

**CANADA**  
**Province of Ontario**  
**Court No: 31-1183929**  
**Estate No: 31-1183929**

**IN THE MATTER OF THE BANKRUPTCY OF**  
**WATERFORD WEDGWOOD CANADA INC.**  
**Of the City of Richmond Hill, in the Province of Ontario.**

**TRUSTEE'S REPORT ON ITS PRELIMINARY ADMINISTRATION**

**BACKGROUND**

Waterford Wedgwood Canada Inc. ("WWCI") was primarily a wholesaler of branded products. WWCI was a subsidiary of Waterford Wedgwood plc ("Waterford Wedgwood"), an Irish listed Company that designs, manufactures and distributes table, crystal and silverware products under four primary brands: Waterford Crystal, Wedgwood, Rosenthal and Royal Doulton.

Globally, the Waterford and Wedgwood businesses involve the design and manufacture of crystal and ceramics, respectively; however, WWCI was a sales/distribution entity that sold solely branded products to the Canadian marketplace on a wholesale basis, through selected department and specialty store groups. WWCI did not operate any retail stores.

WWCI operated out of a leased office and warehouse location in Richmond Hill, Ontario.

Pursuant to the terms of a Facility Agreement dated December 10, 2005, (the "Waterford Wedgwood Facility") WWCI had given continuing unlimited guarantees of all the indebtedness of Waterford Wedgwood and certain other borrowers (the "Guarantee"). The Bank of America, N.A. ("BOA") is a senior lender and acts as Agent for the syndicate of lenders and is also the Security Trustee. In addition, BOA, as Security Trustee and Agent for the Senior Lenders, has comprehensive general security over the machinery, equipment, stock, receivables, bank accounts, shares in subsidiaries and all other assets of WWCI.

The Waterford Wedgwood Facility was breached in December, 2008 when Waterford Wedgwood defaulted on its semi-annual coupon payment due on the Mezzanine Notes and six supplements thereto (the "Notes") with The Bank of New York, London. WWCI guaranteed the obligations of Waterford Wedgwood under the Notes pursuant to the third and fourth supplement dated as of September 30, 2004 and March 3, 2005, respectively. WWCI was liable under the Guarantee jointly and severally as primary obligor and not merely as surety. WWCI remained exposed to the outstanding indebtedness under the Waterford Wedgwood Facility and the Notes.

On January 5, 2009, ten of Waterford Wedgwood's subsidiaries registered in England & Wales entered administration with Angus Martin, Neville Khan, Nicholas Dargan and Dominic Wong (all of Deloitte LLP in the UK) being appointed as joint Administrators. Also on January 5, 2009, David Carson, of Deloitte & Touche in Ireland was appointed as Irish receiver of Waterford Wedgwood and three of its Irish Subsidiaries.

On March 26, 2009, Deloitte & Touche Inc. was appointed the interim receiver and receiver of WWCI (the "Receiver"). The Receiver did not take possession of WWCI's property nor operate its business. The Court Order empowered the Receiver to enter into a Canadian Asset Purchase Agreement to sell substantially all of WWCI's assets and the purchaser assumed certain specified liabilities. The Senior Lenders experienced a significant shortfall on the realization of their security interests in Canada following the execution of the Canadian Asset Purchase Agreement.

After closing of the Canadian Asset Purchase Agreement on March 27, 2009, the intended plan of action of the Receiver is to hold all funds received pursuant to the Canadian Purchase Agreement and pay all priority claims and professional fees and distribute the remaining balance to the Senior Lenders via BOA as Agent.

The Receiver has obtained independent legal opinions on BOA's security, as Security Trustee for the Senior Lenders and the holders of the Notes. The opinions provided by legal counsel state that the security interests of the Security Trustee (BOA), on behalf of the Senior Lenders and the holders of the Notes, on the assets of WWCI are valid and enforceable and have been properly perfected, subject to standard assumptions, qualifications, and limitations.

Refer to Exhibit I for the report of the Proposed Interim Receiver and Receiver, without Appendices which are available on the Trustee's website at [www.deloitte.com/ca/waterfordwedgwood](http://www.deloitte.com/ca/waterfordwedgwood), filed on March 26, 2009, for a detailed discussion on the background of the business, debt structure and estimated realization to the Senior Lenders, causes of insolvency, asset realization and projected distribution, and the marketing and sale process undertaken with respect to the sale of Waterford Wedgwood and the Canadian Purchase Agreement.

On March 27, 2009, the Receiver filed an assignment in bankruptcy on behalf of WWCI and Deloitte & Touche Inc. was appointed the Trustee of the estate.

## SUMMARY OF PROVABLE CLAIMS

Category	Per Statement of Affairs	Claims Received
Secured creditors	\$ 4,855,738	\$ 5,000,000
Preferred creditors	Nil	Nil
Unsecured		
Unsecured creditors	\$ 872,491	\$ 1,984,907
Balance of claims unsecured	\$ 56,000,000	\$ 56,000,000
Total unsecured creditors	\$ 56,872,491	\$ 57,984,907
<b>Total</b>	<b>\$ 61,728,229</b>	<b>\$ 62,984,907</b>

### Secured Creditors

The only secured creditor, per the Statement of Affairs filed on March 27, 2009, is BOA. The amount of BOA's claim specified in the Statement of Affairs is \$60,855,738.

The Statement of Affairs provides an estimated value of security totaling \$4,855,738 which accrues to BOA and represents the secured portion of their claim. This amount represents the purchase price allocated to WWCI pursuant to the Canadian Purchase Agreement. The resulting balance of BOA's claim unsecured totals \$56,000,000.

### Preferred Creditors

No preferred creditors for wages, rent, etc. were identified by management of WWCI.

### Unsecured Creditors

Included in the "Unsecured Creditors" total is an intercompany liability of \$783,036. The residual balance of unsecured claims of \$89,455 represents trade creditors, landlord, and the Canada Revenue Agency. Employee claims for severance, etc. have not yet been determined.

The balance of claims unsecured totals \$56,000,000 which, when combined with the above unsecured creditors, results in a total unsecured creditors balance of \$56,872,491.

## CREDITOR CLAIMS FILED

As of the date of this report, the Trustee has received unsecured proofs of claim totaling \$57,984,907.

## **ASSET REALIZATION AND PROJECTED DISTRIBUTION**

As noted in the report of the Proposed Interim Receiver and Receiver (Exhibit I), given the shortfall that the Senior Lenders experienced following the consummation of the Canadian Purchase Agreement, it is not anticipated that there will be any distribution to unsecured creditors. Since the Canadian Purchase Agreement resulted in the sale of substantially all of the assets of WWCI, no assets remain with which to pursue a realization strategy for the incremental benefit of secured creditors or to provide any realization to the unsecured creditors.

## **LEGAL PROCEEDINGS**

The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the estate.

## **REVIEWABLE TRANSACTIONS AND PREFERENCES**

Based on the information available to date, the Trustee has not identified any reviewable transactions or preferential payments that warrant further investigation by the Trustee.

## **POST MARCH 27, 2009 ACTIVITIES**

The principal activities of the Trustee since March 27, 2009 are summarized as follows:

- Trust account has been opened in the name of the WWCI estate.
- Bankruptcy documents have been prepared and posted on the Deloitte website: [www.deloitte.com/ca/waterfordwedgwood](http://www.deloitte.com/ca/waterfordwedgwood)
- Appropriate insurance and security arrangements for the estate have been put in place.
- Notice and creditor package has been sent to all known creditors of WWCI and the meeting of creditors was set for April 17, 2009, with requisite advertisement of meeting arranged.
- Entering into the trustee transition agreement contemplated by the Canadian Asset Purchase Agreement and performing the Trustee's obligations thereunder.

## DUAL APPOINTMENT

Deloitte and Touche Inc. acts as both Receiver and Trustee of WWCI. Pursuant to Section 13.4(1) of the BIA, the Trustee may act in a dual capacity, provided they have obtained an independent legal opinion as to the validity and enforceability of the secured creditor.

As noted above, the Trustee has obtained an independent legal opinion that the security held by BOA, is valid and enforceable as against the machinery, equipment, stock, receivables, bank accounts, shares in subsidiaries and all other assets of WWCI, subject to any statutory priority charges.

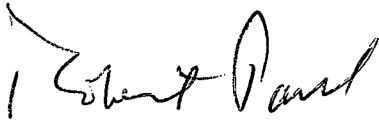
## FEES AND COSTS

The Receiver has agreed to pay for the reasonable professional fees and disbursements of Deloitte & Touche Inc. for the administration of the bankruptcy estate.

Dated in Toronto this 17<sup>th</sup> day of April, 2009.

DELOITTE & TOUCHE INC.  
in its capacity as Trustee in Bankruptcy of  
WATERFORD WEDGWOOD CANADA INC.  
and not in its personal capacity.

Per:



Robert W. Paul, CA • CIRP  
Senior Vice-President

**EXHIBIT I**

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY*  
*ACT*, R.S.C. 1985, c. B-3, AS AMENDED

AND IN THE MATTER OF SECTION 101 OF THE *COURTS OF*  
*JUSTICE ACT*, R.S.O. 1990, c. C.43, AS AMENDED

BANK OF AMERICA, N.A.

APPLICANT

and

ROYAL DOULTON CANADA LIMITED and  
WATERFORD WEDGWOOD CANADA INC.

RESPONDENTS

REPORT OF DELOITTE & TOUCHE INC.

In its capacity as the Proposed Interim Receiver and

Receiver of the Respondents

MARCH 26, 2009

**INTRODUCTION**

1. Deloitte & Touche Inc. (“**Deloitte**” or the “**Proposed Receiver**”) understands that an application has been made by the Bank of America, N.A. (“**BOA**”) for an order appointing Deloitte as interim receiver pursuant to section 47(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and receiver pursuant to section 101 of the *Courts of Justice Act* R.S.O. 1990 c. C.43, as amended, without security, of all the assets, undertaking and properties of Waterford Wedgwood Canada Inc. (“**WWCI**”) and Royal Doulton Canada Limited (“**RDCL**”) (collectively, the “**Respondents**”). The Proposed Receiver is consenting to act in that capacity.

## PURPOSE

2. The purpose of this Proposed Receiver's Report (the "**Report**") is to provide this Honourable Court with information concerning:
  - (a) Background on the business and operations of the Respondents;
  - (b) Debt structure and estimated realization to secured lenders and the UK Administration and Irish Receivership processes;
  - (c) Cash position and liquidity;
  - (d) Marketing and sale process undertaken to sell the global business of the Waterford Wedgwood group of companies (the "**WW Group**"), including WWCI and RDCL;
  - (e) The Canadian Purchase Agreement (as defined herein); and
  - (f) Proposed Receiver's recommendations regarding the sale to WWRD Canada, Inc. (the "**Purchaser**"), an affiliate of KPS Capital Partners LP ("**KPS**"), pursuant to the Canadian Purchase Agreement.

## QUALIFICATIONS

3. In preparing this Report, the Proposed Receiver has relied upon unaudited financial information, the Respondents' books and records, the financial information prepared by the Respondents, and discussions with management and legal counsel of the Respondents. Deloitte has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Proposed Receiver expresses no opinion or other form of assurance on the information contained in this Report.
4. Certain of the information referred to in this Report consists of forecasts and/or projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future oriented financial information referred to in this Report was prepared by the Respondents based on management's estimates and assumptions. Readers are cautioned that since projections are based upon



assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections and, even if the assumptions materialize, the variations could be significant.

5. Unless otherwise noted, all dollar amounts contained in this Report are expressed in Canadian dollars.

## **BACKGROUND ON THE BUSINESS AND OPERATIONS OF THE RESPONDENTS AND THE UK ADMINISTRATION AND IRISH RECEIVERSHIP PROCESSES**

6. The WW Group is a multi-national enterprise that designs, manufactures and distributes table, crystal and silverware products under four primary brands: Waterford Crystal, Wedgwood, Rosenthal and Royal Doulton (the “**Brands**”). Waterford Wedgwood plc (“**Waterford Wedgwood**”), an Irish listed Company, is the ultimate parent of RDCL, WWCI and all other companies in the WW Group. Waterford Wedgwood and three of its subsidiaries are in receivership in Ireland and ten of Waterford Wedgwood’s UK subsidiaries are in insolvency administration in the UK.

### **Royal Doulton Canada Limited**

7. RDCL is incorporated under the *Business Corporations Act*, R.S.O. 1990, c. B.16, as amended. RDCL maintains its head office at 305 Milner Ave, Suite 700, Toronto, Ontario.
8. Globally, the Royal Doulton business is the design and manufacture of tableware and ceramics; however, RDCL is a sales/distribution entity only. RDCL sells its products on a wholesale basis, through selected department and specialty store groups, and on a retail basis through its retail and outlet store locations, as well as directly to consumers via the Internet.
9. RDCL operates primarily as a wholesaler and retailer of Royal Doulton branded products. Sales of these products account for 85 percent of RDCL’s revenues. RDCL also sells and distributes certain other product lines such as Royal Crown Derby tableware, which are manufactured by third parties unrelated to the WW Group. Sales of other products make up approximately 15 percent of RDCL’s revenues.
10. RDCL currently operates fourteen retail stores in five provinces (Ontario, Alberta, British Columbia, New Brunswick and Nova Scotia) and maintains head office and warehouse locations

in Toronto and Pickering, Ontario, respectively. RDCL operates out of leased premises in all locations (retail, office and warehouse).

11. RDCL employs approximately two hundred and twenty people in various functions including warehouse and distribution, retail selling, wholesale selling, hotel and airlines selling, marketing, finance, information technology and personnel. RDCL also hired forty-eight people on a temporary basis for the period from March 2<sup>nd</sup>, 2009 through March 30<sup>th</sup>, 2009 to assist with a warehouse sale. RDCL and WWCI will be funding their respective payroll providers such that all of their employees, including those temporary employees, receive payment for all services performed up to March 28, 2009, prior to closing on the March 26, 2009 payroll run (which will also include accrued and unpaid vacation pay for employees who are not being offered continued employment by the Purchaser). Fifteen of the distribution employees are unionized and part of the National Automobile, Aerospace, Transportation & General Workers Union of Canada (CAW-Canada), Local 414 (the "Union").

#### **Waterford Wedgwood Canada Limited**

12. WWCI is incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended. WWCI has its head office at 20 West Beaver Creek Road, Richmond Hill, Ontario.
13. Globally, the Waterford and Wedgwood businesses are the design and manufacture of crystal and ceramics, respectively; however, WWCI is a sales/distribution entity that sells solely branded products ("**Branded Products**") to the Canadian market on a wholesale basis, through selected department and specialty store groups. WWCI does not operate any retail stores.
14. WWCI operates out of a leased office and warehouse location in Richmond Hill, Ontario.
15. WWCI employs approximately twenty-five individuals in sales, distribution, logistics and administrative functions. None of the WWCI employees are unionized.
16. WWCI and RDCL are both dependent on the other companies in the WW Group. Without the right to use the Brands and without access to the sources of supply that are provided through the WW Group, they have essentially no going concern business. Accordingly, RDCL and WWCI are

completely and inextricably tied to the business, assets and operations of other companies in the WW Group, in particular those based in the UK and Ireland.

### **Canadian Operations during Insolvency Proceedings in UK and Ireland**

17. On January 5, 2009 (the “**Filing Date**”), ten of Waterford Wedgwood’s subsidiaries registered in England & Wales (the “**UK Administration Companies**”) entered administration with Angus Martin, Neville Khan, Nicholas Dargan and Dominic Wong (all partners in Deloitte LLP in the UK) being appointed as joint Administrators (the “**UK Administrators**”). Also on the Filing Date, David Carson, a partner with Deloitte & Touche in Ireland was appointed as Irish receiver (the “**Irish Receiver**”) of Waterford Wedgwood and three of its Irish Subsidiaries (the “**Irish Receivership Companies**”).
18. Since the Filing Date, the Respondents have worked diligently to maintain their operations in the normal course. The Respondents continue to sell products to their customers and have received a limited quantity of additional inventory from their suppliers. There have been no significant changes in the workforce. As described elsewhere in this report, the Respondents have self-financed their respective operations, through cash flows from operations, while the sale process for the global business of the WW Group continued.

### **Customers**

19. Immediately upon commencement of insolvency proceedings in England & Wales and Ireland, the Respondents implemented a communication plan advising significant customers of the various filings and of their commitment to continue to meet customer obligations.
20. The Respondents continue to work with their customers to manage the operations on a “business as usual” basis.
21. Since the Filing Date, the Respondents continue to be in regular contact with many of their customers to assure them that orders will be filled to the best of their ability.

## Suppliers

22. Prior to the Filing Date, Josiah Wedgwood & Sons Limited (now in administration) and Royal Doulton (UK) Limited (now in administration) initiated purchases from, and made payments to, the overseas suppliers on whom RDCL and WWCI rely for most of their inventory. Since the Filing Date, the Respondents have had to pay the overseas suppliers directly due to the various insolvency proceedings affecting certain members of the WW Group. Payments to these overseas suppliers have minimized supply chain disruptions to the extent possible.
23. The Respondents have continued to make payments to their trade creditors as of the Filing Date, with minimal balances owing over ninety days past the invoice date.

## Employees

24. The Respondents continue to pay wages, salaries, commissions, employee benefits and other compensation, withholdings and deductions and reimbursable expenses. The Respondents also continue to make employee related payments on a "business as usual" basis and accrue vacation pay accordingly.
25. The Respondents continue to contribute to their registered pension plans in the ordinary course in accordance with legislated requirements. WWCI registered its company pension plan as a defined benefit plan in 1983. Sun Life Financial Inc. and Mercer Limited provide the group pension plan administration and pension plan consulting services, respectively, to WWCI. The most recent actuarial valuation, performed in December, 2005 with respect to the WWCI defined benefit plan, indicated an underfunded balance of \$513,300. An actuarial valuation to be performed as of December 31, 2008, is due no later than September 30, 2009.
26. RDCL registered its company pension plan as a defined benefit plan on July 1, 1970. On April 1, 2006, the defined benefit plan was frozen and a defined contribution plan was initiated. RDCL's defined contribution plan is held in trust by CIBC Mellon and the investment manager is Integra Capital. Based on the last actuarial valuation performed as of December 31, 2005, the going concern excess after reflection of the plan change amounted to \$4,280,600 and the solvency excess as of December 31, 2005, amounted to \$1,451,200. An actuarial valuation as of December 31, 2008, is due no later than September 30, 2009. RDCL has advised that, in light of recent equity

and capital market turmoil, it is anticipated that such valuation will show that the defined benefit plan has an unfunded liability.

## **DEBT STRUCTURE AND ESTIMATED REALIZATION TO SECURED LENDERS**

27. A syndicate of lenders (the “**Senior Lenders**”) made in excess of €200 million and US\$60 million in revolving loans, term loans and other ancillary facility products and loans available to Waterford Wedgwood, and certain other members of the WW Group, pursuant to a Facility Agreement dated December 10, 2005 (the “**Waterford Wedgwood Facility**”). BOA is a Senior Lender and acts as Agent for the Senior Lenders and is also the Security Trustee.
28. Under the the Waterford Wedgwood Facility, receivables are paid into blocked accounts and cash is swept daily. WWCI and RDCL are generally self-funding entities whose cash is not paid into blocked accounts or swept daily; however, their respective bank accounts are subject to springing control agreements in favour of BOA, as Agent. WWCI and RDCL periodically transferred cash to Statum Limited, a WW Group company that provides the treasury function to Waterford Wedgwood, in the event that they had surplus cash.
29. The Waterford Wedgwood Facility was breached (by way of cross-default) on Monday, December 1, 2008 when Waterford Wedgwood defaulted on its semi-annual coupon payment due on the Notes (as defined herein). The non-payment of the coupon on the Notes constituted a cross-default under the Waterford Wedgwood Facility, resulting in the right to accelerate amounts owing under the Waterford Wedgwood Facility. Waterford Wedgwood sought and received forbearance from enforcement action in respect of the facilities under the Waterford Wedgwood Facility from the Senior Lenders a number of times, and the Fourth Forbearance Agreement expired at 5pm New York time on January 2, 2009.
30. On December 1, 2003, Waterford Wedgwood completed an Indenture with The Bank of New York, London as trustee for the holders of the €166,028,000 9½% Mezzanine Notes and six supplements thereto (the “**Notes**”). The Indenture states that the principal amount of the Notes is due on December 1, 2010, and the interest payment dates are June 1 and December 1 of each year, commencing June 1, 2004. As noted above, Waterford Wedgwood defaulted on its December 1, 2008 interest payment under the Notes.

31. WWCI and RDCL have guaranteed the obligations of Waterford Wedgwood under the Notes pursuant to the third and fourth supplement dated as of September 30, 2004 and March 3, 2005, respectively (the “**Note Guarantees**”).
32. On January 5, 2009, the UK Administration Companies entered administration and the Irish Receiver was appointed over the Irish Receivership Companies.
33. The secured lender balances are set out in the table below:

<b>Secured Lender Balance.</b>	<b>Euro '000s</b>	<b>*\$CDN '000s</b>
Tranche A	144,249	230,798
Tranche B	46,890	75,024
Collateral Providers	25,000	40,000
High Yield Bonds	166,028	265,645
<b>Total</b>	<b>382,167</b>	<b>611,467</b>

*\*Applied a foreign exchange rate of 1.6 to convert Euro balances to Canadian dollars*

34. The UK Administrators estimate that, based on the current offer and proposed transaction with KPS, the secured lenders as a whole detailed above will experience a total deficit in the range of \$372 million to \$385 million before professional costs, priority claims and operating costs. Furthermore, based on the current offer and proposed transaction with KPS, the Senior Lenders will experience a deficit in the range of \$66 million to \$80 million. There will still be a substantial deficiency after taking into account realizations from other related companies and personal guarantees.
35. Pursuant to the terms of the Waterford Wedgwood Facility, RDCL and WWCI have given continuing unlimited guarantees of all the indebtedness of Waterford Wedgwood and certain other borrowers under the Waterford Wedgwood Facility (collectively, the “**Guarantee**”). As a consequence of the shortfall the Tranche B Senior Lenders and the holders of the Notes are facing, RDCL and WWCI are exposed, under the Guarantee and the Note Guarantees, in an amount that vastly exceeds the liquidation value of the assets of the two companies. Based on a liquidation analysis prepared by the Deloitte UK administration team for the WW Group, the Senior Lenders would experience a deficit in the range of \$82 million to \$186 million following liquidation of the WW Group (including RDCL and WWCI). RDCL and WWCI are liable under the Guarantee jointly and severally as primary obligors and not merely as sureties. Both RDCL and WWCI

remain exposed to the outstanding indebtedness under the Waterford Wedgwood Facility and the Notes.

36. BOA, as Security Trustee for the Senior Lenders, has comprehensive general security over the machinery, equipment, stock, receivables, bank accounts, shares in subsidiaries and all other assets of RDCL and WWCI.
37. BOA, as Security Trustee, holds the security granted pursuant to the Waterford Wedgwood Facility for and on behalf of the Senior Lenders and most of the security on behalf of the holders of the Notes (the “**HY Bondholders**”). The security sharing arrangement and the relative priorities of the Senior Lenders and the HY Bondholders are governed by an Intercreditor and Security Trust Agreement dated December 10, 2005 (the “**Intercreditor Agreement**”). Pursuant to the Intercreditor Agreement: (i) the Senior Lenders' debt and security rank first in priority to the HY Bondholders' debt and security in connection with the assets of RDCL and WWCI; (ii) the Security Trustee is entitled to enforce the security and can claim and prove the debt owed to the HY Bondholders under the indenture; and (iii) the HY Bondholders are fully subordinated in right of payment to all amounts owing under the Waterford Wedgwood Facility.
38. Deloitte has obtained independent legal opinions on BOA's security, as Security Trustee for the Senior Lenders and the HY Bondholders. The law firms of Bennett Jones LLP for Ontario and Alberta (independent counsel to Deloitte), McInnes Cooper for Nova Scotia and New Brunswick (on the instructions of Bennett Jones LLP), and Bull, Housser & Tupper LLP for British Columbia (on the instructions of Bennett Jones LLP) have given an opinion (the “**Bennett Jones Opinion**”) that the security interests of the Security Trustee, on behalf of the Senior Lenders and the holders of the Notes, on the assets of RDCL and WWCI are valid and enforceable and have been properly perfected in Ontario, Alberta, Nova Scotia, New Brunswick and British Columbia with respect to RDCL and in Ontario with respect to WWCI, subject to standard assumptions, qualifications and limitations.
39. Given the shortfall that the Senior Lenders are expected to experience, unfortunately, there is no scenario under which HY Bondholders or the unsecured creditors will receive anything out of the realization on the assets of RDCL and WWCI.

## CASH POSITION AND LIQUIDITY

40. Until the recent financial difficulties experienced by the WW Group, both WWCI and RDCL had positive cash flows. Attached as Appendix I is a copy of WWCI's statement of cash flows for the period ended March 13, 2009 and forecast through to the week ending May 1, 2009 and balance sheet as at February 28, 2009. Attached as Appendix II is a copy of RDCL's statement of cash flows for the period ended March 13, 2009 and forecast through to the week ending May 1, 2009 and balance sheet as at February 28, 2009.
41. In or about the end of January, 2009, in light of the difficulties faced by the WW Group, RDCL began curtailing the orders it was accepting, and has been paying most of its suppliers cash on delivery. As a result of these actions, RDCL's cash flow position has deteriorated from a balance of \$1.1 million at January 9, 2009 to a balance of \$0.3 million at March 13, 2009. Furthermore, based on management's forecast, continued net cash outflows are expected to result in a negative cash position/deficit during the week ending May 1, 2009 (refer to Appendix II).
42. WWCI's cash position has been, in recent months, better than that of RDCL. In or about the end of January, 2009, WWCI has been paying its local suppliers and one freight service supplier cash on delivery. International suppliers, on the other hand, have been paid on terms ranging from seven to fifteen days. Despite experiencing net cash outflows during the weeks ended February 6, 2009 and March 13, 2009, WWCI's cash balance has increased since the beginning of January, 2009. Accordingly, it has been largely business as usual for WWCI, which has been using surplus cash to fund ongoing operations. Based on management's forecast, WWCI's cash position will deteriorate through to the end of April, 2009 due to anticipated net cash outflows. This deterioration is not expected to result in a negative cash position/deficit during the forecasted period (refer to Appendix I).



## MARKETING AND SALE PROCESS UNDERTAKEN TO SELL THE GLOBAL BUSINESS OF THE WW GROUP INCLUDING WWCI AND RDCL

43. Lazard Freres & Co. LLC (“**Lazard**”) and J.P. Morgan Cazenove (“**JPM Cazenove**”) were engaged in various capacities in relation to Waterford Wedgwood since August, 2008. Lazard was appointed by Waterford Wedgwood to advise on a proposed equity financing and follow on placement. The letter of engagement signed between Lazard and Waterford Wedgwood was dated August 11, 2008. During this process, Lazard contacted a number of potential financial investors globally, focusing on the United States. JPM Cazenove was also appointed by Waterford Wedgwood to advise on a proposed equity financing and follow on placement. The letter of engagement signed between JPM Cazenove and Waterford Wedgwood was dated September 11, 2008. During this process, JPM Cazenove contacted a number of potential strategic trade investors globally, focusing on the UK and Europe.
44. Upon their appointment, the UK Administrators were briefed by Lazard on the sale process. In total, Lazard contacted 182 parties, of which 7 parties demonstrated interest in leading an investment as at October 28, 2008 with two remaining parties at the end of November, 2008.
45. The UK Administrators did not appoint Lazard to assist and advise in relation to the conduct of the sale of business process; however, on January 14, 2009, the UK Administrators engaged JPM Cazenove for a fixed fee of €175,000 to assist in the marketing of WW Group. During this process, JPM Cazenove contacted a number of potential strategic trade investors globally, focussing on the UK and Europe. The engagement letter was signed between JPM Cazenove and Waterford Wedgwood (in receivership).
46. KPS approached the UK Administrators and the Irish Receiver soon after their appointment and a Letter of Intent was agreed with KPS on January 8, 2009. The Letter of Intent did not commit the UK Administrators and the Irish Receiver to sell to KPS, in fact, the Letter of Intent and corresponding press announcement specifically reflected the continuation of a sale process.

47. To ensure competitive tension with a view to maximize stakeholders' returns and ensure a timely transaction, a separate work stream was set up by the UK Administrators and Irish Receiver, to identify alternative bidders. This was designed to ensure that the market was thoroughly tested and to confirm that no better offers were available to that offered by KPS.
48. Following the above mentioned appointment, the UK Administrators and Irish Receiver arranged the continued involvement of JPM Cazenove to broaden the proactive marketing exercise, with a particular focus on worldwide strategic trade buyers. In addition, a number of parties contacted the UK Administrators and Irish Receiver directly following their appointment and the publicity resulting therefrom. As a result, a significant number of potential bidders have either directly expressed their interest or have been contacted, in the processes conducted by Lazard, JPM Cazenove and the UK Administrators and Irish Receiver as summarized in the table below:

	Lazard	JPM Cazenove	Deloitte
Parties contacted	182	65	78

49. In order to ensure appropriate coverage of all potential buyers, the above mentioned sale processes have had a global reach and have involved trade and financial parties.
50. Given that a large number of potential purchasers/financiers were based in the United States, the Corporate Finance practice of Deloitte US was appointed to engage with North American parties.
51. JPM Cazenove was an integral part of the team conducting the M&A process. JPM Cazenove had particular responsibility for identifying and approaching potential strategic purchasers and in utilising their network to identify other interested parties.
52. JPM Cazenove contacted 65 parties, predominantly strategic trade buyers, identified as having potential interest. Of these, 55 engaged in dialogue (the remainder being unresponsive).
53. A Waterford Wedgwood Hotline and Inbox were set up for both administration/receivership and transaction purposes, with sale of business enquiries passed to the sale of business team.
54. The UK Administrators identified the end of January, 2009 as a target for receiving final, binding offers, with a view to finalizing and completing a deal by early February, 2009. All parties expressing an interest in the Waterford Wedgwood business were individually assessed to

determine whether they were able to meet the aforementioned timeframe and could access significant funds to complete a transaction at short notice. Parties satisfying these criteria were sent a Non Disclosure Agreement, accompanied by a covering letter which clarified that offers should be made entirely in the form of cash and be capable of being completed within a short time frame.

55. Interest from bidders in either the Waterford or Wedgwood divisions was also pursued in the event that a whole business sale was not capable of being agreed. A transaction at a divisional level would require separation issues to be addressed. A limited number of parties pursued a divisional transaction; however, no offers capable of consideration by the UK Administrators/Irish Receiver were received.
56. Despite the number of parties involved in the process and the level of attention generated by the opportunity, the process only yielded one firm offer capable of consideration and acceptance by the UK Administrators and Irish Receiver. That one firm offer was from KPS.
57. KPS first demonstrated their interest in the business during the 2008 Lazard process and were identified as one of the two most interested parties by the end of November, 2008. While the other bidder subsequently withdrew from the Lazard process, KPS continued working on the opportunity and conducted significant levels of due diligence during December, 2008.
58. Pursuant to the Share and Business Sale Agreement dated March 26, 2009 (the “**UK/Irish Sale Agreement**”) between the UK Administrators, the Irish Receiver and a Gibraltar company associated with KPS, which was created for the purpose of the acquisition, most of the assets of the UK Administration Companies and Irish Receivership Companies were agreed to be sold subject to the fulfillment of various conditions. Some of those conditions relate to the various linked transactions required to be completed in the US, Canada and Australia.
59. The global transaction will see a combination of asset and share purchases that will result in the transfer of most of the assets of the WW Group to KPS or KPS associated companies. The consideration will be a minimum of €107.5 million. Various assets are specifically excluded such as the Rosenthal subsidiaries and the Irish property in Waterford.

60. The UK/Irish Sale Agreement provides that, as a condition precedent of the global transaction, there must be a sale of substantially all of the assets of RDCL and WWCI for proceeds of approximately €9 million (the “**Canadian Transaction**”).
61. Again, the Senior Lenders are owed approximately \$306 million. Even after the completion of the global transaction, the Senior Lenders are going to suffer a significant shortfall. The value of €9 million allocated to the assets subject to the Canadian Purchase Agreement represents 4.7% of the total Senior Lender balance, and following closing of the global transaction, as noted above, the Senior Lenders will still be owed in excess of \$66 million.

### **THE CANADIAN PURCHASE AGREEMENT**

62. Attached hereto as Appendix III is a copy of the Agreement of Purchase and Sale to be entered into between Deloitte as Receiver (to the extent this Court makes the order appointing Deloitte as Receiver) and the Purchaser (the “**Canadian Purchase Agreement**”). Deloitte may also be referred to as Vendor in the remainder of this Report as that term is used in the Canadian Purchase Agreement.
63. A summary of some of the key terms in the Canadian Purchase Agreement is as follows (all capitalized terms in this paragraph that are not otherwise defined herein have the meanings as set out in the Canadian Purchase Agreement):
- (a) The sale of substantially all of the assets of RDCL and WWCI including: Leased Real Property, chattels, Inventory, Receivables, goodwill, Owned Intellectual Property, Assigned Contracts, Permits and Licenses, and all files, operating data, books of account associated with or used by RDCL and WWCI in the conduct of Business or otherwise related to the Purchased Assets or the Assumed Obligations;
  - (b) The Purchased Assets shall not include the following assets of RDCL and WWCI: cash, bank balances, moneys in possession of banks and other depositories, term or time deposits and similar cash items of, owned or held by or for the account of RDCL and WWCI, all documents and other items related solely to the organization, existence or capitalization of RDCL and WWCI, any rights to Tax refunds, Tax returns, Excluded Contracts, Branded Inventory, Employee Plans, current and prior insurance policies, any rights, demands,

claims, credits, allowances, rebates, or rights of set-off relating to any of the Purchased Assets, deposits received from any subtenants with respect to any subleases of the Leased Real Property, prepaid and deferred items that relate to the Purchased Assets, and the benefit of any Business Claims;

(c) The Purchaser will assume the following Assumed Liabilities: all Liabilities of RDCL and WWCI under Contracts to be assigned to the Purchaser, all Liabilities in respect of Permits and Licenses to be assigned to the Purchaser, all Liabilities relating to gift certificates, customer deposits, credit notes, loyalty and rebate programs, all Liabilities in connection with the replacement, repair or repayment of the purchase price of any product, arising in the ordinary course of Business from claims of wholesale, retail or online customers under product warranties, product return policies or other wholesale, retail or online customer programs, all Liabilities arising from the conduct of the Business, including in connection with the ownership of, or interest in, the Purchased Assets to the extent arising from and after the Closing, all Liabilities with respect to Transferred Intercompany Loans, and all Liabilities with respect to Transferred Employees and Temporary Transferred Employees;

(d) All other Liabilities will be excluded including: all Taxes other than Transfer Taxes which the Purchaser has agreed, or is otherwise liable to pay, any Liabilities relating to, or arising out of, the Excluded Assets, except as otherwise expressly agreed to in the Canadian Purchase Agreement, all Accounts Payable, any accrued expenses of the Respondents except to the extent specifically assumed, the Vendor and the Respondents' obligations under the Canadian Purchase Agreement and any ancillary agreements, any Environmental Liabilities in respect of the Leased Real Property and any area used pursuant to the Permits and Licenses relating to the Respondents, or Hazardous Material or environmental conditions that exist on or prior to the Closing Date, any Liabilities arising as a result of any Action initiated at any time, to the extent related to the Respondents or the Purchased Assets, all Liabilities arising out of, relating to or with respect to (a) the employment or performance of services, or termination of employment or services of any Employee on or before the Closing Date (b) each of the Employee Plans or other benefit or compensation plan or programs (other than in respect of the RDCL Benefit Plan) or (c) workers'

compensation claims that relate to the period ending on the Closing Date, any Liabilities arising under Intercompany Loans and all promissory notes except for Transferred Intercompany Loans, all Liabilities arising under or with respect to indebtedness, all Liabilities with respect to Company Expenses, and any Liabilities with respect to any violation of an applicable Law or Order prior to the Closing Date by the Proposed Receiver or the Respondents, excluding any pension or other such liabilities;

(e) The Purchase Price for the Purchased Assets, exclusive of all Transfer Taxes, shall be a total of: (i) cash in the amount of €9,010,999, plus (ii) the amount of the Assumed Liabilities, to be allocated as follows:

(i) €6,048,999 plus 66.67% of the amount of the Assumed Liabilities in respect of the Purchased Assets of RDCL; and

(ii) €2,962,000 plus 33.33% of the amount of the Assumed Liabilities in respect of the Purchased Assets of WWCI, subject to certain adjustments as noted below.

(f) No adjustment shall be made to the Purchase Price unless such adjustment (being a positive or a negative amount) is greater than €30,000. The Purchase Price will be adjusted in an amount equal to (i) the aggregate of the cash receipts received by any of the Proposed Receiver and/or the Respondents in the ordinary course of Business during the period from 12:01 a.m. (Toronto time) on March 26, 2009 up to and until 12:01 a.m. (Toronto time) on the Closing Date; less (ii) any expenses incurred by any of the Proposed Receiver and/or the Respondents in the ordinary course of Business (including without limitation any payroll expenses) during the period from 12:01 a.m. (Toronto time) on March 26, 2009 up to and until 12:01 a.m. (Toronto time) on the Closing Date. The mechanics for such adjustment are provided for in greater detail in the Canadian Purchase Agreement:

(g) The Purchaser will either become the employer or make offers of employment to certain employees of RDCL and WWCI that would not occur in the event of liquidation. Specifically, the Purchaser shall become the employer of all Unionized Employees covered by the Collective Agreement, effective from the Closing Date, and subject to the terms and conditions provided in the Memorandum of Agreement (which is attached as Schedule

2.11(a) to the Canadian Purchase Agreement and as described in greater detail below). The Purchaser shall be bound by and comply with the terms of the Collective Agreement as amended pursuant the Memorandum of Agreement. In addition, the Purchaser will offer employment to the majority of Non-Unionized Employees. The offers of employment shall be on terms and conditions of employment, including salary, incentive compensation, and benefits, which are substantially similar to those currently available to such Non-Unionized Employees. The Unionized Employees, together with those Non-Unionized Employees who accept the offer of employment are referred to in the Canadian Purchase Agreement as Transferred Employees and the Purchaser will recognize all prior service of the Transferred Employees;

- (h) The Purchaser will also make offers of employment to a smaller number of Non-Unionized Employees on a temporary basis to assist with the transition and amalgamation of operations between RDCL and WWCI. These offers will be on terms and conditions that are in the Purchaser's sole discretion. All of the Non-Unionized Employees who accept the offer of temporary employment made by the Purchaser are referred to as Temporary Transferred Employees in the Canadian Purchase Agreement;
- (i) The Purchaser will have no liability for wages, salaries, bonuses and commissions owing prior to the Closing Date to any employee save and except for vacation pay accruals for the Transferred Employees and the Temporary Transferred Employees;
- (j) The Purchaser will be liable for all costs, obligations and liabilities of the Transferred Employees and the Temporary Transferred Employees, that arise following the Closing Date, including accrued and unpaid vacation pay, termination pay and severance pay;
- (k) Pursuant to the Memorandum of Agreement, subsection (b) of Schedule "B" to the Collective Agreement shall be deleted and the Purchaser shall not be required to provide the pension plan as set out to Schedule "B" to the Union members. Rather, a new subsection (b) of Schedule "B" shall be added to the Collective Agreement, which shall state that the Purchaser shall establish a defined contribution pension plan, that is comparable and no less favourable in the aggregate, as the terms and conditions set out in the Integra/Royal Doulton Canada Limited Defined Contribution booklet dated April 1,

2006. The new pension plan will be a defined contribution plan in its entirety. The Memorandum of Agreement was signed on March 13, 2009 by RDCL, the Union, and the Purchaser to effectuate this amendment. The Purchaser will not assume or provide any other pension plans of RDCL or WWCI upon closing of the respective sale transactions;

- (l) The assignment (subject to landlord consents) of Leased Real Property with the exception of four RDCL retail locations and the WWCI combined office/warehouse location. The Purchaser will require a transition agreement for a 90 day period after Closing to accommodate an orderly closing of each retail location not being assumed by the Purchaser and the WWCI office/warehouse location and to operate the Business at the Leased Real Property it will be assuming;
- (m) It is a term of the Canadian Purchase Agreement that the Vendor, the Respondents and the Purchaser enter into the interim transition agreement (the "**Interim Transition Agreement**") in respect of: (i) the leased premises that the Purchaser intends to continue operating (the "**Continued Premises**"); and (ii) the leased premises that will be discontinued (the "**Discontinued Premises**", and together with the Continued Premises, the "**Premises**"). Pursuant to the Interim Transition Agreement, the Purchaser will be granted a license to occupy: (i) the Continued Premises for the purpose of carrying on the Business; and (ii) the Discontinued Premises for the purpose of carrying on the Business and/or removing Purchased Assets. The maximum term of the license of occupancy will be 90 days and the license of occupancy will expire in respect of any Premises upon: (a) consent being obtained to the assignment of the applicable lease to the Purchaser; or (b) the date of disclaimer or surrender of the applicable lease. The Purchaser will be responsible for all Premises costs relating to the period of occupancy under the Interim Transition Agreement and the Purchaser shall be required to pay the expected amounts of such costs over the potential 90 day term (the "**Expected Occupancy Costs**") to the Vendor in advance, to be held in trust, in an interest bearing trust account, and returned to the Purchaser if not used to pay occupancy costs. The access period under the Interim Transition Agreement will expire upon a trustee in bankruptcy appointed in respect of the Respondents and entering into a replacement transition agreement (the "**Trustee Transition Agreement**", and together with the Interim Transition Agreement, the



“**Transition Agreements**”) applicable to the period after the appointment of such trustee. The Trustee Transition Agreement will be on substantially the same terms as the Interim Transition Agreement, except that occupancy costs in relation to the period of occupation shall be paid to the trustee by the Vendor on a monthly basis from the Expected Occupancy Costs held by to the Vendor pursuant to the Interim Transition Agreement (or the Vendor will continue to make payments in respect of the Expected Occupancy Costs directly). A copy of the Interim Transition Agreement is attached hereto as Appendix IV and a copy of the Trustee Transition Agreement is attached hereto as Appendix V. The Continued Premises and the Discontinued Premises are set out in the schedules to the Transition Agreement.

- (n) BOA will seek an order authorizing and directing the Proposed Receiver to assign the Respondents into bankruptcy which is expected to be done immediately after the Closing of the Canadian Transaction. This will: (i) effect the termination of the employment of all employees who are not Transferred Employees or Temporary Transferred Employees; (ii) allow for the orderly wind up of the Respondents’ defined benefit pension plans; and (iii) assist in allowing the Purchaser to access the Respondents’ leased real properties and in the assignment of real property leases in accordance with the terms of the Transition Agreements. In connection with point (iii), on the business day after the bankruptcy of the Respondents, Deloitte, as trustee in bankruptcy, will apply to this Court to enter into the Trustee Transition Agreement; and
- (o) The Purchaser will assume all personal property equipment leases (or return those assets to the applicable lessors) and will seek to vest out BOA and all “general security” in the Purchased Assets including the liens in favour of Falls Management Group L.P. (“**Falls Management**”), the landlord of the Discontinued Lease at the Niagara Falls location. The Falls Management liens relate to assets of RDCL on the subject premises. The Bennett Jones Opinion notes that, according to the personal property security act registry based on a search with a currency date of March 23, 2009, the registration in Ontario in favour of Falls Management is subsequent in time to the registration in favour of BOA.

## PROPOSED RECEIVER'S RECOMMENDATIONS REGARDING THE SALE TO THE PURCHASER

64. Deloitte has considered the viability of the Canadian business as a standalone enterprise, and whether a sale of the Canadian business independent of the global transaction would be feasible. In our view, it would not since neither RDCL nor WWCI would or could exist but for their ability to sell Royal Doulton or Waterford Crystal, Wedgwood and Rosenthal branded products pursuant to their relationship with the WW Group. For RDCL, sales of products other than Royal Doulton branded products are a small percentage of its overall business, and would in no way be sufficient to sustain the business without the sale of such branded products. WWCI has no business other than selling branded products. Both companies are dependent on the WW Group to manufacture and deliver the branded products, and they have no right or ability to sell branded products except with the permission of their parent. As such, a proposed sale of RDCL and WWCI as a standalone business would not be feasible.
65. The Proposed Receiver has assisted and continues to assist the Respondents in their efforts to maintain operations. The Proposed Receiver believes that the Respondents are acting diligently and in good faith.
66. The Canadian Transaction is the best option for RDCL and WWCI in the circumstances. In particular, it preserves the businesses as a going concern and preserves the opportunity for employment for the majority of the employees of RDCL and WWCI.
67. The Purchaser has advised the Proposed Receiver that the process for the offers of employment will be as follows:
- (a) In accordance with Section 2.11 of the Canadian Purchase Agreement, the Purchaser will be making offers of employment as follows:
- (i) Approximately one hundred and eighty-two non-unionized employees from RDCL and WWCI will be given offers of employment from the Purchaser that are on terms and conditions of employment, including salary, incentive compensation and benefits which are substantially similar to those currently available to such employees;

(ii) Approximately thirty-five non-unionized employees from RDCL and WWCI (thirteen in non-retail roles and twenty-two retail employees for those retail locations where the Purchaser will not assume the relevant leases) will be given offers of employment from the Purchaser on a temporary basis on terms and conditions of employment that are in the sole discretion of the Purchaser;

(iii) Approximately forty-eight non-unionized employees from RDCL who work at the warehouse sale on a temporary basis will be given temporary offers of employment from the Purchaser;

(iv) Approximately eight non-unionized employees from WWCI will not be offered employment by the Purchaser; and

(v) All of the unionized employees will continue in employment with the Purchaser.

(b) All of the offers of employment from the Purchaser will be provided to RDCL and WWCI employees at the start of business on March 27, 2009. The Companies and the Purchaser have advised that at this time, such employees will be told about the transaction and that they have been offered employment by the Purchaser.

(c) The employees will be provided with the opportunity to either sign-back the offer letter and continue working on March 27, 2009, or to take some time off to consider the offer. In any event, all employees who are scheduled to work on March 27, 2009, will be paid for a full day's work on March 27, 2009, regardless of whether they continue to work or take time off to consider the Purchaser's offer. Once an employee signs back the Purchaser's offer, they will commence work with the Purchaser. An employee can commence work with the Purchaser provided that the employee accepts the Purchaser's offer.

68. The Canadian Transaction also benefits the suppliers and customers of RDCL and WWCI and maintains substantially all real property leases of RDCL. Therefore, in our view, the best outcome for stakeholders in the circumstances is a sale of the RDCL and WWCI businesses pursuant to the Canadian Purchase Agreement.

69. The Proposed Receiver supports an order appointing Deloitte as Receiver and, in an effort to

maximize stakeholder returns and to enable the transaction contemplated by the Canadian Purchase Agreement to be completed and the Proposed Receiver recommends approval of the sale of the assets of both WWCI and RDCL pursuant to the Canadian Purchase Agreement.

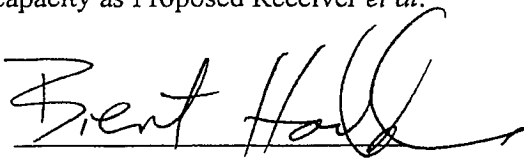
70. Upon issuance of the order to appoint Deloitte as Receiver and approval of the Canadian Purchase Agreement, Deloitte, as the Receiver shall enter into the Canadian Purchase Agreement and carry out the Canadian Transaction and the Interim Transition Agreement, and will forthwith after closing assign RDCL and WWCI into bankruptcy.
71. Immediately following the completion of the Canadian Transaction, Deloitte, as the Receiver will receive and hold all funds pursuant to the Canadian Purchase Agreement and pay all priority claims and professional fees and distribute the remaining balance to the Senior Lenders via BOA as Agent upon receiving a further order of this Honourable Court. The Purchaser will fund the occupation costs in advance pursuant to the Interim Transition Agreement, which the Receiver will hold in a separate interest bearing account. The Receiver will provide the funds to Deloitte as trustee to pay the occupancy costs when same are due and payable in accordance with the applicable real property lease and will return any balances not required to the Purchaser. Deloitte, as the Receiver will be authorized to transfer an amount of \$35,000 from the proceeds of sale to the trustees in bankruptcy of the Respondents to fund the bankruptcy proceedings.

All of which is respectfully submitted at Toronto, Ontario this 26<sup>th</sup> day of March, 2009.

**DELOITTE & TOUCHE INC.**

in its capacity as Proposed Receiver *et al.*

Per:



Senior Vice-President