



**CORPORATE
RESTRUCTURING**

Our ref: PFD/MTB/HXR/DTC/PDO002/775993/3

Your ref:

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Manchester M2 6DN
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www.mcr.uk.com

TO ALL KNOWN CREDITORS AND MEMBERS

Placed on the following websites:

www.mcr.uk.com
www.mfi.co.uk

e-mail:
mfi@mcr.uk.com

17 December 2009

Dear Sirs

MFI Group Limited (In Administration) ("the Company")

Please find enclosed Form 2.24B, together with the Joint Administrators' six month Progress Report to Creditors on the conduct of the Administration.

The Joint Administrators obtained an Order from the High Court of Justice on 3 December 2008 directing that the Joint Administrators give notice to the Company creditors of the availability of the Joint Administrators progress report by means of a notice being placed in two national newspapers. The Joint Administrators were also directed to post a similar notice together with a copy of the progress report on the Company's website www.mfi.co.uk and MCR's website www.mcr.uk.com.

Should you have any queries, please do not hesitate to contact this office.

Yours faithfully
For and on behalf of
MFI Group Limited


Philip Duffy
Joint Administrator

Enc.

The affairs, business and property of the Company are being managed by the Joint Administrators, Philip Duffy, Paul Clark, and Geoffrey Bouchier, who act as agents for the Company and without personal liability. All are licensed to act as insolvency practitioners by the Insolvency Practitioners' Association.

MCR offices: Manchester • London • Portsmouth

Partners: David Whitehouse, Philip Duffy, Andrew Stoneman, Paul Clark, Jason Godefroy, Stephen Clancy, Steven Muncaster, Paul Williams, David Grier, Geoff Bouchier, Matthew Bond, Sallyanne Pitt

All the insolvency practitioners act without personal liability and unless otherwise stated are authorised by the Insolvency Practitioners Association

ABFA
AFFILIATE

The Insolvency Act 1986

Administrator's progress report

2.24B

Name of Company MFI Group Limited	Company number 05789188
In the High Court of Justice, Companies Court, Chancery Division (full name of court)	<i>For court use only</i> 10575 of 2008

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

We (a) Philip Francis Duffy, Paul John Clark and Geoffrey Wayne Bouchier of MCR Corporate Restructuring, 11 St James Square, Manchester, M2 6DN

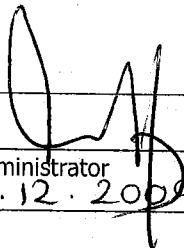
Administrators of the above company attach a progress report for the period

From

To

(b) Insert date

(b) 26 May 2009	(b) 25 November 2009
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Signed 
 Joint Administrator
 Dated 17.12.2009

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 searches of the public record

MCR Corporate Restructuring
11 St James Square
Manchester
M2 6DN

Tel: 0161 827 9000

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

**MFI Group Limited
(In Administration)**

**Joint Administrators' Progress Report to Creditors
for the period from 26 May 2009 to 25 November 2009
pursuant to Rule 2.47(1) of the
Insolvency Rules 1986 as amended**

17 December 2009

Names of Joint Administrators: Philip Francis Duffy
Geoffrey Wayne Bouchier
Paul John Clark

Date of appointment: 26 November 2008

Date of report: 17 December 2009

Appointed by: The Directors of the Company
333 The Hyde, Edgware Road, London, NW9 6TD

Court reference: High Court of Justice no. 10575 of 2008

MCR Corporate Restructuring
11 St James Square
Manchester
M2 6DN

CONTENTS

1. Introduction
2. Joint Administrators' Report and Statement of Proposals
3. Progress of the Administration
4. Investigation
5. Dividend Prospects / Prescribed Part
6. Joint Administrators' Receipts and Payments account
7. Costs and Expenses
8. EC Regulation
9. Conclusion and Ending the Administration
10. Next Report

APPENDICES

1. Statutory Information
2. Court Order Dated 3 December 2008 – Relief From Posting the Joint Administrators' Proposals
3. Joint Administrators' Receipts and Payments Account
4. Analysis of Time Costs
5. Form 2.31B – Notice of Extension of Period of Administration

DEFINITIONS

MCR Corporate Restructuring	MCR
MFI Group Limited	the Company / MFIGL
Philip Duffy, Geoffrey Bouchier & Paul Clark	the Joint Administrators
Insolvency Act 1986 / Insolvency Rules 1986 (as amended)	the Act / the Rules
HM Revenue & Customs	HMRC
Retail Agents 170 Limited	RAL
MFI Retail Limited (In Administration)	Retail
MFI Properties Limited (In Administration)	Properties
American Express Europe Limited	Amex
Lloyds TSB Bank Plc	Lloyds
Black Horse Retail Finance	BHRF
Merchant Services Provider	MSP
Department for Business Innovation and Skills	BIS
Statement of Affairs	SofA
EC Regulation on Insolvency Proceedings 2000	EC Regulation
Redundancy Payments Office	RPO
National Distribution Centre	NDC
Home Distribution Centre	HDC
Hilco Appraisal	the Agents
Transitional Services Agreement	TSA
Statement of Insolvency Practice 9	SIP9

1. INTRODUCTION

- 1.1 As you are aware, Philip Francis Duffy, Geoffrey Wayne Bouchier and Paul John Clark of MCR were appointed Joint Administrators of MFIGL on 26 November 2008 by the directors of the Company pursuant to Paragraph 22 of Schedule B1 to the Act.
- 1.2 In accordance with Paragraph 100(2) of Schedule B1 to the Act the functions of the Joint Administrators are being exercised by any of the Administrators.
- 1.3 The purpose of this report is to provide creditors with details of the progress of the Administration, in accordance with Rule 2.47(1) of the Rules for the six month period to 25 November 2009.

2. JOINT ADMINISTRATORS' REPORT AND STATEMENT OF PROPOSALS

- 2.1 The Joint Administrators issued their Report to Creditors together with their Statement of Proposals ("the Proposals") on 5 December 2008. Please note details of the Company's background and events leading up to the Administration are detailed in the Proposals.
- 2.2 The Joint Administrators obtained an Order from the High Court of Justice on 3 December 2008 ("the Order") directing that the Joint Administrators give notice to the Company creditors of their appointment and the availability of the Proposals by means of a notice being placed in two national newspapers. The Joint Administrators were also directed to post a similar notice together with a copy of the Proposals on the Company's website www.mfi.co.uk and MCR's website www.mcr.uk.com. A copy of the Order can be viewed at Appendix 2.
- 2.3 Accordingly, notices appeared in the Daily Mail and The Independent on Monday 8 December 2008, and a copy of the Proposals remain on the websites detailed above.
- 2.4 In accordance with Paragraph 52(1) of Schedule B1 to the Act, a creditors' meeting was not required to be held as there will be insufficient realisations to enable a distribution to unsecured creditors.
- 2.5 A creditors meeting was not convened as requests did not reach 10% in value of total Company debt and in accordance with Rule 2.33(5) of the Rules the Proposals were deemed to have been approved by the creditors.
- 2.6 As advised in the Proposals, the Joint Administrators must perform their functions with the purpose of achieving one or more of the following hierarchical objectives:
- Rescuing the Company as a going concern; or
 - Achieving 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
 - Realising property in order to make a distribution to one or more secured or preferential creditors.
- 2.7 The Joint Administrators believe the third objective can be achieved as there has been a distribution to the secured creditor and preferential creditors.

3. PROGRESS OF THE ADMINISTRATION

- 3.1 The manner in which the affairs and business of the Company have been managed since the last report by the Joint Administrators is set out below.

Administration Trading Period

- 3.2 The trading period concluded on 15 December 2008 as discussed in the Joint Administrators' previous report.
- 3.3 Amex have retained £429k of Administrators' sales in order to set-off their pre-appointment charge-back liability. At the date of this report the Joint Administrators remain in negotiations with Amex in order to recover these monies. Additionally, c£1.3m has also been withheld by the MSP.
- 3.4 The Joint Administrators estimate that after costs including employee wages, utilities and other trading expenditure a trading surplus of c£3.7m will be realised, including the £429k of Amex funds. This is subject to a final reconciliation.

Stock

- 3.5 There have been no further stock realisations since my last report.
- 3.6 No further stock realisations are expected.

Customer Orders

- 3.7 It was estimated that the Company's MSP was holding c£30m at appointment. Prior to the Joint Administrators receiving detailed financial information the Company's management suggested that this may be sufficient to cover the Company's charge-back liability and leave a surplus which would be an asset of the Administration.
- 3.8 Since the date of appointment, the Joint Administrators have been involved in lengthy and complex negotiations with the MSP. The latest summary of funds held by the MSP indicates that there have been charge-backs applied to the original balance leaving a balance of funds of c£800k relating to the Company's pre-appointment trading period.
- 3.9 It is the Joint Administrators' opinion that the majority of charge-back claims have now been dealt with, however, the balance in hand is still subject to further potential charge-backs.
- 3.10 The quantum or timing of any surplus monies from the MSP is not known however the majority of customer charge-backs have now been adjudicated upon.

Book debts

Black Horse Retail Finance

- 3.11 As detailed in the Joint Administrators' previous reports, BHRF held funds at the date of appointment of c£4.5m.
- 3.12 At the request of BHRF, the Joint Administrators retained one MFI employee on a temporary basis to assist with collections. BHRF released an interim payment of £30,000 to meet the costs of this process.



- 3.13 The Joint Administrators are continuing to work with BHRF in order to secure the release of the balance of these funds which after setting off amounts for incomplete and non-delivered orders, is expected to be in excess of £1.5m. Receipt of these monies is subject to negotiation however the first tranche of £500k is expected in December 2009.
- 3.14 To date c£298k has been received by the Joint Administrators in respect of customer payments in full and final settlement of their BHRF agreements.

Monies held by administrators of Retail

- 3.15 The sum of £87,467 from pre-appointment sales receipts has been received into the bank account of Retail. The Joint Administrators are in discussions with Retail to recover these monies although it is expected that Retail will apply set-off under the terms of the TSA.

Property

- 3.16 All of the MFIGL stores open at the date of appointment have now been returned to the lessees, being Retail or Properties.
- 3.17 The Joint Administrators continue to work with local rating authorities to minimise any national non-domestic rates liabilities given that the Company did not trade from the stores during the Administration.

Store takings

- 3.18 It would appear that very few cheques were banked into the Administration estate account that relate to deposits for future orders, however, it is the Joint Administrators understanding that the vast majority of these cheques were countermanded following appointment.

Other Asset realisations

Sundry receipts

- 3.19 The following sundry receipts have also been realised since my last report:

	(£)
Bank Interest Gross	2,756
Insurance Commission	90,811
Miscellaneous income	326
Sundry refunds	63
Other interest	5
	<hr/> 93,961 <hr/>

Brands

- 3.20 The previous report details the sale of the Hygena brand.
- 3.21 After receiving interest from several parties the Joint Administrators concluded a sale of the Schreiber brand on 22 September 2009 to Argos Limited for £1.5m.

Other Matters

- 3.22 In accordance with Rule 2.47(f) of the Rules, the Joint Administrators are not aware of any other potential asset realisations.
- 3.23 The Administration has been extended for a period of 6 months with the consent of the secured creditors and preferential creditors, in order for all outstanding issues to be finalised. Please revert to section 9 for further details.

4. INVESTIGATION

- 4.1 The Joint Administrators have a statutory obligation to file a report with the Department for Business, Enterprise & Regulatory Reform regarding the conduct of all directors of the Company that served in the three years prior to the appointment. The content of this report is confidential and was submitted to the Insolvency Practitioners' Compliance Unit on 18 May 2009.

5. DIVIDEND PROSPECTS / PRESCRIBED PART

Secured Creditors

Properties and Retail

- 5.1 In consideration for the monies advanced to the Company by way of deferred consideration and working capital, MFIGL granted debentures to Properties and Retail conferring fixed and floating charges over the assets of the Company.
- 5.2 At the date of the Joint Administrators' appointment, the Company's combined indebtedness to Properties and Retail was c£48m subject to accruing interest and charges.
- 5.3 To date, the Joint Administrators have made a distribution of £4,466,730 to Retail. It is anticipated that further distributions of between £3m and £4m will be paid to Properties and Retail under their security in due course.
- 5.4 Based upon information currently available, there will be insufficient realisations to repay Properties or Retail in full.

Preferential Creditors

- 5.5 The preferential claims are limited to employees' claims for unpaid wages (subject to statutory limits) and accrued holiday pay, which may be subrogated to the Secretary of State following payment by the RPO.

- 5.6 Based on information currently available, the Joint Administrators anticipate that there will be sufficient asset realisations to pay a dividend to the preferential creditors of 100p in the £. Such a distribution is likely to be made before 28 February 2010.

Prescribed Part pursuant to Section 176A of the Act

- 5.7 An Order was granted on 16 February 2009 by the High Court permitting the Joint Administrators to disapply the Prescribed Part. The application was based upon the estimated total number of unsecured creditor claims, the volume of unsecured creditor correspondence, the estimated value of all unsecured creditors claims and the costs of agreeing the claims.

Non-Preferential Creditors

- 5.8 According to the directors' SofA, non-preferential creditors total £27,796,000. The non-preferential creditors can be summarised as follows:

	(£)
Trade Creditors	15,758,000
Accruals	6,333,000
Deferred Income	2,684,000
HMRC (VAT, PAYE and NIC)	3,021,000
	<u>27,796,000</u>

- 5.9 According to management information customer creditors who paid by cash, cheque and non-VISA debit card total c£8.5m.
- 5.10 Based upon the information currently available, the Joint Administrators anticipate that there will be insufficient realisations to enable a distribution to the Company's non-preferential creditors.

6. JOINT ADMINISTRATORS RECEIPTS AND PAYMENTS ACCOUNT

- 6.1 A detailed receipts and payments account, for the period 26 November 2008 to 25 November 2009 is shown at Appendix 3.
- 6.2 At 25 November 2009, there was a cash balance of £1,091,921 held in the estate bank account, subject to reconciliation. Please note c£1,732,886 is currently being held by the MSP and Amex, over and above the monies held by the Joint Administrators, as detailed in section 3.3.

7 COSTS AND EXPENSES

- 7.1 The time costs of the Joint Administrators and their staff are analysed at Appendix 4 in accordance with SIP9. To date, the Joint Administrators' time costs total £1,093,246 and £827,000 has been drawn as remuneration.
- 7.2 In accordance with Rule 2.106(5A) of the Rules, the Joint Administrators' remuneration was approved by the secured creditors and the preferential creditors. The Joint Administrators' remuneration is fixed by reference to the time properly given by them and their staff.

7.3 At MCR we aim to reduce paper usage and postage costs and therefore the Joint Administrators have placed a copy of the Creditors' guide to Administrators' fees at www.mcr.uk.com in accordance with SIP9. Should you require a paper copy, please contact this office.

8. EC REGULATION

8.1 It is the Joint Administrators' opinion that the EC Regulation applies and that these proceedings are Main Proceedings as defined in Article 3 of the EC Regulation. The Centre of Main Interests of the Company is in England.

9. CONCLUSION AND ENDING THE ADMINISTRATION

9.1 The Proposals advised that Administration automatically comes to an end after one year, unless an extension is granted by the Court or with the creditors' consent.

9.2 In accordance with Paragraph 76(2)(b) of Schedule B1 to the Act, the Joint Administrators sought the consent of the creditors to allow the term of the Administration to be extended by a period of six months.

9.3 Such consent has been obtained from the secured creditor and preferential creditors in accordance with Paragraph 78(2)(b) of Schedule B1 to the Act.

9.4 The Administration has been extended until 25 May 2010. Attached at Appendix 5 is Form 2.31B – Notice of extension of period of Administration.

9.5 The extension is necessary to deal with a number of significant outstanding issues which remain to be dealt with including the following:

- Ongoing negotiations with BHRF regarding the release of funds.
- Ongoing negotiations with the Company's MSP regarding the release of funds.
- Ongoing negotiations with Amex regarding the release of funds.
- Finalisation of the remaining outstanding Administration issues including VAT and corporation tax returns.
- Formalisation of the Joint Administrators' statutory and closure procedures.

9.6 As it is anticipated that the Company will have no property with which to make a distribution to its non-preferential creditors, it is anticipated that, following final distributions to the secured and preferential creditors, a Notice to move from Administration to Dissolution – Form 2.35B ("the Notice") will be submitted to the Registrar of Companies pursuant to Paragraph 84 of Schedule B1 to the Act.

9.7 Following registration of the Notice by the Registrar of Companies, the Joint Administrators' appointment will cease to have effect, and they will be discharged from liability under Paragraph 98(3) of Schedule B1 to the Act.

9.8 At the end of three months beginning with the date of the Notice being registered by the Registrar of Companies, the Company will be dissolved.



10. NEXT REPORT

- 10.1 The Joint Administrators are required to provide a progress report within one month of the end of the next six months of the Administration. This report will be provided no later than 25 May 2010 or earlier if the Administration has been finalised.
- 10.2 If you have any queries or require any further assistance, please do not hesitate to contact my colleague Liz Rae of this office.

For and on behalf of
MFI Group Limited


Philip Francis Duffy
Joint Administrator

The affairs, business and property of the Company are being managed by the Joint Administrators, Philip Duffy, Paul Clark, and Geoffrey Bouchier who act as agents for the Company and without personal liability. All are licensed to act as Insolvency practitioners by the Insolvency Practitioners' Association.

APPENDIX 1
Statutory Information

STATUTORY INFORMATION

Date of incorporation 21 April 2006

Registered number 05789188

Company directors Gary Favell
Christopher Pavlosky

Company secretary Gary Favell

Shareholders Gary Favell – 100%

Trading address 333 The Hyde
Edgware Road
London
NW9 6TD

Registered Office

Current:
11 St James Square
Manchester
M2 6DN

Formerly:
333 The Hyde
Edgware Road
London
NW9 6TD

Any Other Trading Names None

Financial information

Due to the fact that the Company was only trading for approximately 8 weeks no statutory accounts have been prepared.

No further information is available.

APPENDIX 2

**Court Order Dated 3 December 2008 – Relief from Posting the Joint Administrators
Proposals**

