

Our Ref WGS/OGH/ALH/N00112/PF7

To the Creditors

8 November 2010

Dear Sirs

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

www.grant-thornton.co.uk

**NDF Administration Limited - In Administration (the Company)
High Court of Justice, Chancery Division, Companies Court (the Court)
Ref 19593 of 2009**

1 INTRODUCTION

- 1.1. Following the appointment of Martin Ellis and I as joint administrators of the Company by the Directors on 14 October 2009, I now report on the progress of the administration to date.
- 1.2. I enclose at Appendix A an account of my receipts and payments for the period ended 13 October 2010.

2 STATUTORY INFORMATION

- 2.1. The Company's statutory details are as follows:

NDF Administration Limited

Registered number	01955637
Date of incorporation	7 November 1985
Registered office	30 Finsbury Square London EC2P 2YU
Former trading address	25 Grosvenor Road St Albans AL1 3AW

Directors

Paul Bispham

John Waller

Company Secretary

Versec Secretaries Limited

Shareholding

nil

1.8%

Shareholding

nil

Chartered Accountants

Member firm within Grant Thornton International Ltd

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A list of members is available from our registered office.

3 SALE OF BUSINESS ASSETS

Sale of Structured Product Book

- 3.1. On 3 February 2010 an agreement was reached to sell the majority of the structured product book to Meteor Capital Group Limited (Meteor), for a total consideration of £100,000.
- 3.2. The transfer of plan administration, for the majority of the live structured products, to Meteor took place on 5 March 2010. This has safeguarded the plans against the possibility of early liquidation and ensured that they are fully administered up to contractual maturity.
- 3.3. This sale did not include any products backed by Lehman Brothers entities.

Sale of Pure Insurance Products

- 3.4. The Pure Insurance Products (PIP) were sold to Synergy Financial Products Limited (SFP) on 19 January 2010 for a nominal sum of £1. SFP are a related entity to the Company.
- 3.5. The Company received no income from these products, passing on any premiums earned in full to SFP who were contracted to administer the plans on behalf of the Company. This book of products was, therefore, of no value to any party other than SFP. The sale agreement has ensured that the plans are able to continue to be administered and has avoided the possibility of them having to be wound up early.

4 ASSETS AND LIABILITIES

Assets

- 4.1. Cash at bank on appointment
The Company had cash at bank of c.£1.54 million at the date of my appointment (excluding client account monies).
- 4.2. Book debts
The Company books and records indicated book debts amounting to c.£40k at the date of my appointment. It is unlikely that these debts will be recoverable given potential related party set-offs.

I also understand that the Company may be owed c.£100k by Prudential plc in relation to historical overpayments. I will continue to investigate the potential of recovering this debt in due course. However, I would also highlight the potential that this debt may be subject to material set offs.

- 4.3. Client Account Monies
I am currently obtaining legal advice in regards to the non-responder funds held in the Company's client accounts. I will be taking further steps to trace these non-responders to enable distribution of their outstanding funds. If, following significant efforts, claimants cannot be found I will make investigations as to what further steps can be taken.

In addition further investigation will be taking place to ascertain if the client account holds any funds belonging to the Company.

4.4. ISA Mortgage book

I have recently explored the possibility of a sale of the Company's book of ISA mortgage products. Following discussions with different parties I am now in final negotiations with one interested party, with a view to completing a sale within the coming months. However, unlike the structured product book, these products provide a regular monthly contribution in excess of the associated administration costs. Therefore, the Company is able to act as plan manager for the products under my direction for the time being.

It is the trading of this book with a view to a sale that recently required me to apply to the Court for a 12 month extension to the administration order. The Financial Services Authority (FSA) permissions required in order to trade these products would no longer be available to the Company if it was to be wound up and placed into liquidation.

4.5. Possible claims in the insolvency of the Lehman Entities

I have submitted a contingent claim in the insolvency of Lehman Brothers Inc and in the insolvencies of other European Lehman Entities.

These claims would only crystallise in the event that the Financial Services Compensation Scheme (FSCS) determines that some claims against the Company in respect of the mis-selling of structured products backed by Lehman Entities are valid. The extent to which the FSCS pays any compensation to the investor and takes an assignment of the debt, subsequently making a corresponding claim in the insolvency of the Company, may give rise to a contingent claim for the Company against the respective Lehman Entities.

However, I will liaise with the FSCS to determine whether such a claim is ultimately pursued by the Company or the FSCS.

4.6. Terminal Loss Relief

I am also undertaking a review to determine whether any corporation tax previously paid by the Company may be recovered through a terminal loss relief claim. However, the claim may only be pursued once the Company has closed to trade. As such the sale of the ISA Mortgage Book, outlined above, is a prerequisite.

Liabilities

4.7. There are no charges over the Company's assets. Therefore, after a distribution to preferential creditors and the discharging of administration expenses, I anticipate that there will remain sufficient net asset realisations to enable a small dividend to unsecured creditors.

4.8. It is too early to predict the timing or value of any dividend, which will be heavily dependant on the ultimate value of claims submitted by the FSCS.

4.9. Preferential Creditors

There are currently two employees of the Company. Six employees have been made

redundant to date as a result of my appointment and the subsequent cessation of new business. Preferential claims currently amount to £1,641.60, and I will shortly be making a distribution to this class of creditors..

4.10. Unsecured Creditors

Unsecured liabilities are estimated to total £50,520.46 and consist of c.25 creditors. This does not include the potential contingent liabilities arising from the Lehman Entities backed structured products.

4.11. Contingent Creditors

There are significant contingent creditors arising as a result of the failure of Lehman Entities. These contingent claims amount to a theoretical maximum of c.£36 million in unsecured claims.

I understand that the FSCS have compensated some investors who had claimed that their investment had been mis-sold. However, I am yet to receive a claim from the FSCS in this respect.

5 CONDUCT OF THE ADMINISTRATION

Administration of the Product Books

- 5.1. As mentioned above the Company's ISA Mortgage book provides a regular monthly contribution sufficient to cover the costs of providing scheme administration. Therefore, although I am seeking an alternative plan manager for the long-term, the Company is capable of acting as plan manager under my supervision for the time being.
- 5.2. I have been in discussions with the FSA to ensure that the Company retains the relevant permissions to manage these plans.

Structured products due to launch following my appointment

- 5.3. At the date of my appointment the Company was offering five structured product investments, these were as follows:
- i. Defined Income Plan August 2009, due to commence on 16 October 2009
 - ii. Skyline, Royal Deposit, Navigator and Autopilot, all joint branded with Royal Bank of Scotland plc (RBS) and due to commence on 2 November 2009 (together the RBS Plans)
- 5.4. Unfortunately due to time constraints and FSA regulations concerning client monies following insolvency, I had no option but to cancel the Defined Income Plan August 2009. I have returned all funds to investors in regard to this plan.
- 5.5. Following negotiations with RBS, the FSA and OPAL, the RBS Plans continued to investment.

6 LEHMAN BROTHERS BACKED FINANCIAL PRODUCTS

- 6.1. As you are aware a number of the Company's financial products were backed by Lehman Brothers. Furthermore, as I have stated in previous correspondence, a number of investors have made claims to the FSCS that the Company's literature was deficient in relation to its representations as to the effect of counter-party failure.
- 6.2. In its assessment of claims to date I understand that the FSCS has drawn a distinction between products which are considered "Capital Secure" and products where the invested capital was "at risk".
- 6.3. I am aware that the FSCS have contacted those with "Capital Secure" plans directly to invite plan holders to make a claim.

The FSCS has now determined that they will not be offering compensation on this basis for Capital at Risk plans, and I copy a summary of their notice below for your reference.

"

The FSCS has carried out extensive investigations and analysis into whether customers of NDF, DRL or Arc who held Capital at Risk products are likely to be able to bring valid claims for compensation, and if so on what grounds.

The investments defined as a Capital-at-Risk products are the NDF - Fixed Income or Growth Plan, February 2008 and the NDF - Fixed Income Plan, June 2008.

Following our review, we are satisfied that the relevant marketing materials provided adequate and appropriate warnings that there was a risk to investors' capital if the organisation backing these investment products failed. This risk is known as the counterparty risk and the firm backing these investment products was in each case part of the Lehman Brothers group.

Investors will not therefore have claims arising from the materials generally and we will not send application forms to all known investors with Capital at Risk products. However, if any investor wishes to submit a claim to us, for any specific other reason, they can do so by emailing us to request an application form. At that time, investors should provide us with as much information as possible about why they believe their claim is eligible for compensation. We will then assess claims for compensation on a case-by-case basis. By completing the application form, the investor will be able to set out why they believe they have a valid claim against NDF, DRL or Arc. Please be aware, however, that we can only accept a claim where a claimant can demonstrate to us that a legal liability is owed to him or her by one of the firms in default.

There have been a number of complex issues to resolve which required detailed review and external advice. Whilst we understand that investors will be disappointed by this news, we are grateful for the patience shown whilst we investigated the position.

If you think you may have a claim and you would like to be sent an application form, please contact the FSCS in writing at:

Financial Services Compensation Scheme
7th floor, Lloyds Chambers
Portsoken Street
London
E1 8BN

"

I am currently obtaining legal advice to determine whether I can admit investors as unsecured creditors of the Company given this judgement. However, I would advise, given the likely unsecured claims in this case and the relatively small volume of assets available, any distribution would represent only a fraction of the losses suffered by investors.

Notwithstanding the above all investors who have not received compensation from the FSCS will remain creditors of the relevant Lehman Brothers entity. As previously advised I have made claims on behalf of all these individuals, however, I have not yet been furnished with any information from the Lehman Brothers' insolvencies as to when a distribution may be made.

7 ISA Status of Lehman Backed Plans Receiving Compensation

- 7.1. I am aware that in a number of cases where the FSCS has made a compensation payment to those with Lehman backed products, the investors are now looking to obtain re-instatement certificates to maintain the ISA status of their funds, (if applicable).
- 7.2. I have instructed my lawyers to make an application to HM Revenue & Customs in this regard. However, based on recent precedence, this application could take 12 months to progress, should it be approved.

8 ADMINISTRATORS' REMUNERATION AND DISBURSEMENTS

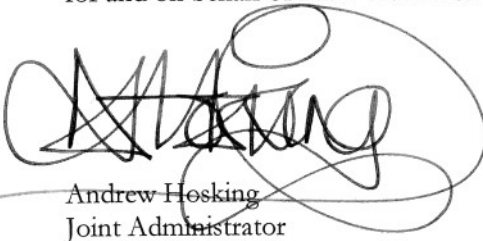
- 8.1. In accordance with my proposals dated 7 December 2009 the administrators' remuneration is calculated according to the time properly given by the administrators and their staff in attending to matters arising in the administration.
- 8.2. Background information regarding the fees of administrators can be found at <http://www.insolvency-practitioners.org.uk> (navigate via 'Regulation and Guidance' to 'Creditors Guides to Fees'). Alternatively I will supply this information by post on request.
- 8.3. The administrator will charge out of pocket expenses at cost. Mileage is charged at standard rates which comply with HM Revenue and Customs limits or AA recommended rates. VAT is added to disbursement charges as necessary.
- 8.4. Payments of the administrator's remuneration and disbursements are to be met from funds held in the administration in priority to the claims of creditors, and, after approval of the basis, the administrator may draw sums on account.
- 8.5. I attach as Appendix B a summary of my time costs to 13 October 2010 by grade of staff and type of work. This shows total time costs of £718,858.64, representing 3174.07 hours at an average of £226.48 per hour, against which I have drawn fees of £600,000 on account in accordance with my proposals dated 7 December 2009 approved by creditors on 23 December 2009. Details of any matters which have had a significant impact on the time costs are included in the appendix, together with details of any disbursements charged during the period under review.

9 REASONS FOR APPLICATION TO COURT FOR THE EXTENSION OF THE ADMINISTRATION

- 9.1. On 29 September 2010 I applied to court to extend the administration for a further 12 months. My application was successful and the administration is now due to expire on 13 October 2011. The reasons for this application are summarised below.
- 9.2. I am continuing to discuss a potential sale, of the ISA Mortgage Book, which is likely to be a protracted process involving contract negotiation with third party insurers.
- 9.3. Given the complexity of the administration of the book it will require considerable technological development for an interested party to be able to integrate the new book into their business. These parties will also need to obtain FSA permissions which could take up to 6 months.
- 9.4. Furthermore, in order for me to continue administering these products in administration the Company has the benefit of certain permissions from the FSA. These permissions would be withdrawn should the Company be wound up. Therefore if I were to convert the administration to a creditors voluntary liquidation, pursuant to my proposals, prior to the transfer of the book it would eradicate all of the book's realisable value.

Should you have any further queries please contact the NDF Investor Helpline on 0844 770 2203.

Yours faithfully
for and on behalf of NDF Administration Limited



Andrew Hosking
Joint Administrator

The affairs, business and property of NDF Administration Limited are being managed by Andrew Hosking and Martin Ellis, appointed as joint administrators on 14 October 2009.

The Insolvency Act 1986

Administrator's progress report

Name of Company NDF Administration Ltd

Company number 01955637

In the High Court of Justice, Chancery Division, Companies Court (full name of court)

Court case number 19593 of 2009

(a) Insert full name(s) and address(es) of administrator(s)

I/We (a)
 Andrew Lawrence Hosking & Martin Gilbert Ellis of
 Grant Thornton UK LLP
 30 Finsbury Square
 London
 EC2P 2YU

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

(b) Insert date

From (b) 14 April 2010

To (b) 13 October 2010

Signed



Joint Administrator

Dated

8/11/2010

Appendix A

NDF Administration Limited - In Administration

Receipts & Payments - 14 October 2009 to 13 October 2010

Statement Of
Affairs Comparison
(Estimated to
Realise) (£)

Receipts	Total (£)	
ISA mortgage Commissions	353,982	
RBS Income from Structured Products	70,081	
Interest	63,371	
Prudential Management Fees	285,675	
Management Charge Rebates	128,865	
Sale Consideration - Synergy	1	
Book Debts	30	40,562
Sale of Structured Product Book	100,000	
Long position realisation	43,183	
Cash at Bank	1,552,081	1,813,893
Misc Float Receipts	796	
Cash in Osborne Clarke Client A/c at Appointment	45,656	
	2,643,720	1,854,455
 Payments		
Home Protection Commissions	24,442	
Broker Fees and Product Administration Costs	431,344	
Rents & Property Expenses	3,550	
Investor Helpline & Website Costs	270,105	
Insurance	53,678	
Bank Charges	49,373	
Client Monies Account Adjustment	47,218	
Funds to overdrawn old company account	280	
Interest Payable	6,554	
HSBC Direct Debit Claw Back Deposit (repayable)	25,000	
Client Account Deposits to Cover Bank Charges	6,887	
Stationery	14,395	
Postages	112,813	
PAYE/NI	159,356	
Net Wages	194,349	
Pension Contributions	19,980	
Employee Expenses/Redundancy	3,765	
PR Fees	10,050	
Legal Fees	165,837	
Sale of Business Costs	16,000	
Administrators Fees	600,000	
Administrators Expenses	4,552	
FSA Regulatory Fees	26,000	
Misc Float Payments	20	
VAT Paid	239,060	
	2,484,607	
 Floating Current Account Balance at 13 October 2010		159,113

SIP 9 Timecost Analysis for the period 14 October 2009 to 13 October 2010

	Partner		Manager		Executive		Administrator		Total		Avg. Hrly Rate
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	
Administration and Planning	85.30	43,678.00	237.30	76,976.25	378.65	93,808.25	1,186.93	207,872.72	1,888.18	422,335.22	223.67
Creditors			51.80	16,762.75	38.95	9,816.75	186.15	29,401.75	276.90	55,981.25	202.17
Investigations			0.75	247.50	53.50	13,852.10	91.90	13,619.29	146.15	27,718.89	189.66
Realisation of Assets	11.75	6,255.00	158.95	54,573.50	96.20	24,907.90	139.19	21,634.31	406.09	107,370.71	264.40
Trading			196.70	61,088.82	38.35	9,896.25	222.10	34,467.50	457.15	105,452.57	230.67
Total	97.05	49,933.00	645.10	209,648.82	605.65	152,281.25	1,826.27	306,995.57	3,174.07	718,858.64	226.48

Total fees billed to date (Time) : £ 600,000

Administration & Planning
Includes; case planning; statutory obligations (e.g statutory returns); maintenance of cash and estate records; general correspondence, investor correspondence and liaising with HM Revenue & Customs, the Financial Services Authority and the Financial Services Compensation Scheme.

Creditors
Includes; correspondence with preferential and unsecured creditors; dealing with ROT claims; pensions and employees.

Investigations and Reports on Directors
Includes; Statutory duty of investigation into company's affairs under Statement of Insolvency Practice (SIP2); investigating the directors conduct, and reconciliation of client accounts, in compliance with FSA regulations.

Realisation of Assets
Includes; dealing with the sale of the business and the assets of the Company; dealing with Solicitors.

Trading
Includes; working with OPAL on the daily trading of the plans, working on RBS products, and dealing with investor queries in relation to ongoing products.