



**CORPORATE
RESTRUCTURING**

Our ref: PFD/MTB/HXR/DTC/PDO002/911516/3

Your ref:

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Email:
mfi@mcr.uk.com

TO ALL KNOWN CREDITORS AND MEMBERS

Placed on the following website:

www.mcr.uk.com

22 June 2010

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.

Pursuant to the Order from the High Court of Justice on 3 December 2008 the Joint Administrators have made the Progress Report available to the creditors on 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, Companies Court, Chancery Division (full name of court)	For court use only 10575 of 2008

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

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

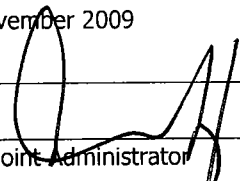
Administrators of the above company attach a progress report for the period

From

To

(b) Insert date

(b) 26 November 2009	(b) 25 May 2010
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Signed 
Joint Administrator

Dated 22/06/10

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
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 November 2009 to 25 May 2010
pursuant to Rule 2.47(1) of the
Insolvency Rules 1986 as amended**

22 June 2010

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

Date of appointment: 26 November 2008

Date of report: 22 June 2010

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
The Chancery
58 Spring Gardens
Manchester
M2 1EW**

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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
MFI Retail Limited (In Administration)	Retail
MFI Properties Limited (In Administration)	Properties
American Express Europe Limited	Amex
Black Horse Retail Finance	BHRF
Merchant Services Provider	MSP
Statement of Affairs	SofA
EC Regulation on Insolvency Proceedings 2000	EC Regulation
Transitional Services Agreement	TSA
Statement of Insolvency Practice 9	SIP9
The High Court of Justice	the Court
Progress report per Rule 2.47 of the Rules	Progress report
Department for Business Innovation and Skill	BIS
Insolvency Practitioners' Compliance Unit	IPCU

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 of 26 November 2009 to 25 May 2010.

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 Court 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 and Progress reports 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 A copy of the Proposals and subsequent Progress reports dated 5 December 2008 and 17 December 2009 can be found on www.mcr.uk.com.
- 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 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 As detailed in the Proposals, the Joint Administrators were unable to achieve the first and second objectives and believe the third objective has been 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 c£428k of Joint Administrators' gross 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.
- 3.4 The Joint Administrators estimate that a final trading surplus of c£3.3m will be realised, excluding £366k of Amex net funds. A number of rating authorities and utility providers have to provide the correct billing information before this figure can be finalised.

Stock

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

MSP Funds

- 3.7 It was estimated that the Company's MSP was holding c£30m at appointment 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. Since the Joint Administrators last report c£870k has been received from the MSP being the balance after their deductions for charge-backs.
- 3.9 No further realisations are expected from the MSP.

Book debts

Black Horse Retail Finance

- 3.10 As detailed in the Joint Administrators previous reports, BHRF held funds at the date of appointment of c£4.5m.
- 3.11 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 £30k to meet the costs of this process.
- 3.12 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 c£2.5m.
- 3.13 Since my last report £736k has been received bringing the total to c£1m. BHRF have agreed to release £100k per month with this position being reviewed in September 2010.

Monies held by administrators of Retail

- 3.14 The sum of c£87k has been written off as it has been set off against other liabilities arising under the TSA.

Property

- 3.15 As previously reported all of the MFIGL stores open at the date of appointment have been returned to the lessees, being Retail or Properties.
- 3.16 All post appointment non-domestic rates liabilities have been accounted for by the Joint Administrators, save the rates due on the post appointment occupation of the Company's head office. A Section 44a claim has been submitted to Barnet Council in order to reduce the Company's post appointment rates to reflect the areas of the head office which were utilised during between 26 November 2008 to 13 February 2009.

Store takings

- 3.17 It would appear that very few cheques were banked immediately following my appointment 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

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

	£
Bank Interest Gross	731
Insurance Commission	4,399
Sundry refunds	76
Sundry debtor	1,107
	<u>6,313</u>

Brands

- 3.19 Previous reports detail the sale of the Hygena and Schreiber brands.
- 3.20 The Joint Administrators have also received a number of expressions of interest for the MFI brand. The Joint Administrators anticipate a sale will be achieved during the next 6 months and I have engaged Metis Partners as agents in order to achieve the best value for this brand.

Other Assets

- 3.21 In accordance with Rule 2.47(1)(f) of the Rules, the Joint Administrators are not aware of any other potential asset realisations.

4. INVESTIGATION

- 4.1 The Joint Administrators have a statutory obligation to file a report with the BIS 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 IPCU 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 Since the Joint Administrators last report a further distribution of £3.7m has been made to Retail bringing the total to £8.2m.
- 5.4 There will be insufficient realisations to repay Properties or Retail in full however further distributions are expected, the quantum of which depends upon the outcome of the Administration.

Preferential Creditors

- 5.5 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 The Joint Administrators distributed £592k in settlement of former employees preferential claims being 100p in the £.
- 5.7 There will be no further preferential distributions.

Prescribed Part pursuant to Section 176A of the Act

- 5.8 An Order was granted on 16 February 2009 by the 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

- 5.9 According to the directors' SofA, non-preferential creditors total £27.8m. The non-preferential creditors can be summarised as follows:

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

- 5.10 According to management information, customer creditors who paid by cash, cheque and non-VISA debit card total c£8.5m.
- 5.11 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 Detailed receipts and payments accounts, for the periods 26 November 2008 to 25 May 2010 and 26 November 2009 to 25 May 2010 is shown at Appendix 3.

7. COSTS AND EXPENSES

- 7.1 The time costs of the Joint Administrators and their staff for the period 26 November 2008 to 25 May 2010 are analysed at Appendix 4 in accordance with SIP9. To date, the Joint Administrators' time costs total £1.2m and £1m 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 The Court has granted a further 12 month extension of the Administration, to 25 May 2011, in order to finalise the outstanding matters. A copy of Form 2.31B is attached at Appendix 5.
- 9.4 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 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.
- 9.5 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.
- 9.6 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 Under Rule 2.47 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 circulated no later than 25 December 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 Stephen Prior 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:	Formerly:
	11 St James Square Manchester M2 6DN	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**

IN THE HIGH COURT OF JUSTICE

No. 10575 of 2008

CHANCERY DIVISION

COMPANIES COURT

Before Chief Registrar Baister

IN THE MATTER of MFI GROUP LIMITED

AND IN THE MATTER OF THE INSOLVENCY ACT 1986



ORDER

UPON reading the evidence filed in support of the Application

AND PROVIDED THAT the Joint Administrators:

- (A) Place details of their appointment on the websites www.mfi.co.uk and www.mcr.uk.com and have advertised their appointment in The Independent newspaper on 1st December 2008, the Joint Administrators be granted relief from the obligations imposed upon them by Paragraph 46(3) of Schedule B1 to the Insolvency Act 1986 to send notice of the Joint Administrators' appointment to each creditor of MFI Group Limited of whom they are aware; and
- (B) Within seven days of the date of this Order advertise the content of this Order and availability of reports and proposals on the websites www.mfi.co.uk and www.mcr.uk.com and place advertisements in two national newspapers, namely The Independent and The Daily Mail.

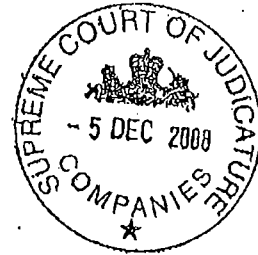
IT IS ORDERED that:

1. The Joint Administrators are relieved by the Court from the obligation to serve reports and their proposals on the creditors of the Company under paragraph 49 of Schedule B1 to the Insolvency Act 1986 and rules 2.46 and 2.47 of the Insolvency Rules 1986.

5580060.1

2. The costs of this application are costs in the Administration.

Dated 3rd December 2008



APPENDIX 3

Joint Administrators' Receipts and Payments Account

