1,000 for each non-UK Lender.

34.4. The Company's financial statements were audited by Moore Stephens LLP in FY2016 and FY2017. As part of the audit process, Moore Stephens raised queries with D1 and D2 as to whether the Payments were genuine



payments made for the provision of services provided to the Company and/or whether they were made for the benefit of D1 and D2. D1 and D2 provided Moore Stephens with sufficient evidence to satisfy it that the Payments were genuine payments for the provision of services and that the Payments were not made for the benefit of D1 and D2. In a letter sent to Moore Stephens and dated 6 February 2018, AS confirmed that D1 and D2 “*are not the beneficial owners and they do not have any control over*” the Smith Companies.

In the independent audit reports for FY2016 and FY2017, Moore Stephens stated *inter alia* that: (i) the financial statements (which recorded the Payments as being genuine expenses of the Company) gave a true and fair view of the state of the Company’s affairs; (ii) the financial statements had been properly prepared in accordance with UK GAAP; and (iii) there was nothing else which Moore Stephens was required to report.

35. With the words “[n]ot *withstanding the foregoing*” deleted, paragraph 19 is admitted. The Payments were properly recorded in the Company’s books and records and subject to proper tax treatment.
36. Paragraph 20 is denied. Paragraphs 33-35 of the defence above are repeated.

*The alleged benefits received by the Directors*

37. In or around March 2013, AS agreed to provide what was described as a “credit line” to D1 and D2. Pursuant to the credit line, AS agreed to lend money (up to £10,000,000) to D1 and D2 to enable D1 and D2 to purchase UK property and other assets. In accordance with the credit line, D1 received the following from AS.
  - 37.1. Use of a card, which was treated as a loan from AS to D1 and for which D1 was liable to repay AS. D2 was similarly given use of a card. The cards had initially been provided by AS in March 2011 prior to any of the Payments being made and were to enable D1 and D2 to pay the Company’s start-up costs and their living expenses out of the £400,000 “guarantee” payment to AS at a time when D1 and D2 had no other sources of income or available assets (having made the £400,000 payment to AS) and before the Company was profitable.
  - 37.2. Monies transferred by way of loan in the period 2014 to 2017.



38. D1 knew that the loans were paid to him by the Smith Companies but he did not regard that as improper (and there was nothing improper) in circumstances where: (i) D1 was borrowing money from AS, which he was required to repay; (ii) it was a matter for AS as to how he advanced such monies; and (iii) D1 understood that the Smith Companies were corporate vehicles through which AS chose to operate.
39. The loans referred to in paragraph 37 of the defence above have not been repaid by D1 and he remains liable to AS in respect of them. D1 has requested an up-to-date statement from AS showing the outstanding indebtedness, which he will provide to the Claimants in due course.
40. As to paragraph 21.
  - 40.1. It is admitted that the emails referred to in paragraph 21.1 and 21.3(3)(b)-21.3(3)(d) were sent by D1. As to the references to a “*trust*”, it appears to be common ground that those emails were inaccurate as even on the Claimants’ case there was no trust. D1 used the word “*trust*” as he thought it would be more likely to be viewed favourably by those with whom he was communicating than a fuller explanation, i.e. that he was borrowing money from AS.
  - 40.2. So far as paragraph 21.2 relates to, or implies the existence of, flows of monies between Conduit Nominees, CAM and the Smith Companies D1/D3 cannot admit or deny the same as they did not know about or cause those flows of monies, which were caused by AS. It is admitted that D1 received £237,500 in the period February to July 2015 and £195,000 in the period February to March 2016 from AS. These were payments by way of loan from AS to D1 as described in paragraph 37.2 of the defence above. D1 does not know whether the payments made on behalf of AS came from accounts in the name of Conduit Nominees and/or CAM or otherwise.
  - 40.3. Although D1/D3 have no reason to doubt the accuracy of the first sentence of paragraph 21.3 and paragraph 21.3(1) so far as they relate to flows of monies between the Smith Companies and Argo they cannot admit or deny the same as they did not know about or cause those flows of money, which were caused by AS. The Claimants only have copies of



certain of the documents referred to by them because they were sent in error to D1 by an employee of AS.

- 40.4. Paragraph 21.3(2)(c) is admitted. D1 regarded the loan agreement as an agreement with AS. The agreements referred to in paragraphs 21.3(2)(a) and (b) are matters for D2.
- 40.5. Save to the extent that it is consistent with the receipt by D1 and D2 of monies from AS by way of loan as described in paragraph 37 of the defence above, paragraph 21.3(3) is denied.
- 40.6. Save as aforesaid, paragraph 21 is denied for the reasons set out in this defence above.
41. Save that it is admitted that D1 and D2 received monies from AS by way of loan as described in paragraph 37 of the defence above, paragraph 22 is denied.

*The Company's entry into administration*

42. Paragraph 23 is admitted.
43. As to paragraph 24.
- 43.1. It is denied that the Company had “*significant*” debts when compared to the value of the Company’s assets. D1/D3 estimate that, once the entitlement of certain Lenders is calculated in accordance with the first sentence of paragraph 13.3 of the defence above, unsecured creditors will be owed in the region of £8,400,000. By contrast, the Administrators’ own estimate is that they will realise Company assets of £23,091,417.
- 43.2. D1/D3 do not know whether the Administrators believe there will be a surplus or deficit in the administration though it is noted that during a phone call between D1 and C4 in May 2020, C4 indicated that the Company was likely to be solvent and a distribution made to shareholders. D1/D3 estimate that, provided the costs and expenses of the administration do not exceed £12m (including c.£2m of post-administration corporation tax), there will be a surplus in the administration.

**(III) THE DUTIES OWED BY THE DIRECTORS**



44. Paragraphs 25 and 26 are admitted.

**(IV) THE DIRECTORS' ALLEGED BREACHES OF DUTY**

45. Paragraphs 27-29 are denied. The Payments were payments to the Smith Companies for AS having provided services of significant value to the Company and were not made for D1 and/or D2's benefit. Without the work of AS, the Company would not have performed as it did. D1 is not liable to account in respect of the Payments and is not liable to pay equitable compensation. The Payments did not trigger a liability to pay PAYE and/or National Insurance contributions.

46. Paragraphs 30-31 are denied. The Payments were genuine expenses and were properly accounted for. The Company is not and should not be liable for penalties and interest payable to HMRC.

47. Further, at all material times: (i) D1 and D2 owned (directly or indirectly through Lendy Group) all the shares in the Company; and (ii) the Company was solvent. If (which is denied) D1 did breach his duties in any way, he pleads further as follows.

47.1. The actions of D1 and D2 were agreed to or ratified by or any breaches of duty were waived as a result of the unanimous agreement of the Company's shareholders to D1 and D2's actions pursuant to the *Duomatic* principle.

47.2. Assuming (which is denied) that the Payments are to be regarded as having been made for the benefit of D1 and D2, D1 and D2 could have caused the Company to make equivalent payments to them in the form of dividends or remuneration or in some other lawful manner.

**(V) THE COMPANY'S PROPRIETARY CLAIMS**

48. Paragraphs 32 and 33 denied for the reasons set out in this defence above.

49. Paragraph 34 is noted.

50. As to paragraph 35.



50.1. The deposits in respect of 2 Brankesmere House and 10 Alhambra Road were funded with funds borrowed from AS as described in paragraph 37 of the defence above.

50.2. D1 understands that Ryefields Park was purchased with funds borrowed by D2/D4 from AS as described in paragraph 37 of the defence above.

50.3. It is denied that the properties were purchased with the traceable proceeds of the Payments in circumstances where the Payments were not made in breach of fiduciary duty for the reasons set out in this defence above.

51. Paragraph 36 is denied for the reasons set out in this defence above.

**(VI) THE ADMINISTRATORS' CLAIM UNDER SECTION 423 IA 1986**

52. As to paragraph 37.

52.1. Save that it is admitted that each of the Payments was the product of a transaction entered into by the Company with AS or the relevant Smith Company, paragraph 37.1 is denied. The Payments were payments to the Smith Companies for AS having provided services of significant value to the Company.

52.2. Paragraph 37.2 is denied. The Payments were not gifts or transactions for no or insufficient consideration. The Payments were payments to the Smith Companies for AS having provided services of significant value to the Company.

52.3. Paragraph 37.3 is denied. The purpose of the Payments was to pay AS for having provided services of significant value to the Company. D1 (and, to the best of D1's knowledge, D2) had no intention of prejudicing the interests of HMRC or any other creditor or potential creditor.

53. Paragraph 38 is denied for the reasons set out immediately above.



54. Paragraph 39 is denied. Paragraph 43 of the defence above is repeated. The Payments were not transactions caught by section 423 IA 1986 and there are and were no "victims".
55. It is denied that the Administrators are entitled to the relief sought in paragraph 40 or any other relief for the reasons set out in this defence above.

**(VII) INTEREST**

56. The Defendants note the claim for interest in paragraphs 41 and 42. For the reasons set out in this defence above, the Company is not entitled to the relief claimed or any other relief and is therefore not entitled to interest.

JON COLCLOUGH  
25 November 2020

**Statements of Truth**

I believe that the facts stated in this defence are true. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

**Liam Brooke**

The first Defendant

Dated: 25 November 2020

The third Defendant believes that the facts stated in this defence are true. The third Defendant and I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

**Liam Brooke, director of LP Alhambra Limited**

On behalf of the third Defendant

Dated: 25 November 2020