

Dear Bondholder

Update to Bondholders/creditors of LCF in response to various queries on the nomination/voting process with regard to membership of the creditors' committee.

- The administrators have previously taken advice from Leading Legal Counsel on the nomination/voting process with regard to the procedure for the formation and membership of the creditors' committee. The reasons why the procedure being used in this case have been adopted are highly technical but the administrators are happy for the members of the creditors' committee, once it is formed, to review the legal advice on the matter, should they so wish.
- As explained in the legal advice and by the administrators in earlier correspondence, the Bondholders have the benefit of the debenture security and are the beneficiaries of the security. The administrators have not questioned the validity of the security or that Bondholders of LCF will be paid out in priority to unsecured creditors.
- For nomination/voting purposes, however, according to the applicable insolvency legislation, Bondholders are not classified as secured creditors. The legal and technical reasons for this are explained in Legal Counsel's advice.
- The practical impact of the security is not however material on the basis that the unsecured debts of the Company are very small compared to the debts owed to the Bondholders. If there was no security in place then the amount paid back to the Bondholders would be negligibly less than it would be because of the existence of the security.
- Only unsecured creditors can serve on the creditors' committee.
- The fact that the Bondholders are unsecured creditors for voting purposes means that the Bondholders can sit on the creditors' committee and nominate/vote as regards membership of the creditors' committee to the full value of their debt. This legal position is clearly advantageous to the Bondholders.
- One Bondholder has argued that the Bondholders should not be treated as unsecured creditors for the purposes of nominating/voting as regards membership of the creditors' committee. If this was correct this would require the Bondholders to "give up" part of their debt so that they could be unsecured for a proportion of their debt

in order to sit on, or nominate/vote on the membership of, the creditors' committee. This in turn would potentially lead to a situation where creditors who were owed less by the Company than other creditors "gave up" more of their debt in order to increase the probability that they were, or their nominee was, voted on to the creditors' committee. By way of example, a creditor who was owed £5,000 might decide to give up £10 of their security to become an unsecured creditor for that amount whereas a creditor owed £100,000 could decide to give up only £1 of security to become an unsecured creditor for that amount. In this scenario, the first creditor would have 10 times the voting power of the second even though the second creditor is owed far more money. Leaving the correct legal position aside for a moment, that would be undemocratic and would deny the opportunity for Bondholders to vote for the full extent of their debt.

- **To put it simply, the Bondholders are secured for the purpose of dividends but are unsecured for the purpose of nominating/voting at creditors' meetings.**
- The administrators therefore consider that the best way to ensure that a creditors' committee is formed and that all Bondholders can vote according to the amount that they are owed is to adopt the procedure notified to creditors on 26 April. This is the procedure which the Bondholders overwhelmingly asked the administrators to adopt at the creditors' meeting on 24 April. The validity of this process has been confirmed by the advice of the administrators' solicitors and by Leading Legal Counsel.
- The reason why the meeting on 24 April 2019 was adjourned was that a large number of creditors who had previously not indicated by proxy that they wished to serve on the creditors' committee put themselves forward on the day of the meeting. In total, there were 48 nominees for the 5 places on the creditors' committee. The nature of a creditors' meeting meant that these Bondholders/creditors were entitled to put themselves forward in this way.
- The fact that so many new candidates emerged led to creditors raising concerns about the candidates and their qualifications. In order to ensure that all Bondholders had every opportunity to put themselves forward and to consider the suitability of all candidates and that the way forward being suggested by the Bondholders at the meeting was put into effect, the administrators had no sensible alternative but to adjourn the meeting.

- The forms and explanatory e-mail circulated on 26 April ensures that the concerns of the Bondholders have been met in this regard.
- So as to cause as little inconvenience as possible to the Bondholders, the administrators' e-mail of 26 April confirms that proxies already submitted by creditors/Bondholders will remain valid unless a creditor/Bondholder wishes to change their vote, in which case a revised proxy form must be submitted by 4pm on 7 May. If a creditor wishes to change their vote their earlier vote will be disregarded.
- The Bondholders can vote for as many candidates as they choose and can also "split" their votes among different candidates in whatever proportions they decide. To the extent that there is not space on the forms provided to allow for this, Bondholders can indicate preferences on a separate continuation sheet or on the back of the form. The administrators have already accepted creditors/Bondholders putting 5 names on the front of the Proxy Form, or on the back of it.
- All unsecured creditors are eligible to vote for and serve on the creditors' committee - this is clear from insolvency legislation and the administrators cannot, and would never seek to, prevent non-Bondholder unsecured creditors from putting themselves forward as nominees for the creditors' committee or from nominating/voting on other nominees. It is very important that creditors/Bondholders understand the distinction between actual unsecured creditors and their rights in this regard and the rights of Bondholders to nominate/vote as unsecured creditors and to serve on the creditors' committee, whilst not legally being unsecured creditors.
- As many Bondholders have mentioned to the administrators already, the value of the Company's unsecured debt is very small compared to the value of the aggregate Bondholder debt, meaning that it is likely that the creditors' committee will be comprised of Bondholders unless the Bondholders decide/vote/nominate otherwise.
- If a candidate for membership of the creditors' committee is not a Bondholder or an unsecured creditor then they will not be entitled to vote or to be on the creditors' committee. The administrators are continuing to monitor as to whether any candidates who are not Bondholders/unsecured creditors are putting themselves forward with a view to ensuring that such persons are unable to put themselves forward and/or vote/nominate anyone. If Bondholders believe that any candidates are not bona fide creditors/Bondholders can they please inform the administrators as soon as possible. However, in certain cases creditors/Bondholders have nominated themselves to be members of the creditors' committee and they intend that, if they

are elected, a representative will attend creditors' committee meetings to represent them. Where this occurs the Bondholders will be made aware of the fact.

- The administrators have been corresponding with GST's (the Security Trustees') solicitors but no legal proceedings have been commenced by either party. As soon as the creditors' committee has been formed, the administrators will make various recommendations to the creditors' committee as to next steps in this regard. As notified to the creditors' meeting of 24 April, the administrators have taken legal advice which confirms that GST is not a creditor of the Company. Quite what GST is doing at present and at whose direction and cost is presently unclear but the administrators will correspond with you further on this.
- The administrators are conscious of the feeling of Bondholders as regards to the cost of the nomination/voting process. Bondholders should be aware that the administrators informed the creditors' meeting on 24 April that if they embarked on the current procedure for the formation of a creditors' committee, and adjourn the creditors' meeting to put the procedure in place, that there would be some extra costs and the highly vocal view of the meeting was that the Bondholders wished the current procedure to be put in place. However, the administrators and their solicitors, Mishcon de Reya, have discussed the matter and both have agreed not to charge their professional time with regard to the adjourned creditors' meeting.
- One Bondholder has issued a claim against the administrators on the basis that they believe the voting/nomination procedure should be one creditor/Bondholder one vote. The administrators have written to the Bondholder today to explain why this is incorrect. The Bondholder appears to have misunderstood the status and effect of the ranking of Bondholders/creditors, and having taken legal advice, the administrators believe that the procedure the administrators have adopted is correct. If Bondholders or their solicitors have legal questions these can be sent to Mike Stubbs at Mishcon de Reya at the following email address Mike.Stubbs@Mishcon.com.
- The administrators are trying to ensure that the Bondholders are given every opportunity to Nominate/vote on, and put themselves forward as candidates for, the membership of the creditors' committee. The administrators' priority is to ensure that the democratic wishes of the Bondholders prevail within the bounds of the relevant legislation.

- The administrators have also taken detailed legal advice which confirms that the process that has been adopted complies in full with the relevant legislation.
- Finally but importantly, it is essential that any Bondholders who intend to attend the adjourned meeting let us know as soon as possible. As mentioned in the e-mail dated 26 April, there is no necessity for Bondholders to attend as the administrators expect this to be a largely "paper meeting" with the results as to the membership of the creditors' committee only expected to be known on 9/10 May. The administrators will let the Bondholders/creditors know the membership of the creditors' committee as soon as it is finalised. Mishcon de Reya have limited space for the adjourned creditors' meeting at their offices and if a large number propose to attend the administrators/Mishcon will organise a larger venue.

Kind regards

The Joint Administrators of London Capital & Finance plc

The affairs, business and property of the Company are being managed by the administrators Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnars who act as agents of the Company and without personal liability. Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnars are licensed as insolvency practitioners in the UK by the Institute of Chartered Accountants in England and Wales. Further information regarding the administration can be found at the joint administrators' webpage: www.smithandwilliamson.com/london-capital London Capital & Finance Plc is incorporated in England and Wales under the Companies Act 2006 with registered number 08140312. The Company is authorised and regulated by the Financial Conduct Authority with FRN 722603.

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