

The Insolvency Act 1986

Administrator's progress report**2.24B**

Name of Company Zavvi Group Limited (in Administration)	Company number 02376810
In the High Court of Justice, Chancery Division, Companies Court [full name of court]	Court case number 11723 of 2008

(a) Insert full name(s)
and address(es) of
administrator(s)I / We (a) Thomas Andrew Jack, Alan Michael Hudson and Simon AllportErnst & Young LLP, 100 Barbirolli Square, Manchester, M2 3EY

administrators of the above company attach a progress report for the period

(b) Insert date

from

(b)

24 December 2008

to

(b)

23 June 2009

Signed

Joint Administrator

Dated

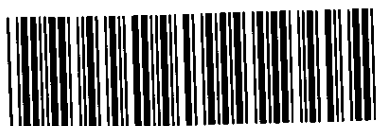
17/07/09

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record

Steven Henderson	
Ernst & Young LLP, 100 Barbirolli Square, Manchester, M2 3EY	
	Tel: 0161 333 2749
DX Number:	DX Exchange:

MONDAY



PC2

20/07/2009

32

COMPANIES HOUSE

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff

TO ALL KNOWN CREDITORS

17 July 2009

Ref: CR/SH/SW/TJ/NWM0915/PCF18

Direct line: 0161 333 2749
Direct fax: 0161 333 3008

Dear Sirs

Zavvi Group Limited (in Administration) ('the Company')

I write, in accordance with Rule 2.47 of The Insolvency Rules 1986, to provide creditors with a report on the progress of the Administration. This report covers the period from 24 December 2008 to 23 June 2009 and should be read in conjunction with the Joint Administrators' Statement of Proposals dated 16 February 2009 ('the Proposals').

Zavvi Group Limited entered Administration on 24 December 2008 and S Allport, A M Hudson and I were appointed to act as Joint Administrators. The appointment was made by a directors' application to Court under the provisions of Schedule B1 to the Insolvency Act 1986 ('the Act').

Under the terms of the appointment, any of the functions to be performed by the Joint Administrators may be carried out or exercised by any one of them acting alone or by all of them acting severally.

Background

The Zavvi Group ('the Group'), as detailed at appendix 5, was formed from a management buy out ('MBO') of the Virgin Megastores UK business, a division of the Virgin Group, in September 2007.

The Company is the immediate parent of Zavvi Retail Limited (in Administration) ('ZRL'), the Group's principal trading entity.

Summary of progress

Agency services

As a result of the new agency agreement entered into on 24 December 2008 by the Joint Administrators and Zavvi Limited ('ZL') to enable ZRL to continue to sell ZL's stock and use assets and/or rights relating to the Company in continued trading, the Joint Administrators were able to negotiate £0.1 million of funding for the Company.

VAT

As previously reported, the Company was the representative member of the Zawvi VAT Group ('the VAT Group'), which comprised the majority of Group companies. However, only the trading activities of ZL and ZRL had a material impact on the VAT Group's net VAT position.

The VAT Group's net VAT position was estimated at the date of appointment as detailed below. This position was estimated based on the finalised and submitted return for the period to 29 November 2008 and an estimate of the VAT liability for the period to 23 December 2008.

VAT receivable / (payable) (£m)	ZL	ZRL	VAT Group Total
Submitted VAT return to 29 November 2008	4.1	2.9	7.0
Estimated VAT position to 23 December 2008	(6.9)	0.4	(6.5)
Net VAT position	(2.8)	3.3	0.5

As detailed in the Proposals, as ZL remained outside of a formal insolvency process it was removed from the VAT Group with effect from 24 December 2008, however, it remained jointly and severally liable for any VAT payable before this date. HM Revenue & Customs ('HMRC') was therefore able to offset the £2.8 million due from ZL at appointment against the £3.3 million refund payable to the VAT Group that resulted from ZRL's trading activities. In these circumstances the Company, as representative member of the VAT Group, would receive only £0.5 million after this offset.

Following negotiations with the Joint Administrators, ZL agreed to remit £2.8 million to the Company, being its estimated net VAT liability at the date of appointment in full and final settlement of any liability due at the date of appointment. Consequently the Joint Administrators have effectively ensured that the VAT Group would receive the full £3.3 million estimated as being due to it in relation to ZRL's trading activities.

Since this agreement was entered into, the VAT return for the period to 23 December 2008 was completed and submitted. The VAT Group's net position at the date of appointment was confirmed to be as follows:

VAT receivable / (payable) (£m)	ZL	ZRL	Total
Submitted VAT return to 29 November 2008	4.1	2.9	7.0
Submitted VAT return to 23 December 2008	(5.7)	0.6	(5.1)
Net VAT position	(1.6)	3.5	1.9

On this basis the VAT Group should receive a refund of £1.9 million after amounts due from ZL have been offset, representing an improvement of £1.4 million over the recoveries originally expected. The Joint Administrators' agreement with ZL means that ZL will receive no benefit from this improved position and the additional realisations will therefore be to the benefit of the Company's creditors.

HMRC are currently withholding the circa £1.9 million repayment due to the Company pending enquiries of other Government departments under Crown set-off provisions. To date, we have not received notice that HMRC intend to apply the refund against any pre-appointment debts due to other Government departments.

Notwithstanding the fact that the Company is the VAT Group's representative member, as ZRL was owed a refund of circa £3.5 million at appointment, ZRL will have an unsecured claim of circa £3.5 million in this Administration.

Intercompany debtor

Per the directors' Statement of Affairs, the Company's only other asset is an unsecured debt due from ZRL totalling £0.24 million. This is the net balance of multiple transactions between the Company and ZRL pre-dating the MBO in September 2007.

We anticipate that this debt will be fully offset by amounts owing to ZRL in respect of the VAT refund due to it, as detailed above.

Property

We are aware of eleven leases held by other Group companies that the Company guarantees. The landlords of these properties have the right to claim as unsecured creditors against the Company for amounts due to them under these leases.

Receipts and payments account

I enclose an abstract of receipts and payments for the Company in respect of the period from 24 December 2008 to 23 June 2009 at appendix 2. Please note that this does not reflect estimated future realisations or costs.

Outcome to creditors

Secured creditors

There are no known secured creditors in this Administration.

Preferential creditors

There are no known preferential creditors in this Administration.

Unsecured creditors

Intercompany creditors

As detailed above, ZRL is an unsecured creditor of the Company in respect of a VAT refund due to it, currently estimated at circa £3.5 million before set-off.

Lease exit costs

Lease exit costs are a contingent liability of the Administration and will be affected by individual lease terms, the ability of the landlord to re-let the property and other mitigating steps.

As detailed above, the Company has guaranteed a number of leases held by other Group companies in Administration. The level of claims against the Company in respect of these guarantees will depend on the dividends paid from the Administrations of the companies which hold the leases.

Due to this uncertainty it is not possible to estimate the level of lease exit cost claims against the Company at this time.

The Prescribed Part

The Prescribed Part is a proportion of floating charge assets set aside for unsecured creditors pursuant to Section 176A of the Act. The Prescribed Part applies to floating charges created on or after 15 September 2003.

There are no known unsatisfied floating charges over the Company's assets. As such, the Prescribed Part does not apply to this Administration.

Distributions to creditors

In the absence of any secured creditors or preferential claims in this Administration, the Joint Administrators estimate that there will be surplus funds to enable a dividend to be paid to unsecured creditors of the Company.

However, due to the current uncertainty around the potentially significant lease exit claims, it is not possible to provide an estimate of the dividend prospects for unsecured creditors at this time.

Joint Administrators' remuneration and disbursements

It was proposed that the Joint Administrators' remuneration be fixed on the basis of time properly spent by them and their staff in dealing with matters arising in the Administration.

At the meeting of creditors, only one creditor was present by proxy and this proxy was a general proxy in favour of the Chairman of the meeting. Pursuant to Statement of Insolvency Practice 9 ('SIP 9') and for reasons of professional conduct, it would not have been appropriate for the Chairman to exercise a general proxy to vote in favour of the Joint Administrators' remuneration. As such the Chairman abstained from voting on the resolutions regarding remuneration proposed at the meeting.

In accordance with the provisions of Rule 2.106 of the Insolvency Rules 1986, the Joint Administrators will now make an application to Court to approve payment of their remuneration and disbursements.

To date the Administrators have incurred time costs of £133,430, against which £nil has been drawn. An analysis of the time spent is attached at appendix 3 to this report. At appendix 4 there is a statement of the Administrators' policy in relation to charging time and disbursements.

To date, no money has been drawn in respect of disbursements. In accordance with SIP 9, the Joint Administrators propose to charge and draw payment for all Category 1 disbursements from time to time but do not propose to seek approval for their payment.

An analysis of disbursements by category is attached at appendix 3.

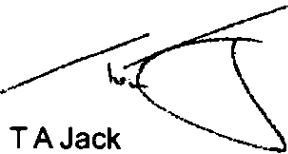
The end of the Administration

As previously proposed and agreed at the meeting of creditors, if there is a surplus available for unsecured creditors the Company will move straight into Creditors' Voluntary Liquidation ("CVL") upon the filing with the Registrar of Companies of a notice pursuant to Paragraph 83 of Schedule B1 to the Act. It was proposed that T A Jack and S Allport of Ernst & Young LLP be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either or both of them.

However, in the event that there is no surplus available at the end of the Administration to enable a distribution to be made to unsecured creditors, it was proposed that the Company will be dissolved. Accordingly, the Joint Administrators will send a notice to that effect to the Registrar of Companies. On registration of the notice the Joint Administrators' appointment will come to an end. In accordance with the provisions of Paragraph 84(6) of Schedule B1 to the Act the Company will be deemed to be dissolved three months after the registration of the notice.

I will report to you again at the conclusion of the Administration or in six months' time, whichever is the sooner.

Yours faithfully
for Zavvi Group Limited (in Administration)



T A Jack
Joint Administrator

Enc: Appendix 1 Summary of statutory information
 Appendix 2 Joint Administrators' abstract of receipts and payments for the period
 from 24 December 2008 to 23 June 2009
 Appendix 3 Summary of Joint Administrators' time-costs and disbursements for the
 period from 24 December 2008 to 23 June 2009
 Appendix 4 Joint Administrators' policy on fees and disbursements
 Appendix 5 Zavvi Group structure

The Institute of Chartered Accountants in England and Wales authorises T A Jack and S Allport to act as Insolvency Practitioners under section 390(2)(a) of the Insolvency Act 1986 and The Association of Chartered Certified Accountants authorises A M Hudson to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986. The affairs, business and property of the Company are being managed by the Joint Administrators, T A Jack, A M Hudson and S Allport, who act as agents of the Company only and without personal liability.

Appendix 1**Zavvi Group Limited (in Administration)
Summary of Statutory Information**

Registered number:	02376810
Name of court:	High Court of Justice, Chancery Division, Companies Court
Court reference numbers:	11723 of 2008
Registered office address:	c/o Ernst & Young LLP, 100 Barbirolli Square, Manchester, M2 3EY
Administrators' names:	T A Jack, A M Hudson and S Allport
Administrators' address:	Ernst & Young LLP, 100 Barbirolli Square, Manchester M2 3EY
Date of appointment:	24 December 2008
Full name and address of the Appointors:	Directors of the Company Horatio House, 77-85 Fulham Palace Road, London, W6 8JA
Changes in office holder:	N/A
Statement of functions ¹ :	T A Jack, A M Hudson and S Allport act jointly and severally as Joint Administrators of the Company. Any and all functions of the Joint Administrators may be carried out by each of the Joint Administrators acting individually or acting together.

¹ In accordance with Paragraph 100 of Schedule B1 to the Insolvency Act 1986

Appendix 2

Zavvi Group Limited (in Administration)

Joint Administrators' abstract of receipts and payments for the period from 24 December 2008 to 23 June 2009

Statement of Affairs - Estimated to realise (£)	Period 24 Dec 08 to 6 Feb 09 (£)	Period 7 Feb 09 to 23 June 09 (£)	Total (£)
Receipts			
Non trading receipts			
Agency services	100,000.00	-	100,000.00
VAT contribution	2,777,394.76	-	2,777,394.76
Bank interest	78.10	5,372.38	5,450.48
Total receipts	2,877,472.86	5,372.38	2,882,845.24
Payments			
Non trading payments			
Specific bond	264.00	1,176.00	1,440.00
Advertising	-	1,608.03	1,608.03
Creditors meeting	-	325.61	325.61
Legal fees	-	45,364.50	45,364.50
Bank charges	-	30.00	30.00
Total payments	264.00	48,504.14	48,768.14
Balances in hand	2,877,208.86	(43,131.76)	2,834,077.10
Notes			
Receipts and payments are shown net of VAT			
All funds are held in interest bearing accounts			
The receipts and payments account has been prepared on a cash basis and does not take account of future receipts and payments			

Appendix 3

Zavvi Group Limited (in Administration) Summary of Joint Administrators' time-costs and disbursements for the period from 24 December 2008 to 23 June 2009

Activity	Staff Grade					Total Hours	Total Cost (£)	Average hourly rate (£)
	Partner / Director	Senior Manager / Manager	Executive	Analyst	Other			
Accounting & Administration	2.0	6.9	12.3	18.6	-	39.8	9,434	237
Bank and Statutory Reporting	2.0	2.3	-	-	-	4.3	1,818	423
Creditors	15.0	32.8	35.0	2.5	-	85.3	28,373	333
Employee Matters	-	-	-	4.5	-	4.5	450	100
Immediate Tasks	-	-	7.5	-	-	7.5	1,500	200
Investigations & CDDA	2.0	-	-	1.5	-	3.5	990	283
Legal Issues	-	4.0	-	-	-	4.0	1,440	360
Other Assets	15.0	-	-	3.0	-	18.0	6,615	368
Other Matters	-	-	2.0	-	-	2.0	400	200
Property	-	-	-	1.0	-	1.0	170	170
Statutory Duties	3.0	2.5	29.2	1.5	-	36.2	9,713	268
Trading	-	-	1.0	-	-	1.0	205	205
VAT and Taxation	13.2	73.2	22.2	42.5	-	151.1	72,322	479
Total Hours	52.2	121.7	109.2	75.1	-	358.2		
Time Cost (£)	27,721	60,855	30,339	14,515	-		133,430	
Average Hourly Rate (£)	531	500	278	193	-		373	
Category 1 Disbursements	433							
Category 2 Disbursements	433							

Current charge out rates	Grade	Current hourly charge out rate (2008/2009) (£)
Restructuring	Partner / Director	405 - 495
	Senior Manager / Manager	275 - 490
	Executive	200 - 265
	Analyst	85 - 170
Tax	Partner / Director	790 - 960
	Senior Manager / Manager	510 - 710
	Executive	395 - 430
	Analyst	165 - 230

Appendix 4**Zavvi Group Limited (in Administration)
Joint Administrators' policy on fees and disbursements*****Office Holders' charging policy for fees***

It was proposed that Joint Administrators' remuneration be fixed on the basis of time properly spent by them and their staff in dealing with matters arising in the Administration.

A creditors committee was not formed in this Administration. The Joint Administrators are therefore going to seek the approval of the Court to fix their remuneration in accordance with the provisions of Rule 2.106 of the Insolvency Rules 1986.

The Administrators have engaged a manager and other staff to work on the case. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by cashiers dealing with the company's bank accounts and statutory compliance diaries. Work carried out by all staff is subject to the overall supervision of the Joint Administrators.

All time spent by staff working directly on case-related matters is charged to a separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown in appendix 3, as are the current hourly rates used. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report.

Office Holders' charging policy for disbursements

Statement of Insolvency Practice No. 9 ("SIP 9") published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

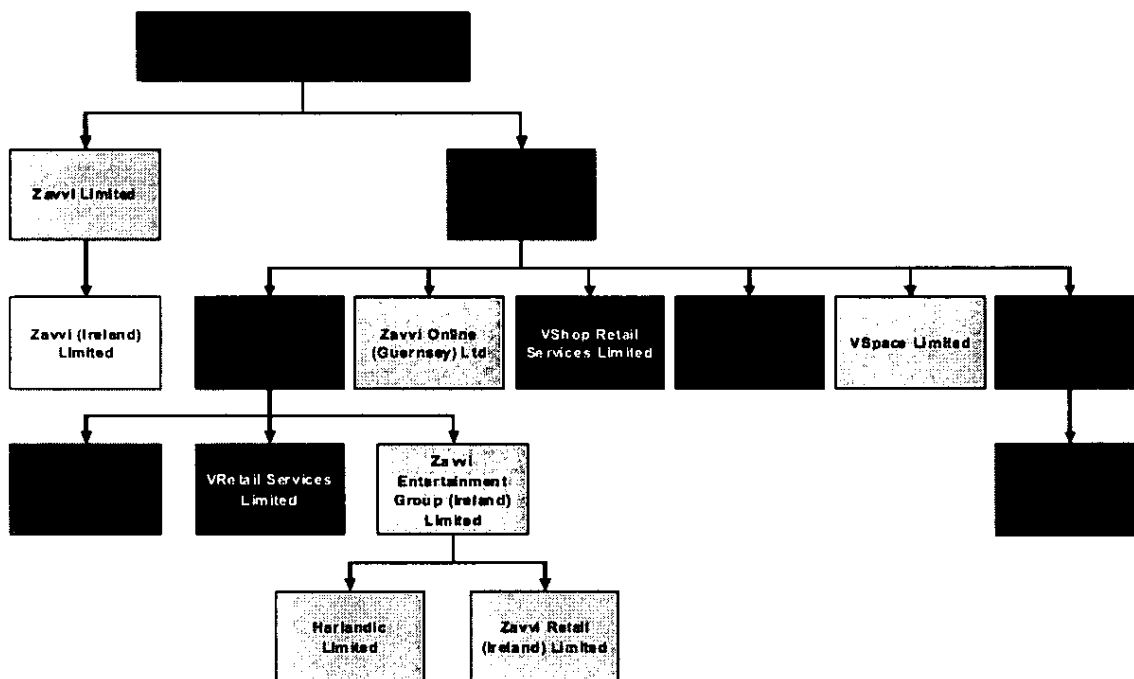
Category 1 disbursements comprise payments made by the office holders' firm, which comprise specific expenditure relating to the Administration of the insolvent's affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent's assets without approval. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment.

Category 2 disbursements comprise payments made by the office holders' firm which include elements of shared or overhead costs. Such disbursements are subject to approval from the unsecured creditors as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn.

The Joint Administrators are therefore going to seek the approval of the Court to permit them to draw Category 2 disbursements.

Appendix 5

Zavvi Group Limited (in Administration) Zavvi Group structure



Solvent company
 UK company in Administration
 Company in Liquidation
 Pre-Dissolution / Dissolved