



**CORPORATE
RESTRUCTURING**

Our ref: PFD/MTB/HXR/DTC/PDO002/556543/P3

Your ref:

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TO ALL KNOWN CREDITORS AND MEMBERS

Placed on the following websites:

www.mcr.uk.com

www.mfi.co.uk

24 June 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.

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, Chancery Division, Companies Court, London (full name of court)	<i>For court use only</i> 10575 of 2008

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

I/We (a) Philip Francis Duffy, Geoffrey Wayne Bouchier and Paul John Clark of MCR, 43-45 Portman Square, London, W1H 6LY,

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

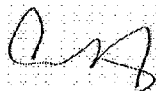
From

To

(b) Insert date

(b) 26 November 2008	(b) 25 May 2009
----------------------	-----------------

Signed



Joint Administrator

Dated

24 June 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
43-45 Portman Square
London
W1H 6LY

Tel: 020 7487 7240

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 26 November 2008 to 25 May 2009
pursuant to Rule 2.47(1) of the
Insolvency Rules 1986 as amended**

24 June 2009

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

Date of appointment: 26 November 2008

Date of report: 24 June 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
43-45 Portman Square
London
W1H 6LY



**CORPORATE
RESTRUCTURING**

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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
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

1. INTRODUCTION

- 1.1 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 jointly.
- 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 May 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, adverts 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 The Joint Administrators would have been obliged to hold a creditors' meeting if requested by creditors of the Company whose debts amounted to at least 10% of the total Company debt. A meeting was not convened as requests did not reach 10% in value 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 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 further distributions to the secured and preferential creditors are expected.



3. PROGRESS OF THE ADMINISTRATION

- 3.1 The manner in which the affairs and business of the Company have been managed since the appointment of the Joint Administrators and will continue to be managed and financed are set out below.
- 3.2 The Order obtained from the High Court of Justice on 3 December 2008, as detailed in paragraph 2.2, directed the Joint Administrators to post a copy of their Progress Report to creditors on the Company's website www.mfi.co.uk and MCR's website www.mcr.uk.com.
- 3.3 The Joint Administrators will place adverts in the Daily Mail and The Independent on or around the date the Progress Report to Creditors is finalised. Furthermore, should creditors require a paper copy, they are invited to write to this office or email mfi@mcr.uk.com stating "Joint Administrators' Progress Report to Creditors" as the subject.

Administration Strategy

- 3.4 Immediately following the appointment, 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 and installations whilst a complete review of all customers orders was undertaken to determine those which may 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.

Administration trading period

- 3.5 A going concern sale of the business was not possible due to a number of factors:-
- Uncertainties surrounding the ability of the Company or any subsequent purchaser to occupy the properties;
 - Ability of the Company to obtain future supplies;
 - The significant loss making position of the business.
- 3.6 Accordingly, the Joint Administrators adopted a phased store closure strategy which included the realisation of in-store fixtures and fittings.
- 3.7 The Joint Administrators introduced a number of new procedures including the use of a RAL representative at each of the stores. By maintaining an on-site presence the Joint Administrators' ensured they retained control over, thereby protecting, the Company's assets.
- 3.8 The phased closure of the Company's stores was concluded on 14 December 2008 and all stores were returned to the lessees being either Properties or Retail.
- 3.9 Administration trading sales of in-store display stock totalled c£11.3m, excluding VAT, of which £2.3m and £429k has been withheld by the Company's MSP and Amex respectively. The balance of £8.6m has been banked into the Administration estate account.



- 3.10 The Joint Administrators entered into a standard agreement with the MSP for the continued use of the credit and debit card facilities at the Company's stores. This was required to maintain operations at the stores throughout the Administration trading period. The Joint Administrators are aware that certain credit and debit card charge-backs are being charged to the funds held by the MSP which relate to the period prior to their appointment, however, it is uncertain as to the timing or quantum of such recovery.
- 3.11 Amex have retained £429k of Administrators sales in order to set-off their pre-appointment chargeback liability. At the date of this report the Joint Administrators are in negotiations with Amex in order to recover these monies.
- 3.12 The Joint Administrators estimate that after costs including employee wages, utilities and other trading expenditure a surplus of c£3.5m will be realised, including the £429k of Amex funds. This is subject to a final reconciliation.

Stock

Retention of Title claims ("ROT")

- 3.13 At the date of the Joint Administrators' appointment the Company held stock, excluding appliances, with a cost value of c£40m.
- 3.14 The majority of stock was held at the NDC with additional stock held in the three HDC's.
- 3.15 The Joint Administrators received in excess of 40 ROT claims and the Joint Administrators have resolved all ROT claims, with the exception of 2.
- 3.16 The Joint Administrators reached commercial settlements with certain of the ROT creditors totalling c£1.3m which enabled the sale of display items located in stores and maximised asset realisations for the benefit of the Administration.

Stock sale

- 3.17 Stock with a book value of c£24m was held in the NDC. Much of this stock was obsolete and unbalanced, for example various components of a unit were present whilst other components were not. This significantly reduced the value of stock held.
- 3.18 The Joint Administrators engaged valuation agents Hilco Appraisal in order to assist with the sale of stock. Ongoing stock holding costs were significant at c£120k per week. In addition to this in order to balance and identify stock, the US based computer systems had to be kept online at a cost of c£120k per week.
- 3.19 A number of offers were received for either part or all of the stock. As a result of the large ongoing holding costs only those offers for all of the stock could be considered.
- 3.20 On 15 January 2009 the Joint Administrators completed a sale of what right, title and interest the Company held over the stock to a company named CDS (International) Limited. The sale was agreed at c10% of the book value of stock plus an additional £250k. £1m was paid on completion and the balance of £1.625m was paid on 12 February 2009, therefore total consideration of £2.625m. This was significantly higher than any of the other offers and the valuation agents confirmed that the Joint Administrators should accept it.

- 3.21 In excess of 100 interested parties expressed an interest in certain of the assets and stock of the Company. The Joint Administrators are satisfied that all interested parties did come forward and the best value for the Company's stock was achieved.
- 3.22 In addition to the main stock deal, other stock sales totalling £193k have also been completed and the consideration has been received in full.
- 3.23 After the balance of the stock consideration was received on Friday 13 February 2009 all remaining employees that were employed at the HDC were made redundant. At the same time, contracts with former MFI employees, with the exception of the BHRF team, were terminated.
- 3.24 No further stock realisations are expected.

Customer Orders

- 3.25 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.
- 3.26 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 c£25m of charge-backs applied to the original balance of £30m. This leaves a balance of funds of £5m in addition to the balance of other asset realisations.
- 3.27 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.
- 3.28 The quantum or timing of any surplus monies from the MSP is not expected to be known until at least October 2009 after which the majority of customer charge-backs are expected to have been adjudicated upon.

Book debts

Black Horse Retail Finance

- 3.29 At the date of the Joint Administrator's Proposals, it was estimated the Company's third party customer finance provider BHRF was holding funds of c£4.5m in respect of finance agreements arranged for goods supplied by the Company. The Joint Administrators engaged a team of former MFI employees to assist in the recovery of these funds for the benefit of the insolvent estate.
- 3.30 The team has negotiated with customers who had not fully received the goods they had purchased and entered into discussions to offer a suitable remedy. This ranged from a reduction in the finance price of the agreement to a cancellation where no goods had been delivered. These negotiations are continuing.
- 3.31 At the request of BHRF, the Joint Administrators will continue to employ an MFI employee until 31 August 2009 to assist with any customer issues. BHRF have released an interim payment of £30,000 to meet the costs of this process.
- 3.32 The Joint Administrators are working with BHRF in order to secure the release of the balance of these funds which is expected to be in excess of £1.5m. Receipt of these monies are expected towards the end of 2009.

- 3.33 To date c£191k 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

- 3.34 The sum of £87,467 has been received into the Administration bank account from pre-appointment sales receipts banked into the account operated by Retail.
- 3.35 No further realisations are expected.

Property

- 3.36 As detailed in paragraph 3.7 all of the MFIGL stores open at the date of appointment have now been returned to the lessees, being Retail or Properties.
- 3.37 The Joint Administrators have worked extensively 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.

Cash at Bank

- 3.38 At the date of the Proposals the Company's bank account held minimal funds. During the phased closure of the Company's stores £305,548 has been realised from funds held at store level.
- 3.39 No further realisations are expected.

Store takings

- 3.40 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 stopped following appointment.

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

- 3.41 To date the sum of £3.5k has been realised from the disposal of FF&E. Please note store FF&E was sold during the stores phased closedown and therefore represented within the Administration sales figure, as detailed in paragraph 3.8.
- 3.42 No further realisations are expected.

Motor vehicles

- 3.43 As mentioned in the Proposals the Company did not own any vehicles and consequently there will be no realisations.

Other Asset realisations

Computer equipment

- 3.44 Much of the Company's computer hardware was located in the United States. This was marketed extensively however the only offer was received from CIBER Europe Limited. The final consideration received was US \$400k on 18 February 2009.
- 3.45 In addition, workstations and peripherals from the head office were sold for £21,000.

3.46 No further realisations from this class of asset are expected.

Küchen Lab

3.47 The Joint Administrators facilitated collection of certain complete Küchen Lab kitchens where they had been delivered to the warehouse and final payment received.

3.48 Where customers had received part of their delivery or only "remedial" items remained to be delivered, the Joint Administrators facilitated the collection of the balance of the kitchen or the remedial items in order to reduce any potential charge-back liability.

3.49 No further realisations are expected.

Sundry receipts

3.50 The following sundry receipts have also been realised to date:

	(£)
Bank Interest	7,103.00
Rates Refund	1,454.00
VAT Duty Bond	150,334.00
Insurance Commission	31,766.00
Miscellaneous income	643.00
	<u><u>191,300.00</u></u>

Brands

3.51 The Company has several well established brands including Hygena, Schreiber, Diplomat and Küchen Lab. The Joint Administrators have extensively marketed these brands.

3.52 After receiving a number of offers the Joint Administrators concluded a sale of the Hygena brand on 24 April 2009 to Argos Limited for £400k.

3.53 The Schreiber brand is recognised as a premium brand and based upon indicative offers is expected to realise significant value to the Administration. There are currently legal challenges relating to the brand trademarks and the Joint Administrators are working closely with their legal advisors in order to ensure the maximum value is achievable before looking to complete any sale. There are expressions of interest for this brand from a number of parties.

3.54 The Joint Administrators are continuing to market the Diplomat and Küchen Lab brands.

3.55 In accordance with Rule 2.47(f) of the Rules, the Joint Administrators are not aware of any other potential asset realisations.

4. JOINT ADMINISTRATORS' RECEIPTS AND PAYMENTS ACCOUNT

4.1 A detailed Receipts and Payments account for the period 26 November 2008 to 25 May 2009 is shown at Appendix 3.

