
Zestdew Limited – In Administration

Joint Administrators' progress
report for the period 29 October
2012 to 28 April 2013

23 May 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the ninth 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 April 2013.

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 remain uncertain, principally due to uncertainty around a potential pension liability.

As reported previously, 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 a 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 Scheme Trustees have requested that the Upper Tribunal overturns the Panel's decision and rule that the 38 companies (including Zestdew) should also be subject to an FSD. Zestdew is still, therefore, at risk from this potential liability, but (together with the 36 other affected entities) maintains that the 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. Following a judgment on 14 June 2012, the Upper Tribunal declined the strike out, meaning that Zestdew is still at risk of a FSD. An appeal has been made to the Court of Appeal and the hearing began on 29 April 2013. Judgement has been reserved and will be handed down in due course.

The Administrators continue to monitor the pensions issues closely and are seeking an interim resolution that may enable an early distribution to creditors. The Administrators are also looking to agree the claims of unsecured creditors, and once an interim resolution has been agreed, the Administrators propose to apply to Court to request an Order to convert the administration of Zestdew into a distributing administration.

Change of Administrators

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Administrators and that DA Howell, DY Schwarzmann and MJA Jervis cease to be Joint Administrators of the Company.

The Court also ordered that former Joint Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its Order by an application issued within 28 days of receipt of this progress report.

Future reports

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.

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 implement a hold strategy over its portfolio of consumer loans (the "loan portfolio"). In the period, recoveries of £202,922 have been made from the loan portfolio.

Zestdew incurred tax losses in pre-appointment tax accounting periods which have been of value to other group companies and, subsequently, 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 £166,451 as at 28 April 2013.

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.

LBSF and LBHI have previously made two distributions, and Zestdew has received \$735,885 and \$119,386 respectively. A third dividend was received from each of LBSF and LBHI during the period for \$85,641 and \$60,725. These funds were immediately exchanged to GBP to minimise the foreign exchange risk.

Further dividends from LBSF and LBHI are anticipated on an approximately six monthly basis.

Outstanding matters

As previously reported, 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, 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.

As stated earlier in this report, 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>	GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. DA Howell, MJA Jervis and DY Schwarzmann ceased to be Administrators on 22 March 2013.
<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 are GE Bruce, SA Pearson, AV Lomas and JG Parr 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 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 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 October 2012 to 31 March 2013, 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 October 2012 to 31 March 2013 are £25,660, which represents 70.60 hours at an average hourly rate of £363.46.

Time cost analyses for the period 29 October 2008 to 30 September 2012 have been provided previously.

Remuneration of £504K plus VAT has been drawn in respect of time costs incurred from 29 October 2008 to 28 February 2013.

Receipts and payments account

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

The IT costs incurred during the period are Zestdew's contribution to the production and running of the Entity Prioritisation Model ("EPM") whose cost was incurred by Lehman Brothers International (Europe). The EPM has been used for considering options in respect of the pensions issue.

Section 5 Receipts and Payments Account

	As at 28 April 2013		As at 28 October 2012		Movements	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
Receipts						
Recoveries on loan portfolio	1,897,446	-	1,694,524	-	202,922	-
Cash at bank	1,006,923	-	1,006,923	-	-	-
Distribution from LBSF	-	821,526	-	735,885	-	85,641
Distribution from LBHI	-	180,111	-	119,386	-	60,725
Sale of tax losses	166,451	-	166,451	-	-	-
Interest received gross	2,484	-	2,484	-	-	-
Total Receipts	3,073,304	1,001,637	2,870,382	855,271	202,922	146,366
Payments						
Joint Administrators' remuneration	528,734	-	504,439	-	24,295	-
Joint Administrators' category 1 disbursements	3,279	-	3,279	-	-	-
Legal fees	112,500	-	108,473	-	4,027	-
Debt collection fees	55,240	-	46,542	-	8,698	-
Employee costs	3,363	-	1,763	-	1,600	-
IT costs	5,741	-	-	-	5,741	-
Statutory advertising	1,314	-	1,314	-	-	-
Bank charges	135	82	135	82	-	-
VAT Paid	119,278	-	113,681	-	5,597	-
Total Payments	829,584	82	779,626	82	49,958	-
Intracompany transfer						
Payment	-	(1,000,665)	-	(854,189)	-	(146,476)
Receipt	629,814	-	533,729	-	96,085	-
Net position	2,873,534	890	2,624,485	1,000	249,049	(110)
Cash balances						
HSBC (Non-interest bearing)	2,873,534	890	2,624,485	1,000	249,049	(110)
Total Cash	2,873,534	890	2,624,485	1,000	249,049	(110)

Note: The total GBP equivalent cash in hand at the exchange rate on 28 April 2013 is £2,874,109.

Section 6 Joint Administrators' time costs for the period 1 October 2012 to 31 March 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	1.90	787	8.75	2,214	10.95	2,409	21.60	5,410
Administration and planning	2.40	2,011	9.60	3,974	2.50	633	-	-	14.50	6,618
Realisation of assets	-	-	2.40	994	1.50	380	-	-	3.90	1,374
Statutory and other compliance	1.00	838	-	-	16.60	4,200	0.90	187	18.50	5,225
Tax and VAT	2.90	2,779	6.60	3,653	0.50	120	1.00	151	11.00	6,703
LBL Recharges	0.01	10	0.34	148	0.27	73	0.48	99	1.10	330
Grand Total	6.31	5,638	20.84	9,556	30.12	7,620	13.33	2,846	70.60	25,660

Current charge out rates Grade	Business Recovery Services		Specialist	
	Max £/hr	Services	Max £/hr	Specialist
Partner	838	838	1,027	
Director	639	639	932	
Senior manager	492	492	869	
Manager	414	414	634	
Senior Associate	346	346	389	
Associate/Support Staff	220	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 0.05 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.

Summary of the Joint Administrators' time costs for the period 1 October 2012 to 31 March 2013

Accounting and treasury - £5,410

- Monitoring flow of funds into the bank accounts;
- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements; and
- Monitoring flow of funds into bank accounts.

Administration and planning - £6,618

- 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.

Realisation of assets - £1,374

- Obtaining valuations and making enquires to sell certain residual interests;
- 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 - £5,225

- Preparation of the Administrators' eighth 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 - £6,703

- Review of documents and discussions regarding distributions and closure strategy;
- Preparation of Corporation Tax returns; and
- VAT reconciliation and preparation of VAT returns.

LBL recharges - £330

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