

## The Insolvency Act 1986

**Notice of move from administration  
to Creditors' Voluntary Liquidation**

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

having been appointed administrator(s) of

(b) Insert name and  
address of registered office  
of company(b) Zavvi Group Limitedc/o Ernst & Young LLP, 100 Barbirolli Square, Manchester, M2 3EY

("the company")

(c) Insert date of  
appointmenton (c) 24 December 2008by (d) the Company's Directors(d) Insert name of applicant  
/ appointor

hereby give notice that:

the provisions of paragraph 83(1) of Schedule B1 to the Insolvency Act 1986 apply,

(e) Insert name(s) and  
address(es) of liquidator(s)and it is proposed that (e) Thomas Andrew Jack and Simon AllportErnst & Young LLP, 100 Barbirolli Square, Manchester, M2 3EYwill be the liquidator(s) of the company (IP No(s)) 9412 / 8763

I / We attach a copy of the final progress report.

Signed

Joint Administrator

Dated

16 December 2009.**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 &amp; Young LLP, 100 Barbirolli Square, Manchester, M2 3EY

Tel: 0161 333 2749

DX Number:

DX Exchange:



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18/12/2009  
COMPANIES HOUSE

148

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

16 December 2009

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

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

Please ask for Steven Henderson

Dear Sirs

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

I write to inform you that Simon Allport, Alan Hudson and I will shortly be in a position to conclude the above Administration and move the Company into Creditors' Voluntary Liquidation ('CVL').

This is our final progress report pursuant to Rule 2.117 of the Insolvency Rules 1986 and covers the period from 24 June 2009 to 11 December 2009. The report should be read in conjunction with our previous report dated 17 July 2009 and the Joint Administrators' Statement of Proposals dated 17 February 2009 ('the Proposals').

A summary of statutory information relating to the Company is detailed at appendix 1.

**Summary of the Joint Administrators' Proposals**

***Background***

The Zavvi Group ('the Group'), as detailed at appendix 5, was formed from a management buy out ('MBO') of the UK and Ireland Virgin Megastore 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. The Company did not trade.

***Circumstances giving rise to the appointment of the Joint Administrators***

The Group had traded at a loss for a number of years. Its business was highly seasonal, with peak demand occurring across November and December, however, it experienced considerable cash flow difficulties when Entertainment UK Limited ('EUK'), the principal supplier of stock to Zavvi Limited ('ZL') (the Group's stock holding company), was placed into Administration on 27 November 2008.

As a result of the Administration of EUK, ZL was not able to source stock in its usual way. This placed significant pressure on the Group's working capital, and with quarterly rent payments totalling approximately £13 million falling due on 25 December 2008, the directors considered that the Company, as guarantor of several of the Group's leases, was unable to meet its creditor liabilities as they fell due.

Accordingly, on 23 December 2008, the directors applied to the High Court for an Administration Order. As the application was heard outside normal Court hours, the Administration Order took effect from 9:30am on 24 December 2008.

***Purpose and conduct of the Administration***

The prioritised objectives of the Administration are as follows:

- a. To rescue the Company as a going concern, or
- b. To achieve a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration), or
- c. To realise property in order to make a distribution to one or more secured or preferential creditors.

At the date of appointment the Company's principal asset was a debt due to it from ZRL. Achieving purpose (a) did not appear realistic as it would have required ZRL to be rescued as a going concern. This was unlikely for the following reasons:

- The significant operating losses incurred by ZRL made it unlikely that equity investment could be secured.
- Following the failure of EUK, it would be difficult for ZL to secure stable and competitive supplies.

As the primary objective (a) was not viable objective (b) was pursued, namely to achieve a better result for creditors than if the Company had been wound up (without first being in Administration).

It was proposed that the Joint Administrators would continue to manage the affairs, business and property of the Company to achieve the purpose of the Administration, and that this would include:

- Collecting the Company's book debts;
- Finalising the Administration, including the payment of all Administration liabilities;
- Reviewing the tax affairs of the Company;
- Dealing with statutory reporting and compliance obligations;
- Dealing with unsecured creditor claims, including any potential claims from guarantees provided as necessary;
- Dealing with intercompany claims between the Company and other Group companies.

***The end of the Administration***

It was proposed that if there are surplus funds available for unsecured creditors at the end of the Administration, the Company will move straight into CVL and T A Jack and S Allport of Ernst & Young LLP will be appointed as Joint Liquidators. In the event that there are no surplus funds at the end of the Administration, the Company will be dissolved.

***Amendments to, or deviations from, the Joint Administrators' Proposals***

There were no amendments to, or deviations from, the Joint Administrators' Proposals.

***Extensions to the initial period of appointment***

An extension of the Administration is not required.

***Summary of progress in the period 24 June 2009 to 11 December 2009******Asset realisations******VAT***

At the date of our previous report, HM Revenue & Customs ('HMRC') was withholding a VAT repayment due to the Company in respect of the Zavvi VAT group's pre appointment position, pending enquiries of other Government departments under Crown set-off provisions. As previously advised, ZGL is the representative member of the Zavvi VAT group.

I am pleased to confirm that this repayment, totalling £1.95 million, has now been received from HMRC.

This realisation is in addition to the £2.78 million already received from ZL in respect of its pre appointment VAT position within the Zavvi VAT group, as reported previously, bringing total realisations from this source to £4.73 million.

***Property***

As previously reported, 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.

Whilst the Group's records did not identify any leases as being held directly by the Company, since our previous report we have identified one lease previously attributed to Ablegrand (2) Limited (in Administration) that was in fact held by the Company. This lease was surrendered on 30 April 2009.

***Corporation tax***

The Joint Administrators, assisted by Ernst & Young LLP's tax professionals, have completed and submitted the Company's outstanding pre-appointment corporation tax returns. This work has been carried out for compliance purposes and to ensure that the maximum tax losses available are identified in order to offset any post-appointment corporation tax charges.

Further tax work will be required in respect of the Company's post-appointment corporation tax returns.

All tax-related time costs are included within the Joint Administrators' total time costs, set out in detail later in this report.

## **Remaining assets**

### ***Intercompany debtors***

#### ***ZRL***

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.

As previously reported, we expect that this debt will be set-off in full because ZRL has an unsecured claim against the Company in the sum of £3.49 million, representing the VAT due to it from the Zavvi VAT group at appointment. ZRL will therefore have a net unsecured claim against the Company of £3.25 million.

#### ***VR Services Limited (in Administration) ('VRSL')***

Since our previous report, we have identified that the Company is owed £0.18 million from VRSL, relating to the historical transfer of tax losses within the Group.

This debt will rank as an unsecured claim in the Administration of VRSL and the level of funds that will be recovered in respect of the debt will be dependent on the outcome of that Administration.

It is currently estimated that a dividend could be payable to VRSL's unsecured creditors in the range of 5p to 15p in the £1. This would result in a return to the Company of between £9,000 and £27,000.

Please note that the Company's remaining assets will be dealt with further in the CVL.

## **Receipts and payments account**

We enclose an abstract of receipts and payments for the Company in respect of the period from 24 December 2008 to 11 December 2009 at appendix 2. Please note that this does not reflect estimated future realisations or costs.

## **Outcome to creditors**

### ***Secured creditors***

There are no secured creditors in this Administration.

### ***Preferential creditors***

There are no known preferential creditors in this Administration.

***Unsecured creditors******Intercompany creditors***

As detailed above, ZRL has a net unsecured claim against the Company of £3.25 million.

In addition, Zavvi Entertainment Group Limited (in Administration) ('ZEGL') has an unsecured claim against the Company of £18,000 in respect of VAT due to it at appointment from the Zavvi VAT Group.

***Lease exit costs***

As detailed above, the Company holds one lease and has guaranteed a number of leases held by other Group companies in Administration.

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. It should be noted that landlords have an obligation to mitigate losses in respect of such claims.

The level of claims in respect of lease guarantees will be dependent on the dividends paid from the Administrations of the companies which hold the leases.

We currently estimate that lease exit claims could range between £7 million and £10 million.

***The Prescribed Part***

The Prescribed Part is a proportion of floating charge assets set aside for unsecured creditors pursuant to Section 176A of the Insolvency Act 1986. The Prescribed Part applies to floating charges created on or after 15 September 2003.

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

***Distribution 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.

It is not possible to accurately estimate the level of final dividend available to unsecured creditors until the value of lease guarantee claims can be estimated with greater certainty. However, at this stage we estimate that the Company could pay a dividend to unsecured creditors of between 28p and 45p in the £1.

***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 Joint Administrators' representative as 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.

Since our previous update, the Joint Administrators have therefore made an application to Court to request that the Court approves payment of their remuneration and disbursements, in accordance with the provisions of Rule 2.106 of the Insolvency Rules 1986.

At a hearing of the High Court, it was ordered that:

- The Joint Administrators' remuneration be fixed by reference to the time properly given by the Joint Administrators and their staff (at a rate to be fixed by the Court) in attending to matters arising in the Administration of the Company.
- The Joint Administrators have permission to draw 80% of their remuneration out of the assets of the Company on a time costs basis pending an adjourned hearing of the application (for the Court to fix the hourly charge out rates such that they do not exceed £600 per hour for any individual). This adjourned hearing has been scheduled to take place on 15 January 2010.

To 11 December 2009, the Administrators had incurred time costs of £167,176.50, 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 Joint Administrators' policy in relation to charging time and disbursements.

To 11 December 2009, no money had 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.

To 11 December 2009, time costs incurred where the charge out rate exceeds £600 per hour total £5,267.50. Following the Court application discussed above, it is expected such costs will not be recovered by the Joint Administrators.

The balance of approved fees and disbursements will be drawn at the end of the Administration or early within the subsequent CVL.

#### **Joint Administrators' discharge from liability**

As the Company was placed into Administration pursuant to Paragraph 13 of Schedule B1 to the Insolvency Act 1986, the Joint Administrators can only be discharged from liability by Court order and there is no scope to agree such discharge with creditors.

Accordingly, the Joint Administrators have issued an application in the Companies Court seeking an order that the Joint Administrators are discharged from liability in respect of any act as administrators of the Company, 14 days after the cessation of our appointment as Joint Administrators. With a view to saving Court time and costs this application has been listed to be heard on 15 January 2010, at the same time as the adjourned hearing in respect of the Joint Administrators' remuneration, discussed above.

Should creditors wish to view the evidence and/or make any comments in respect of this application, please write to the Joint Administrators care of this office by 4pm on 8 January 2010. We will then update the Court in advance of the hearing of the application of any responses we receive from creditors.

#### **The end of the Administration**

As proposed, because the Company has sufficient assets to make a distribution to unsecured creditors, it will move straight into CVL at the end of the Administration. The Joint Liquidators will be T A Jack and S Allport of Ernst & Young LLP.

Accordingly, the Joint Administrators will shortly file with the Registrar of Companies a notice pursuant to Paragraph 83 of Schedule B1 to the Act to move the Company into CVL.

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 11 December 2009  
Appendix 3 Summary of Joint Administrators' time-costs and disbursements for the period from 24 December 2008 to 11 December 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 <sup>1</sup> :	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.

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<sup>1</sup> 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 11 December 2009

Statement of Affairs - Estimated to realise (£)	Period 24 Dec 08 to 6 Feb 09 (£)	Period 7 Feb 09 to 23 June 09 (£)	Period 24 June 09 to 11 Dec 09 (£)	Total (£)
<b>Receipts</b>				
<b>Non trading receipts</b>				
Agency services	100,000.00	-	-	100,000.00
VAT contribution	2,777,394.76	-	-	2,777,394.76
VAT refund	-	-	1,949,654.46	1,949,654.46
Sundry income	-	-	2,704.50	2,704.50
Bank interest	78.10	5,372.38	12,324.89	17,775.37
<b>Total receipts</b>	<b>2,877,472.86</b>	<b>5,372.38</b>	<b>1,964,683.85</b>	<b>4,847,529.09</b>
<b>Payments</b>				
<b>Non trading payments</b>				
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
<b>Total payments</b>	<b>264.00</b>	<b>48,504.14</b>	<b>-</b>	<b>48,768.14</b>
<b>Balances in hand</b>	<b>2,877,208.86</b>	<b>(43,131.76)</b>	<b>1,964,683.85</b>	<b>4,798,760.95</b>
<b>Notes</b>				
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 11 December 2009

Activity	Staff Grade					Total Hours	Total Cost (£)	Average hourly rate (£)
	Partner / Director	Senior Manager / Manager	Executive	Analyst	Other			
Accounting & Administration	2.00	13.40	21.00	31.10	1.50	69.00	14,284.50	207
Bank & Statutory Reporting	10.00	3.50	8.00	-	-	21.50	7,393.00	344
Creditors	17.00	32.80	35.00	2.50	-	87.30	29,363.00	336
Investigations & CDDA	2.00	-	-	1.50	-	3.50	990.00	283
Legal Issues	5.00	4.00	-	1.50	-	10.50	4,095.00	390
Other Assets	15.00	-	-	3.00	-	18.00	6,615.00	368
Other Matters	3.00	-	18.70	-	-	21.70	5,225.00	241
Property	-	-	-	1.00	-	1.00	170.00	170
Statutory Duties	8.00	2.50	47.90	32.00	-	88.40	18,598.00	210
Trading	-	-	1.00	-	-	1.00	205.00	205
VAT & Taxation	19.40	73.70	30.40	45.40	-	168.90	80,238.00	475
<b>Total Hours</b>	<b>79.40</b>	<b>129.90</b>	<b>162.00</b>	<b>118.00</b>	<b>1.50</b>	<b>490.80</b>		
<b>Time Cost (£)</b>	<b>42,437.50</b>	<b>63,417.50</b>	<b>41,745.50</b>	<b>19,546.00</b>	<b>30.00</b>		<b>167,176.50</b>	
<b>Average Hourly Rate (£)</b>	534	488	258	166	20		341	
<b>Category 1 Disbursements (£)</b>	433.00							
<b>Category 2 Disbursements (£)</b>	-							
	<b>433.00</b>							

Current charge out rates	Grade	Current hourly charge out rate (effective from 1 July 2008) (£)
Restructuring	Partner / Director	405 - 495
	Senior Manager / Manager	275 - 490
	Executive	200 - 265
	Analyst	85 - 170
	Other	20
Tax	Partner / Director	790 - 960
	Senior Manager / Manager	510 - 710
	Executive	310 - 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 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.

A creditors committee was not formed in this Administration. The Joint Administrators are therefore seeking 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.

**Zavvi Group Limited (in Administration)**  
**Zavvi Group structure**

