
Zestdew Limited – In Administration

Joint Administrators' progress
report for the period 29 April to
28 October 2012

22 November 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eighth 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 our appointment, with particular focus on the progress made in the six months to 28 October 2012.

Objectives of the Administration

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

The specific aims of this Administration are 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

The Administrators expect a distribution to be made to unsecured creditors in due course, however the quantum and timing of this distribution remains uncertain, principally due to uncertainty around a potential pension liability.

As noted in previous reports, the Pensions Regulator ("the Regulator") listed Zestdew as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

In September 2010 the Pensions Regulator's Determinations Panel (the "Panel") decided that an FSD should be issued against six Lehman group entities. Zestdew was among 38 companies that the Panel decided should not be issued with an FSD.

The Panel's decision has been referred to the Upper Tribunal, with the Scheme Trustees asking the Upper Tribunal to overturn the Panel's decision and rule that the 38 companies (including Zestdew) should also be subject to an FSD. This means that Zestdew is still at risk from this potential liability. Zestdew (together with 36 other affected entities)

applied to the Upper Tribunal, seeking an order that the Trustees' referral to the Upper Tribunal relating to a FSD should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against the Company. The Trustees and the Regulator opposed the strike-out application, and the hearing took place from 12 to 15 March 2012. Judgment was handed down on 14 June 2012 with the Upper Tribunal declining to strike out the Trustees' referral, meaning that Zestdew is still at risk of a FSD. The Upper Tribunal's decision has been appealed to the Court of Appeal, and the hearing in the Court of Appeal has now been listed to begin on 29 April 2013.

The Administrators continue to keep the pensions issues under close review and are working to find an interim resolution that may allow dividends to be paid soon. Once an interim resolution has been determined, the Administrators propose to apply to Court to request an Order to convert the administration of Zestdew into a distributing administration in order to allow them to pay a dividend to unsecured creditors.

Extension of the administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2014.

Future reports

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

Signed:



DA Howell
Joint Administrator
Zestdew Limited

AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell were appointed as Joint Administrators of Zestdew Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell 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.

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.

Administrators' actions to date

Zestdew continues to hold its portfolio of consumer loans (the "loan portfolio").

In accordance with the asset realisation strategy, the Administrators continue to implement a hold strategy for the loan portfolio. In the period, recoveries of £77,277 have been made from the loan portfolio.

Zestdew incurred tax losses in pre-appointment tax accounting periods which have proved to be of value to other group companies.

A tax loss agreement was entered into with, inter alia, the other PwC Lehman administration 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 £166,541 as at 28 October 2012.

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 \$3,390,693 and its guarantee claim against LBHI at \$1,580,988.

As previously reported, the first distributions from both LBSF and LBHI were made on 17 April 2012

in respect of its agreed claims detailed above. On 2 October 2012, a second distribution was made by both LBSF and LBHI and Zestdew received \$57,210 and \$48,134 respectively. These funds were immediately exchanged to GBP to minimise the foreign exchange risk. Further dividends are expected however the quantum and timing remain uncertain.

Outstanding matters

Regular dialogue is ongoing with the 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.

The Administrators continue to assess market conditions and review whether it would be beneficial to creditors to sell the loan portfolio rather than run it off.

The Administrators are seeking to agree the claims of unsecured creditors in principle, and once an interim resolution to the pension-related issue has been agreed, the Administrators propose to apply to Court to request an Order to convert the administration of Zestdew into a distributing administration. This will allow them to pay a first interim dividend to unsecured creditors.

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>	DA Howell, DY Schwarzmann, SA Pearson, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
<i>Appointer's name and address:</i>	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>	The current Joint Administrators of Zestdew are DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmann of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. 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 persons for the time being holding that office.
<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 the most likely exit route from the Administration is to seek permission to distribute from the administration and proceed to dissolve the Company.
<i>Estimated dividend for unsecured creditors:</i>	Based on current information, it is anticipated that there should be a dividend to unsecured creditors, but it is too early to estimate the quantum and timing of such a dividend.
<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.

Section 4 Financial Information

Administrators' remuneration

At the initial meeting of creditors which was held by correspondence on 5 January 2009, creditors resolved that the Administrators' remuneration be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 April to 30 September 2012, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed.

Time costs for the period 1 April to 30 September 2012 are £48,589, which represents 133.71 hours at an average hourly rate of £363.39.

Time cost analyses for the period 29 October 2008 to 31 March 2012 have been provided previously.

Remuneration of £504,439 plus VAT has been drawn in respect of time costs incurred from 29 October 2008 to 30 September 2012.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 28 October 2012 is shown overleaf.

Section 5 Receipts and Payments Account

	As at 28 October 2012		As at 28 April 2012		Movements	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
Receipts						
Recoveries on loan portfolio	1,694,524	-	1,617,247	-	77,277	-
Cash at bank	1,006,923	-	1,006,923	-	-	-
Distribution from LBSF	-	735,885	-	678,675	-	57,210
Distribution from LBHI	-	119,386	-	71,252	-	48,134
Sale of tax losses	166,451	-	-	-	166,451	-
Interest received gross	2,484	-	2,484	-	-	-
Total Receipts	2,870,382	855,271	2,626,654	749,927	243,728	105,344
Payments						
Joint Administrators' remuneration	504,439	-	422,101	-	82,338	-
Joint Administrators' category 1 disbursements	3,279	-	3,279	-	-	-
Legal fees	108,473	-	105,237	-	3,236	-
Debt collection fees	46,542	-	33,590	-	12,952	-
Employee costs	1,763	-	1,493	-	270	-
Statutory advertising	1,314	-	1,314	-	-	-
Bank charges	135	82	135	-	-	82
VAT Paid	113,681	-	93,977	-	19,704	-
Total Payments	779,626	82	661,126	-	118,500	82
Intracompany transfer						
Payment	-	(854,189)	-	(748,900)	-	(105,289)
Receipt	533,729	-	468,385	-	65,344	-
Net position	2,624,485	1,000	2,433,913	1,027	190,572	(27)
Cash balances						
HSBC (Non-interest bearing)	2,624,485	1,000	2,433,913	1,027	190,572	(27)
Total Cash	2,624,485	1,000	2,433,913	1,027	190,572	(27)

Note: The total GBP equivalent cash in hand at the exchange rate on 28 October 2012 is £2,625,106.

Section 6 Joint Administrators' time costs for the period 1 April to 30 September 2012

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	-	-	6.80	1,720	11.30	2,486	18.10	4,206
Creditors	-	-	-	-	-	-	0.30	66	0.30	66
Realisation of assets	-	-	37.80	21,080	4.20	1,286	1.00	220	43.00	22,586
Statutory and Compliance	-	-	4.70	2,039	0.30	104	14.40	3,168	19.40	5,311
Strategy and planning	4.40	3,687	13.30	5,569	1.40	364	13.60	2,992	32.70	12,612
Tax and VAT	0.20	186	2.00	1,170	15.00	1,650	0.80	176	18.00	3,182
LBL Recharges	0.03	20	0.90	285	0.94	249	0.34	72	2.21	626
Grand Total	4.63	3,893	58.70	30,143	28.64	5,373	41.74	9,180	133.71	48,589

Current charge out rates Grade	Business Recovery Services		Specialist	
	Max £/hr	Max £/hr	Max £/hr	Max £/hr
Partner	838	1,027		
Director	639	932		
Senior manager	492	869		
Manager	414	634		
Senior Associate	346	389		
Associate/Support Staff	220	204		

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 0.1 of an hour.

* Specialist departments with in 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.

Summary of the Joint Administrators' time costs for the period 1 April to 30 September 2012

Accounting and treasury - £4,206

- Monitoring flow of funds into the bank accounts;
- Effecting receipts and payments; and
- Reconciliation of bank accounts.

Creditors - £66

- Reviewing correspondence received from creditors.

Asset Realisation - £22,586

- Obtaining valuations and making enquires to sell certain residual interests;
- Discussions with servicer regarding various loans; and
- Ensuring ongoing compliance with Consumer Credit Act.

Statutory and Reporting - £5,311

- Preparation of the Administrators' seventh 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.

Strategy and Planning - £12,612

- Reviewing financial information;
- Updating strategy documents;
- Preparations for and attending the Upper Tribunal pensions hearing;
- Participating in discussions to try and resolve the pension issue;
- Discussions regarding strategy for the administration; and
- Preparations for extending the Administration beyond 30 November 2012.

Tax and VAT - £3,182

- Preparation of Corporation Tax returns; and
- VAT reconciliation and preparation of VAT returns.

LBL recharges - £626

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