

**One 4 Group Limited
Satcover Limited
One4Staff Limited
Something Services Limited
(All in Administration)**

**Joint Administrators' Statement of Proposals and Report to Creditors
pursuant to Paragraph 49 of Schedule B1
to the Insolvency Act 1986**

17 December 2009



Names of Joint Administrators:

Andrew Gordon Stoneman of MCR

Adrian Hyde of Chantrey Vellacott DFK

Date of report:

17 December 2009

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CORPORATE
RESTRUCTURING

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GLOSSARY

To assist readers of this report, please note the following definitions:

BSkyB	British Sky Broadcasting Group plc, British Sky Broadcasting Limited, Sky Subscribers Services Limited and Sky In-Home Service Limited
EC Regulation	EC regulation on Insolvency Proceedings 2000
HMRC	HM Revenue and Customs
HSBC	HSBC Bank plc
NIC	National Insurance Contributions
O4GL	One 4 Group Limited (In Administration)
O4SL	One4Staff Limited (In Administration)
Sat Insure	Sat Insure plc, purchaser of the customer list and goodwill
Sat Link	Sat Link Services Limited
SCL	Satcover Limited (In Administration)
SDUKL	Satellite Direct UK Limited (In Liquidation)
SFHL	Style Front Homes Limited
SIA	SIA Group UK Limited
SoA	Statement of Affairs, documentation prepared by the directors outlining the company's financial position as at the appointment date
Something Corporation	Something Corporation plc
SSL	Something Services Limited (In Administration)
The Act	The Insolvency Act 1986
The Companies' accountant	UHY Hacker Young
The Director	Mr David Reynolds
The Group / The Companies	One 4 Group Limited, Satcover Limited, Something Services Limited and One4Staff Limited (All in Administration)
The Joint Administrators	Andrew Stoneman of MCR and Adrian Hyde of Chantrey Vellacott DFK
The Report	Statement of Proposals and Report to Creditors dated 16 December 2009
The Rules	The Insolvency Rules 1986
WWCHL	West Wallasey Car Hire Limited

1. INTRODUCTION

- 1.1 Andrew Gordon Stoneman of MCR and Adrian Charles Hyde of Chantrey Vellacott DFK were appointed Joint Administrators of O4GL, SCL, SSL and O4SL as follows:

Company	Date of appointment	High Court Reference
One4Staff Limited	26 October 2009	20,071 of 2009
Something Services Limited	27 October 2009	20,130 of 2009
Satcover Limited	29 October 2009	19,893 of 2009
One 4 Group Limited	3 November 2009	20,070 of 2009

- 1.2 The appointments of O4SL and O4GL were made by the director of the companies, being Mr David Reynolds, pursuant to Paragraph 22 of Schedule B1 to the Act.
- 1.3 The appointment of SSL was made by the director of the company, being Mr Colin Hague, pursuant to Paragraph 22 of Schedule B1 to the Act.
- 1.4 The appointment of SCL was made by an order of the High Court in London, Companies Court, pursuant to Paragraph 10 of Schedule B1 to the Act. The application to the court was made by the director.
- 1.5 In accordance with Paragraph 100(2) of Schedule B1 of the Act the functions of the Administrators are being exercised jointly.
- 1.6 The Joint Administrators were aware that SCL, and the Group, had in excess of 300,000 customers who potentially may have claims against the Group. The Joint Administrators estimated that it would cost in excess of £100,000 to notify all customers and creditors of the appointment and further costs would be incurred in sending this Report and subsequent reports.
- 1.7 As outlined on the SCL, MCR and Chantrey Vellacott DFK websites, the Joint Administrators sought and were granted relief from the obligations imposed upon them:
- 1.7.1 by Paragraph 46(3) of Schedule B1 of the Act to send notice of their appointment to each creditor; and
- 1.7.2 by Paragraph 49 of Schedule B1 of the Act and Rules 2.46 and 2.47 of the Rules to serve reports and their proposals on the SCL's non-preferential creditors.
- 1.8 Due to the intertwined dealings of the Group, effectively carrying on the same business, the Joint Administrators are seeking to obtain a Grouping Order, to group all of the entities assets and liabilities for the benefit of the general body of creditors.
- 1.9 This report sets out the circumstances leading up to the appointments of the Joint Administrators in respect of the Group and the steps taken by them to date.
- 1.10 This report also provides notice of the meetings of creditors for the Group, which will be held at the Cumberland Hotel, 7-9 Great Cumberland Place, London, W1H 7LU on 4 January 2010 at 2.00pm, as detailed in section 13 of this Report.

2. BACKGROUND

Statutory

- 2.1 Statutory information for each of the entities in the Group is included at **Appendix 1** of the Report. This information includes each entities full company name, registered address, registered company number, names of the director and secretary, details of shareholdings and any other trading names of each entity.

Satellite Direct UK Limited (In Liquidation)("SDUKL")

- 2.2 The principal trading company was SDUKL, which commenced trading in 2002 as a provider of warranty cover and maintenance support for digital satellite boxes, typically to UK customers of BSKyB.
- 2.3 During the early part of 2009 SDUKL came under increasing pressure from HMRC as a result of unfiled returns and substantial unpaid arrears of PAYE and NIC of approximately £4.9 million, which had been incurred in the tax years 2006/07 and 2007/08. As a result of the substantial arrears of tax, HMRC presented a winding up petition against SDUKL on 12 May 2009.
- 2.4 The director obtained advice from the companies' accountant, who referred the director to MCR.
- 2.5 With the consent of HMRC, Andrew Stoneman and Adrian Hyde were appointed Joint Liquidators of SDUKL on 8 July 2009. The affairs of the companies and SDUKL are closely interlinked and therefore for the purpose of this report reference will be made to SDUKL.

Business Overview of the Group

- 2.6 For the purpose of this Report O4GL, SCL, SSL and O4SL will be collectively referred to as "the Group" or "the Companies".
- 2.7 SCL was incorporated on 9 December 2003 and similarly to SDUKL commenced trading as a provider of warranty cover and maintenance support for digital satellite boxes, typically to the UK customers of BSKyB. As noted above, the director already had a similar company, SDUK, that had started trading in 2002.
- 2.8 The market for satellite television technology expanded rapidly, as did both companies. The director explained that having the second business gave him a second chance to pick up the customer. The telesales staff, maintenance personnel and all other parts of the two businesses were provided by the same staff. Maintenance staff, using a fleet of vehicles, were located around the country, providing services to satellite warranty customers. Telesales staff were located at several locations in the south of England, including Brighton, Littlehampton and the Group's main office at Imperium House, Ford Lane, Arundel. During the period of expansion, the Group purchased customer lists and databases from other companies in the satellite warranty business, particularly when companies ceased to trade.
- 2.9 On 16 May 2006 O4GL was incorporated, and thereafter the shares in SCL and SDUKL were transferred to O4GL. O4GL is a non trading business.
- 2.10 A structure of the Group and other associated entities is attached at **Appendix 2** for your information. With the exception of those companies which are in some kind of insolvency procedure, Mr Reynolds ultimately controls all of them.

- 2.11 O4SL and SSL were incorporated on 11 September 2007 and 20 April 2009 respectively, solely to retain all employees and any associated liability. These entities had no other purpose other than processing the payroll on behalf of the Group. The Joint Administrators are not aware of any assets held in these entities.
- 2.12 At the time of the Joint Administrators' appointment, the Group was well established in the satellite warranty repair industry with a customer base of over 300,000.

Summary of Property Holdings

- 2.13 As at the date of the Joint Administrators appointment, the Group entities owned numerous properties.
- 2.14 The tables below summarise the Groups properties and SDUKL's properties:

Summary of properties owned by Group entities

Property and location	Company	Freehold / Leasehold
Imperium House, Arundel, West Sussex, BN18 0DF	O4GL	Freehold
Ivanhoe, Bognor Regis, P022 9NJ	O4GL	Freehold
2 Norfolk House, Littlehampton, BN17 7JR	SCL	Freehold
1 Queens Drive, Newport, TF10 7EU	SCL	Freehold

Summary of properties owned by SDUKL

Property and location	Company	Freehold / Leasehold
Harbour Village, Lapta, North Cyprus	SDUKL	Freehold
Sheridan House, Hove, BN3 1DD	SDUKL	Leasehold
Ridgeland House, Hove, BN3 1TL	SDUKL	Leasehold
Unit 9, Orchard Business Park, Yapton, BN18 0GA	SDUKL	Leasehold

- 2.15 As there was no equity or benefit to creditors in the leasehold properties, the Joint Liquidators of SDUKL disclaimed all interest in the leasehold properties.
- 2.16 The Joint Administrators are also aware of four properties in the directors name which are located at:
- Limmer Lane, Bognor Regis;
 - Spatham Lane, Ditchling, Hassocks;
 - Norfolk House, Littlehampton; and
 - Catalkoy, North Cyprus.
- 2.17 Further information regarding the Groups' properties is provided in section 7 of the Report.

3. HISTORICAL PERFORMANCE

3.1 Financial information for each company is included at **Appendix 3**, where available. This includes profit and loss and balance sheet statements.

Summary of Consolidated Profit and Loss Accounts

3.2 A summary of the consolidated profit and loss accounts are set out below. No consolidated accounts were prepared for the year ending 2008 ("FY2008") or to the date of the Joint Administrators' appointment.

Consolidated Profit and Loss Accounts

	For Year Ending 31 December 2007	For Year Ending 31 December 2006
	£	£
Group turnover	16,756,134	15,485,504
Cost of sales	<u>(8,762,427)</u>	<u>(9,566,392)</u>
Gross Profit	7,993,707	5,919,112
Administrative expenses	(15,863,990)	(5,695,895)
Other operating income	<u>167,814</u>	<u>475,915</u>
Operating profit/(loss)	(7,702,469)	699,132
Interest receivable	13,097	1,256
Interest payable	<u>(155,674)</u>	<u>(156,686)</u>
Profit before tax	(7,845,046)	543,702
Tax on profit/(loss) on ordinary activities	2,038,151	(264,769)
Minority interest	<u>11,820</u>	<u>-</u>
Profit/(Loss) for the Financial Year	<u>(5,795,075)</u>	<u>278,933</u>

Note: Group represents the sum of SCL, SDUKL and O4GL.

Source: Management accounts as prepared by the Companies' accountant

3.3 Due to the age of these accounts, the Joint Administrators provide the following limited notes:

3.3.1 The gross profit for the Group increased by £2.1 million (or 35%) to £8 million for the year ending 31 December 2007 ("FY2007"), as a result of an increase in Group turnover and a decrease in the cost of sales;

3.3.2 However, administrative expenses increased by £10.2 million (or 179%) to £15.9 million to the FY2007. This increase relates to inter-company loans. The Joint Administrators sought and obtained further information from the companies' accountant on these loans and are reviewing the Groups' inter-company transactions; and

3.3.3 These movements resulted in a loss of £5.8 million for the FY2007.

Summary of Consolidated Balance Sheets

- 3.4 A summary of the consolidated balance sheets are set out below. No consolidated accounts were prepared for the FY2008 or to the date of the Joint Administrators' appointment.

Consolidated balance sheets

	For Year Ending 31 December 2007	For Year Ending 31 December 2006
	£	£
Total Fixed Assets	5,362,867	4,766,051
Total Current Assets	6,987,297	6,377,817
Creditors: Amounts falling due within one year	<u>(7,711,837)</u>	<u>(8,734,837)</u>
Net Current Liabilities	(724,540)	(2,357,020)
Total Assets less Current Liabilities	4,638,327	2,409,031
Creditors: Amounts falling due after more than one year	-	(267,727)
Provision for Liabilities	(10,070,000)	(1,174,911)
Minority Interest	<u>11,820</u>	<u></u>
Net Assets / (Deficiency)	<u>(5,419,853)</u>	<u>966,393</u>

Note: Group represents the sum of SCL, SDUKL and O4GL.

Source: Management accounts as prepared by UHY Hacker Young

- 3.5 Due to the age of these accounts, the Joint Administrators provide the following limited notes:
- 3.5.1 Tangible fixed assets had a book value of £4.4 million for the FY2007. This included property, plant and machinery, furniture and fixtures and motor vehicles. As a result of the business ceasing to trade and entering administration, the Joint Administrators are of the opinion that a lower value is likely to be realised from the sale of these assets;
- 3.5.2 Total assets less current liabilities increased by £2.5 million (or 93%) to £4.6 million for the FY2007 as a result of a reduction in creditors and an increase in fixed assets; and
- 3.5.3 The major variance of the accounts is the increase in provision for liabilities to £10 million in relation to costs incurred in the BSKyB litigation. As discussed in further detail later in the Report, the BSKyB court case was settled in March 2009, with £10 million payable by the Group, to be paid in set instalments by 1 March 2012.

4. EVENTS LEADING UP TO THE ADMINISTRATIONS

- 4.1 The satellite warranty industry is highly competitive with a significant number of companies offering similar products and trading with similar names.
- 4.2 The services of SCL and SDUKL, were being provided in conjunction with BSKyB's own protection plan, offered through Domestic & General Services Limited. BSKyB alleged that SCL and SDUKL, together with a number of unrelated companies, were passing themselves off as BSKyB's authorised provider, and commenced proceedings against SCL and SDUKL in 2006 ("BSkyB litigation").



- 4.3 The BSKyB litigation, relating to SCL and SDUKL included Mr Reynolds as a defendant, and was directed towards the 273,000 customers of the Group at the date the allegation was made. Judgement was given in favour of BSKyB in December 2006 with damages to be assessed.
- 4.4 The damages due under the judgement were settled on 10 March 2009. The settlement was contained in a Tomlin Order and provided payment of £10 million to be made by SCL and SDUKL on a joint and several basis.
- 4.5 As a result of the BSKyB litigation, the business operations of the Group were restructured. The Joint Administrators understand that from 1 January 2007, the 273,000 customers were ring-fenced in SDUKL, and all new business was generated and handled through SCL. SDUKL continued to provide service to its customers, and continued to collect payments. The "new business" generated after the commencement of the BSKyB litigation, amounting to some 300,000 customers, was contracted through O4GL, although customers were serviced through SCL.
- 4.6 Since their establishment SCL and SDUKL have accepted payment by cheque, and more recently by direct debit and credit/debit card. Since 2007, SCL had a direct debit facility with HSBC, and O4GL had a credit card facility with WorldPay. Facilities such as these, for substantial numbers of transactions to be processed, are difficult to procure. As such, direct debit transactions for all companies in the Group were routed through SCL, and credit/debit card payments through O4GL. Due to difficulties with these facilities, funds ceased being collected prior to the Joint Administrators appointment, following the suspension of the facilities in early July 2009. No funds have been collected by the Joint Administrators or the Joint Liquidators following their respective appointments to the Group and SDUKL.
- 4.7 As part of the £10 million settlement agreement with BSKyB, SDUKL and SCL granted BSKyB floating charges over all of SDUKL's and SCL's rights to and title and interest from time to time in the Customer Contracts and any and all amounts payable under and/or in connection with the Customer Contracts. Both charges were registered on 18 March 2009.

Creditor Action

- 4.8 On 18 August 2009, a Winding Up Petition was presented against SCL by HMRC, SCL's indebtedness to HMRC being £953,215. The hearing of the petition was listed on 28 October 2009. MCR and Chantrey Vellacott DFK commenced an application to be appointed Joint Administrators to SCL prior to the hearing date, based on this application HMRC granted a one week postponement of the hearing and consented to the appointment of the proposed Administrators.
- 4.9 In addition to this debt, SCL was also jointly and severally liable to BSKyB in respect of the £10 million settlement agreement. As the sum of £500,000 due on 1 June 2009 was not paid by SDUKL, the sum became due from SCL.

Recent Trading

- 4.10 In the period immediately prior to the Liquidation of SDUKL, and continuing thereafter, SCL began experiencing problems with its direct debit facility. It appears on three occasions – late 2008, February 2009 and May 2009, errors were made in the sums collected. The Joint Administrators were advised that errors were made with the processing of payments and the decimal point appeared in the wrong place, for instance the company took £59.90 instead of £5.99 for certain customer accounts.

