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# *Zestdew Limited – In Administration*

Joint Administrators' progress  
report for the period 29 April 2013 to  
28 October 2013

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25 November 2013

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# Section 1 Purpose of the Joint Administrators' progress report

## Introduction

This is the tenth progress report by the Joint Administrators (the "Administrators") of Zestdew Limited ("Zestdew" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 28 October 2013.

## Objectives of the Administration

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

The specific aims of this Administration were to:

- Protect, manage and realise the Company's assets;
- Deal with any servicing and regulatory issues; and
- Agree creditors' claims and, if applicable, make a distribution to creditors.

## Outcome for creditors

On 24 June 2013, the Court gave the Administrators of Zestdew permission to agree and pay a dividend in respect of the claims of its unsecured non-preferential creditors.

The Administrators declared and paid a first interim dividend of 1.75 pence in the £ to the Company's unsecured non-preferential creditors on 23 September 2013.

The quantum and timing of any further dividend remains uncertain at this stage.

## Pension liability

We explained in our most recent report that the Upper Tribunal's decision not to grant the strike-out application that was brought by Zestdew and 36 other entities was being appealed. The Court of Appeal issued its judgment on 21 June 2013, dismissing the appeal. Accordingly, the risk that we have explained previously of a Financial

Support Direction ("FSD") being imposed on Zestdew remains.

The Supreme Court issued its judgment on 24 July 2013 in a case brought by certain other Lehman entities, whereby it held that liability derived from a FSD would constitute a provable debt in an administration. This has enabled the Administrators to change the basis of reserving for any possible FSD liability, to allow for a potential additional unsecured debt rather than an administration expense.

During the period covered by this report, Zestdew joined with the other 36 entities to establish a collective reserve for possible FSD liability. However, it was not possible to reach agreement with the pension scheme trustees on the operation of this reserve, and it was therefore not brought into full effect. Following this, Zestdew is participating in a court process which may assist in determining whether the entities could make a collective reserve or whether they will need to reserve separately.

The Administrators continue to monitor the pension issues closely.

## Extension of the Administration

The Administrators made an application to the High Court to extend the Administration by a further year to 30 November 2014. The application was granted at a hearing on 24 June 2013.

The Administrators will next report to creditors in approximately six months.

Signed:



GE Bruce  
Joint Administrator  
Zestdew Limited

*AV Lomas, SA Pearson, GE Bruce and JG Parr have been appointed as Joint Administrators of Zestdew Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

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

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## **Section 2 Joint Administrators' actions to date**

### **Overview**

The Company was incorporated to manage investments in portfolios of re-performing loans acquired from Lloyds TSB Bank plc ("Lloyds") with funding provided by LB SF No. 1, its parent company.

The vast majority of these portfolios were subsequently securitised via a special purpose vehicle ("SPV") and the Company retained a small portfolio of c.1,100 loans with an unpaid principal value of c. £10m. The loans are serviced by Lloyds, with Zestdew holding the beneficial interest to the collections and Lloyds holding the legal title. Once Lloyds charges off a loan, then, according to the terms of the agreement, legal title passes to Zestdew and the servicing to a 3rd party servicer.

### **Change of Third Party Servicer**

Zestdew's third party servicer for the collection of 'charged off' loans was placed into administration in June 2013. The Administrators have therefore engaged a new third party servicer to continue the collections process.

### **Administrators' actions to date**

Zestdew continues to implement a hold strategy over its portfolio of consumer loans (the "loan portfolio"). In the period, recoveries of £0.15m have been made from the loan portfolio.

Zestdew incurred tax losses in a pre-appointment tax accounting period which have been of value to other group companies and, subsequently, a tax loss agreement was entered into with, inter alia, the other Lehman group companies. This agreement set out the basis for allocating tax losses, and the value to be paid to loss surrendering companies such as Zestdew. This has resulted in receipts of £0.16m to date.

On 24 October 2011, the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates, previously subject to Chapter 11 proceedings in the USA, in conjunction with other UK affiliates. The Plans of Reorganisation became effective on 6 March 2012. Pursuant to this agreement, Zestdew had its claim against Lehman Brothers Special Financing Inc. ("LBSF") agreed at \$3.39m and its guarantee claim against LBHI at \$1.58m.

A fourth distribution was received from those estates on 3 October 2013. Zestdew received \$0.10m from LBSF and \$0.07m from LBHI. To date, Zestdew has received dividends totalling \$0.93m and \$0.25m from LBSF and LBHI respectively.

Further dividends from LBSF and LBHI are expected to be received on a six monthly basis.

On 31 July 2013, the Administrators issued a Notice of Intended Dividend to the unsecured non-preferential creditors of Zestdew. The final date for creditors to prove their claims was 30 August 2013.

The Administrators have adjudicated upon all claims received and on 23 September 2013 declared a first interim dividend of 1.75 pence in the £ to unsecured non-preferential creditors whose claims had been admitted.

### **Outstanding matters**

The Administrators are in regular dialogue with the new third party servicer to ensure that the portfolio continues to be serviced effectively whilst the loans are held.

It is likely to take several years to run off the loan portfolio, and in the meantime, the Administrators continue to assess market conditions and review whether it would be more beneficial to creditors to sell the loan portfolio.

## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 9579 of 2008
<i>Full name:</i>	Zestdew Limited
<i>Trading name:</i>	Zestdew Limited
<i>Registered number:</i>	05965830
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	LJ Weir (resigned 25/11/08)
<i>Company secretary:</i>	ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	The director does not own any shares in the Company
<i>Date of the Administration appointment:</i>	29 October 2008
<i>Administrators' names and addresses:</i>	GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The original appointment of Administrators was made by the director of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	A fourth extension has been granted by the High Court of Justice until 30 November 2014.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them. However it is most likely that the Administrators will continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so in June 2013) and, once the final distribution has been made apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 1.75p in the £ to unsecured non-preferential creditors on 23 September 2013. The quantum and timing of any further dividends remains uncertain at present.
<i>Estimated values of the prescribed part and Zestdew's net property:</i>	There is no prescribed part as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

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## ***Section 4 Financial Information***

### ***Administrators' remuneration***

In January 2009, the Administrators requested and received consent from Zestdew's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached at Section 6, is a summary of the Administrators' time costs for the period 1 April 2013 to 30 September 2013, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for this period total £63,626 plus VAT, which represents 147.40 hours at an average hourly rate of £432.00.

To date, remuneration of £580,798 plus VAT has been drawn in respect of time costs incurred to 31 August 2013.

### ***Receipts and payments account***

An account of the receipts and payments in the Administration showing movements for the six months to 28 October 2013 is set out overleaf.

## Section 5 Receipts and Payments Account

	As at 28 October 2013		As at 28 April 2013		Movements	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
<b>Receipts</b>						
Recoveries on loan portfolio	2,055,388	-	1,897,446	-	157,942	-
Cash at bank	1,006,923	-	1,006,923	-	-	-
Distribution from LBSF	-	928,620	-	821,526	-	107,094
Distribution from LBHI	-	252,146	-	180,111	-	72,035
Sale of tax losses	166,451	-	166,451	-	-	-
Interest received gross	2,484	-	2,484	-	-	-
<b>Total Receipts</b>	<b>3,231,246</b>	<b>1,180,766</b>	<b>3,073,304</b>	<b>1,001,637</b>	<b>157,942</b>	<b>179,129</b>
<b>Payments</b>						
Joint Administrators' remuneration	580,798	-	528,734	-	52,064	-
Joint Administrators' category 1 disbursements	3,279	-	3,279	-	-	-
Legal fees	144,656	-	112,500	-	32,156	-
Debt collection fees	61,959	-	55,240	-	6,719	-
Employee costs	5,776	-	3,363	-	2,413	-
IT costs	5,741	-	5,741	-	-	-
Statutory advertising	10,647	-	1,314	-	9,333	-
Bank charges	135	162	135	82	-	80
VAT Paid	137,203	-	119,278	-	17,925	-
<b>Total Payments</b>	<b>950,194</b>	<b>162</b>	<b>829,584</b>	<b>82</b>	<b>120,610</b>	<b>80</b>
<b>Intracompany transfer</b>						
Payment	-	(1,179,565)	-	(1,000,665)	-	(178,900)
Receipt	740,805	-	629,814	-	110,991	-
<b>Total receipts less total payments</b>	<b>3,021,857</b>	<b>1,039</b>	<b>2,873,534</b>	<b>890</b>	<b>148,323</b>	<b>149</b>
<b>Distributions</b>						
1st dividend to unsecured creditors at 1.75p in the £, declared in September 2013	243,186	-	-	-	243,186	-
<b>Cash in hand / (movement in year)</b>	<b>2,778,671</b>	<b>1,039</b>	<b>2,873,534</b>	<b>890</b>	<b>(94,863)</b>	<b>149</b>
<b>Cash balances</b>						
HSBC (Non-interest bearing)	2,778,671	1,039	2,873,534	890	(94,863)	149
<b>Total Cash</b>	<b>2,778,671</b>	<b>1,039</b>	<b>2,873,534</b>	<b>890</b>	<b>(94,863)</b>	<b>149</b>

**Note:** The total GBP equivalent cash in hand at the exchange rate on 28 October 2013 is £2,779,315.

# Section 6 Joint Administrators' time costs for the period 1 April 2013 to 30 September 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	0.10	43	11.70	3,077	10.45	2,362	22.25	5,482
Administration and planning	31.00	20,491	14.20	6,005	3.20	841	0.75	167	49.15	27,504
Creditors	-	-	2.70	1,164	-	-	2.90	664	5.60	1,828
Realisation of assets	2.75	1,758	18.30	7,806	0.55	139	-	-	21.60	9,703
Statutory and other compliance	7.80	5,144	6.80	2,936	18.40	4,999	4.80	1,035	37.80	13,814
Tax and VAT	1.20	1,164	5.30	3,073	2.05	498	1.10	164	9.65	4,899
LEL Recharges	0.03	22	0.33	148	0.34	88	0.65	138	1.35	396
<b>Grand Total</b>	<b>42.78</b>	<b>28,579</b>	<b>47.73</b>	<b>21,175</b>	<b>36.24</b>	<b>9,342</b>	<b>20.65</b>	<b>4,530</b>	<b>147.40</b>	<b>63,626</b>
<b>Average Hourly Rate</b>		<b>668</b>		<b>444</b>		<b>258</b>		<b>219</b>		<b>432</b>

Grade	Business Recovery Services		Specialist	
	Max £/hr	Max £/hr	Max £/hr	Max £/hr
Partner	838	1,069	970	905
Director	665	512	571	278
Senior manager	512	431	360	212
Manager	431	360	229	
Senior Associate	360			
Associate/Support Staff	229			

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

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

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## **Summary of the Joint Administrators' time costs for the period 1 April 2013 to 30 September 2013**

### **Accounting and treasury - £5,482**

- Monitoring flow of funds into the bank accounts;
- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Managing funds in various institutions in order to mitigate risk; and
- Dealing funds on the money markets and inputting deals.

### **Administration and planning - £27,504**

- Reviewing financial information;
- Updating strategy documents;
- Preparations for and attending the Court of Appeal pensions hearing;
- Participating in discussions to try and resolve the pension issue; and
- Discussions regarding strategy for the Administration.

### **Creditors - £1,828**

- Updating list of creditor claims;
- Reviewing creditor claim submissions; and
- Adjudicating creditor claims.

### **Realisation of assets - £9,703**

- Discussions with servicer regarding various loans;
- Dividend distributions from LBSF and LBHI;
- Communications with debtors; and
- Ensuring ongoing compliance with Consumer Credit Act.

### **Statutory and other compliance - £13,814**

- Preparation of the Administrators' ninth progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparation of detailed remuneration summary;
- Liaising with Administrators on statutory issues;
- Preparation of the Administrators' six monthly review summary;
- Dealing with statutory issues; and
- Maintaining case files and Zestdew database.

### **Tax and VAT - £4,899**

- Review of documents and discussions regarding distributions and closure strategy;
- Preparation of post appointment tax computations; and
- VAT reconciliation and preparation of VAT returns.

### **LBL recharges - £396**

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies.

