



**CORPORATE
RESTRUCTURING**

Our ref: PFD/MTB/HXR/PDO002/370088

Your ref:

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London W1H 6LY

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www.mcr.uk.com

TO ALL KNOWN CREDITORS AND MEMBERS

Placed on the following websites:

e-mail:
mfi@mcr.uk.com

www.mcr.uk.com

www.mfi.co.uk

5 December 2008

Dear Sirs

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

I refer to my appointment as Joint Administrator of the Company on 26 November 2008, together with my partners Geoffrey Wayne Bouchier and Paul John Clark.

The purpose of an Administration is to achieve one of the following hierarchical objectives:

- a) rescuing the Company as a going concern, or
- b) 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
- c) realising property in order to make a distribution to one or more secured or preferential creditors.

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 their appointment and the availability of the Joint Administrators proposals 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 proposals on the Company's website www.mfi.co.uk and MCR's website www.mcr.uk.com.

Notice of the appointment was placed in The Independent on 1 December 2008. In addition, adverts notifying creditors that the Joint Administrators report to creditors and statement of proposals are available online will be placed in the Daily Mail and The Independent on Monday 8 December 2008.

Pursuant to Paragraph 52(1) of Schedule B1 to the Insolvency Act 1986 a creditors meeting will not be held because the Joint Administrators think the Company has insufficient property to enable a distribution to be made to unsecured creditors.

As a creditor you can request that a meeting of creditors be convened. Any request must be made within 12 days and supported by 10% of creditors in value. As there are strict formalities relating to the procedures to be followed, please contact Howard Riminton urgently if you wish to make a request.

Cont...

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



CORPORATE
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Please find attached the Joint Administrators report to creditors and statement of proposals to creditors. A proof of debt is enclosed at appendix 6 of the report, which should be completed and sent to this office.

In the interim, should you have any queries please email mfi@mcr.uk.com.

Yours faithfully
For and on behalf of
MFI Group Limited

Philip Duffy
Joint Administrator

Enc.

The Insolvency Act 1986

Statement of administrator's proposals 2.17B

Name of Company MFI Group Limited (In Administration)	Company number 05789188
In the High Court of Justice, Chancery Divison Companies Court (full name of court)	Court case number 10575 of 2008

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

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

* Delete as appropriate

attach a copy of our proposals in respect of the Administration of the above company.

A copy of these proposals was placed on the following websites www.mcr.uk.com and www.mfi.co.uk in accordance with the order dated 3 December 2008 granted by the High Court of Justice.

(b) Insert date

(b) 5 December 2008



Signed _____
Joint Administrator

Dated 05-12-08

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

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

5 December 2008

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

Date of appointment: 26 November 2008

Date of report: 5 December 2008

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
43-45 Portman Square
London
W1H 6LY

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DEFINITIONS

MFI Group Limited	the Company / MFIGL
Philip Duffy, Geoff Bouchier & Paul Clark	the Joint Administrators
Insolvency Act 1986 / Insolvency Rules 1986 (as amended)	the Act / the Rules
HM Revenue & Customs	HMRC
National Distribution Centre	NDC
Home Distribution Centre	HDC
Retail Agents 170 Limited	RAL
MFI Retail Limited (In Administration)	Retail
MFI Properties Limited (In Administration)	Properties
Black Horse Retail Finance	BHRF
Merchant Services Provider	MSP

1. INTRODUCTION

- 1.1 Philip Francis Duffy, Paul John Clark and Geoffrey Wayne Bouchier 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 jointly.
- 1.3 This report sets out the circumstances leading up to the appointment of the Joint Administrators and the steps taken by them to date.

2. BACKGROUND

- 2.1 The Company commenced trading on 1 October 2008 following the acquisition of the business via an MBO from MFI Retail Limited (which subsequently went into administration on 6 October 2008).
- 2.2 The Company retails kitchens, bedrooms, bathrooms and other furniture items.

3. EVENTS LEADING UP TO THE ADMINISTRATION

- 3.1 Soon after the commencement of trading, the Company experienced cashflow difficulties. Management therefore explored several options for additional investment / working capital funding to be injected into the Company.
- 3.2 In light of the current economic conditions management were unable to secure the required additional funding.
- 3.3 With the uncertainty surrounding the Company's cashflow/funding position, the directors took independent advice.
- 3.4 The directors subsequently took steps to protect the Company's position by seeking to appoint administrators to the Company stating the following reasons:-
 - The unprecedented economic downturn had reduced new order intake by 30% on the managements business plan which they thought to have been prudently prepared
 - Difficulties associated with landlord negotiations over future occupation of the stores
 - Reduction in cash receipts due to unexpected decline in new order/sales
 - Reduction in availability of credit insurance in the sector

Appointment of Joint Administrators

- 3.5 The directors met with MCR on 25 November 2008 to discuss placing the Company into administration.
- 3.6 MCR considered the position prior to accepting the appointment as administrators and, having regard to the Insolvency Practitioners Association's ethical guidelines, considered that there were no circumstances preventing any of their partners from accepting the appointment.
- 3.7 The directors subsequently appointed Geoffrey Wayne Bouchier, Paul John Clark and I as Joint Administrators to the Company on 26 November 2008.

4. PURPOSE OF THE ADMINISTRATION

4.1 The purpose of an Administration is to achieve one 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.

4.2 In accordance with paragraph 49(2) of Schedule B1 to the Act the Joint Administrators are performing their duties with the purpose of achieving either the second or third objectives as it is believed that the first objective cannot be achieved due to the quantum of liabilities at the date of the appointment of the Joint Administrators.

4.3 The proposals for achieving the purpose are set out in the remainder of this report.

5. PROGRESS OF THE ADMINISTRATION TO DATE

5.1 The manners in which the affairs and business of the Company have been managed since the appointment of Joint Administrators and will continue to be managed and financed are set out below.

Business Operations – Overview

5.2 At the time of the Joint Administrators' appointment, the Company was trading from 111 stores throughout the UK as well operating a dedicated National Distribution Centre in Thorne, Doncaster and three Home Distribution Centres.

5.3 At appointment, the Company employed 1,441 staff who were based within the 111 stores. There was also additional service staff based at the NDC/HDC's. However, employees of the Grimsby and Lancaster stores were made redundant following the closure of these stores, which took place shortly after the Joint Administrators appointment. It should be noted however that these stores had previously been identified by the Company to close.

Administration Strategy

5.4 Immediately following the appointment, a team from MCR attended the Company's head office premises located in Colindale, North London to commence a review of the Company's affairs and business operations, the short term trading prospects and the associated funding requirements.

5.5 To assist in determining the ongoing strategy, the Joint Administrators engaged third party retail specialists, RAL.

5.6 Together with RAL, the Company's management team and other key stakeholders, the Joint Administrators determined that the following strategy should be implemented:

- Seek a purchaser for the business and assets as a going concern, or alternatively, purchasers for various aspects of the Company's business and assets.
- Continue to operate the stores, however, restricted to the sale of in-store and display stock only.
- Suspend all customer deliveries/installations whilst a complete review of all customers orders is undertaken to determine those that could be fulfilled during the administration in order to

- satisfy customer orders and mitigate claims against the Company for non-supply of goods.
- Seek to realise all other debts due to the Company.
- Continue to review the strategy in light of ongoing progress.

5.7 The Joint Administrators' strategy was formulated to achieve the following:

- Preserve the value of the Company's business and assets whilst they are marketed for sale and a purchaser (or purchasers) is sought.
- Maximise the realisable value of the Company's stock on hand by continuing to sell stock that is available from the Company's retail stores.
- Seek to preserve the employment of the Company's workforce in order to save jobs, and also seek to minimise the crystallisation of employee claims against the Company. We note that at this stage no sale of the business has been procured.

Administration Trading

- 5.8 As mentioned above, the decision was made to continue to operate the stores post appointment whilst a purchaser was sought for the business. It should be noted that the store activity has been limited to the sale of display stock only.
- 5.9 A number of new procedures were introduced by the Joint Administrators with a particular focus on maintaining control over store operations during the Administration period, thereby protecting the Company's assets. This included arranging for a RAL representative to supervise the operations at each of the stores.
- 5.10 Display stock sales made from the stores up to 4 December 2008 total approximately £7.6m. The majority of these sales were in the form of cash/cheques/debit and are being processed by the Company's MSP. The sum of approximately £2.1m has been received into the Administration estate bank accounts with the balance currently being processed or in transit.
- 5.11 Various commitments have been issued by the Joint Administrators, including BT and other utility/service suppliers. Following a review of the operations of each store, further cost saving measures have been implemented where possible.
- 5.12 In order to maximise the value of the business and realise stock, it was essential that key support of suppliers was obtained to maintain the operating functions of the business during the Administration trading period. In most cases, suppliers have continued to be supportive. It should be noted that no further goods have been purchased during the administration for sale in the stores.
- 5.13 Due to insufficient product being available in the stores, and the ongoing holding costs, it may be necessary to consolidate stores in the event that a sale of the business is not concluded imminently.

Stock

- 5.14 At the date of the Joint Administrators appointment, the Company held stock, excluding appliances, with a cost value of approximately £40m.
- 5.15 This stock was located primarily at the Company main warehouse (NDC) in Doncaster, whilst additional stock was held in each of the three HDC's. Limited stock was held at store level, as this mainly consisted of display stock.
- 5.16 However, a number of suppliers have asserted Retention of Title ("ROT") claims on unpaid stock held by the Company.

- 5.17 The various ROT claims are currently being reviewed by the Joint Administrators and where appropriate, commercial settlements may be agreed in order to progress the overall achievement of the administration strategy.

Customer Orders

- 5.18 As at the date of the appointment the Company had taken deposits worth approximately £19m from approximately 30,000 customers who had placed orders for future deliver/installations. Approximately £13m was still held by the Company's MSP at the time of the appointment.
- 5.19 At the time of the Joint Administrators appointment, the Company was experiencing supply chain difficulties which has resulted in stock out's and delays or cancellations of numerous customer orders. Consequently, the Joint Administrators were unable to immediately commit to the ongoing fulfilment of any customer orders until such time as the financial, supply and delivery aspects of the orders could be reviewed. This has proven to be a very complicated and time consuming task.
- 5.20 The Joint Administrators are currently reviewing all customers orders to determine whether fulfilment can take place. The Joint Administrators are working with the Company's MSP to process the return of these deposits in the event that orders cannot be fulfilled.
- 5.21 In the meantime, both the Joint Administrators staff and the Company's call centre are continuing to field calls/email from customers regarding their orders. In addition to the above, regular updates are being provided by the Joint Administrators on both the Company's website and MCR's website.

Sale of business and assets

- 5.22 The Company's business and assets are available for sale, either in part or as a whole. Our efforts to sell the Company's business and assets are operating in conjunction with our sale of stock strategy.
- 5.23 An advertisement for the sale of the business and assets was placed in the Financial Times on 28 November 2008. In addition, immediately upon appointment, the Joint Administrators prepared a "Business Lite" memo which was placed on the MCR website and distributed to known interested parties. The marketing of the business and assets has also been assisted by the significant press coverage that the administration has generated.
- 5.24 The Joint Administrators have been contacted by more than 80 parties expressing interest in purchasing either:
- the business and assets of the Company as a going concern,
 - the stock holding,
 - parts of the stock holding,
 - the customer list.
- 5.25 The Joint Administrators have prepared a Sale of Business Information Memorandum which has been issued to interested parties upon the return of a signed confidentiality agreement.
- 5.26 No further information can be provided at this time due to the sensitive nature of ongoing discussions and negotiations.

Book debts

MSP

- 5.27 In addition to the deposits referred to paragraph 5.18, upon appointment, the Company's MSP was retaining funds totalling approximately £7.5m as a provision for any chargeback's made against the Company for sales made between 6 October 2008 and 26 November 2008.
- 5.28 The Joint Administrators are currently liaising with the MSP regarding the release of all monies held. It is presently uncertain as to how much may be paid across to the insolvent estate.

Black Horse Retail Finance

- 5.29 In addition to the above, BHRF was also holding approximately £4.0m which is due to the Company. Again the Joint Administrators are liaising with BHRF regarding the collection of these monies.

Monies held by administrators of Retail

- 5.30 The Joint Administrators understand that approximately £60k of pre-appointment sales receipts were banked into a bank account operated by Retail. The Joint Administrators are currently reconciling this position with the administrators of Retail in the anticipation of recovering these monies for the benefit of the Company's creditors.

Property

- 5.31 Following the MBO, it was the intention to assign the various store and other leases from Properties to the Company. Whilst negotiations had commenced in this regard, no formal assignments had taken place at the time of the Joint Administrators appointment.

Cash at Bank

- 5.32 There were minimal funds held in the Company's bank account at the date of appointment as the majority of the working capital funds were held up with either the Company's MSP or BHRF.

Store Takings

- 5.33 Shortly following the appointment, cheques/takings totalling approximately £119k were banked in the Administration estate account. It has since transpired that a number of these payments were deposits for future orders and a number of cheques have now been stopped. The Joint Administrators are therefore in the process of reconciling these receipts to ensure that funds are only retained where the goods have been delivered.

Fixtures, fitting and equipment ("FF&E")

- 5.34 The Joint Administrators have instructed independent agents, to value the FF&E. To date no realisations have been made.

Motor vehicles

- 5.35 The Company does not have any owned motor vehicles as all vehicles are either held on rental or hire purchaser agreements. The Joint Administrators do not believe that there is any equity in the vehicles.

Other Assets

- 5.36 The Joint Administrators are continuing to review the Company's books and records to see if there are any further assets which may be available for realisation in the administration.

Receipts and Payments

- 5.37 Attached at Appendix 2 is the Joint Administrators' receipts and payments accounts for the Company for the period 26 November 2008 to 5 December 2008. The receipts and payments account only reflects the actual monies received into the Administration estate bank accounts and therefore excludes other store takings which are still being processed/cash in transit and yet to be received.

Investigations

- 5.38 The Joint Administrators have a statutory obligation to file a report with the Department of Business Enterprise and Regulatory Reform ("DBERR") regarding the conduct of the directors that held office in the three years prior to the Administration. This report must be filed at DBERR within six months from the appointment date and the content of this report is confidential.
- 5.39 The Joint Administrators also have a duty to investigate antecedent transactions which include:
- Transactions at an undervalue, s238 of the Act;
 - Preferences, s239 of the Act; and
 - Transactions defrauding creditors, s423 of the Act
- 5.40 The Joint Administrators' investigations into the Company's affairs are currently ongoing. Should any creditors have information concerning the Company's affairs that they would like to bring to the Joint Administrators' attention, they would invite you to send your comments to them in writing.

Joint Administrators' Agents and Solicitors

- 5.41 The Joint Administrators engaged the following firms to assist with the sale of the Company's business and assets and other statutory matters:

Company	Role
Retail Agents 170 Limited	- Retail agents - assist with the supervision of trading at store level – fixed daily rate per consultant.
Speechly Bircham	- Solicitors - assist with placing the Company into Administration, applications to court, property and employee related matters and other ad hoc legal matters - hourly charge out rate.
PAYCO	- Employee Specialists - payroll and other associated matters - hourly charge out rate
Hilco Appraisal Europe Limited	- Chattels agents - Value stock and chattel assets - hourly charge out rate.

- 5.42 The Joint Administrators choice was based on their perception of the ability and experience to perform this type of work, the complexity and nature of the assignment and the basis of the Joint Administrators fee arrangement with them.

