Rule 2 47

Form 2 24B(CH)

The Insolvency Act 1986

Administrator's progress report

Name of Company	Company Number
Cheval Property Finance Plc	03131133

In the	Court case number
High Court of Justice, Chancery Division, Companies Court (full name of court)	537 of 2011

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

~~I~~/ We (a) Robert Hunt and Karen Dukes, of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT

administrator(s) of the above company attach a progress report for the period

(b) Insert dates

from	to
(b) 31 July 2011	(b) 30 January 2012

Signed ______________________

Joint / Administrator(s)

Dated 15/2/2012

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 searchers of the public record

Aidan Donaldson	
PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT	
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DX Number	DX Exchange

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Companies House, Crown Way, Cardiff, CF14 3UZ **DX 33050 Cardiff**

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Cheval Property Finance Plc – in liquidation and formerly in administration
High Court of Justice, Chancery Division, Companies Court
Case No. 537 of 2011

The former Joint Administrators' final progress report
15 February 2012

Contents

1. Former Joint Administrators' final progress report

Introduction

The former Joint Administrators ("the Administrators") previously reported on 19 August 2011 and are pleased to provide their final progress report on the Administration of Cheval Property Finance Plc ("the Company") pursuant to Rules 2 47 and 2 110 of the Insolvency Rules 1986 ("IR86").

The former Administrators are required to provide certain statutory information pursuant to Rule 2 47(1) IR86, which is shown in Section 2 to this report The former Administrators are also required to provide a summary of their proposals, which is shown at Section 3

Details of the steps taken during the Administration, assets still to be realised and the outcome of the Administration are set out below

Steps taken during the Administration

Background information and initial actions taken by the Administrators

When the Administrators were appointed on 31 January 2011, the position was as follows

- The Company was the non-trading holding company of six wholly owned subsidiaries (together "the Group") The Group was established in 1995 and provided bridging finance primarily for residential house buyers The Company provided the head office function for the Group, owned the IT platform and brand, and employed a workforce of 10
- Funding was in the form of a £16 8m loan from Volkomen Financiering B.V ("Volkomen"), secured by a debenture conferring fixed and floating charges over the Company's assets
- The Company was also indebted to Clydesdale Bank Plc ("Clydesdale") in respect of a £25m loan swap which attracted an interest charge of circa £100k per month This debt was also secured and ranked behind Volkomen
- During the two years prior to the Administrators' appointment, the Group experienced financial difficulties due to an increased number of borrowers defaulting on loans, a fall in the value of its collateral, higher borrowing costs and a decrease in the quality and quantity of new business
- In March 2010, Volkomen engaged PricewaterhouseCoopers LLP ("PwC") to produce an independent business review ("IBR") to assist it in considering the appropriate strategy with respect to its lending
- The IBR was delivered in May 2010 The key conclusions included the fact that the Company was insolvent on both a balance sheet and cash-flow basis, and that any sale of the Company's business and assets to a third party would crystallise a substantial shortfall in respect of Volkomen's secured lending of £16 8m. Also, shareholder disenfranchisement meant that any proposal for consensual restructuring would likely be rejected
- In June 2010 Volkomen engaged PwC to prepare for a possible Administration of the Company on the assumption that this would be supported by both the directors and Clydesdale as second qualifying floating charge holder.
- The Administrators understand that from June 2010 onwards, further discussions took place with the Company's other stakeholders and Volkomen entered into negotiations with the Financial Services Authority, with whom certain of the Group's companies were registered, to obtain approval for a potential change of ownership in the Group.
- On 4 January 2011 Volkomen formally demanded that the full amount of the loan balance be repaid on 4 April 2011 Consequently, on 20 January 2011 the majority of the Company's directors resolved to apply to the High Court for the appointment of administrators
- At the same board meeting, an offer of £16 5m was tabled for the shares of certain subsidiaries by Flexinet Limited and Checked Limited ("the Purchasers"), two companies funded by Volkomen This offer exceeded independent valuations previously obtained by the Company of £6 25m and was passed to the proposed administrators
- On 31 January 2011, Robert Hunt and Karen Dukes were appointed as Administrators of the Company by order of the High Court

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In the period prior to their appointment, the Administrators considered alternative courses of action for the Company, including trading in administration whilst a purchaser was sought, and winding down the Company

As detailed in the Administrators' initial letter to creditors of 4 February 2011 (a further copy of which is available on request), the administrators-in-waiting concluded that a pre-packaged sale of the Company's assets in administration would result in a better outcome for creditors as a whole

Sale of business and assets

On 2 February 2011, the Company's business and the majority of its assets, including the entire issued share capital of four of its subsidiaries, were sold to the Purchasers for £16 5m As disclosed in the Administrators' letter of 4 February 2011, the Purchasers are owned and financed by Volkomen The Administrators understand that Martin Chesler, a former director the Company, is a director of the Purchasers

The allocation of consideration was as follows (£) -

All issued shares in the following subsidiaries:	
• Cheval Bridging Finance Limited	7,739,000
• Cheval Finance Limited	7,800,998
• Cheval Commercial Finance Limited	1
• Cheval Specialist Bridging Limited	1
All business intellectual property	100,000
The IT platform	820,000
Equipment	40,000
Assignment of all material contracts	100
Total	16,500,100

All shares were acquired without intra group debt owing to the Company, which was settled by the issue of fresh ordinary shares in these companies

The Company's shareholdings in Cheval Property Developments Limited ("CPD") and Cheval Capital Partners Limited ("CCP") were excluded from the sale Administrators were appointed to CPD on 20 June 2011. It is understood that the directors of CCP are considering their options in respect of that company

Other issues

Leasehold property

Under the terms of the business sale agreement, the Purchasers were granted a licence to occupy the Company's leasehold premises at Meridien House, Clarendon Road, Watford ("the Premises")

The Purchasers vacated the Premises on 23 June 2011 There being no value in the lease, a surrender of the Company's leasehold interest has been offered to the landlord

Administration of CPD

As stated above CPD went into administration on 20 June 2011 The Administrators have dealt with a number of queries from CPD's administrators in regard to inter-company transactions between the Company and CPD

Tax

The Administrators prepared corporation tax computations for the period up to the date of their appointment and to the date of their ceasing to act as Administrators

Liaison with Purchasers post sale of business

As stated above, the Company's business was sold immediately after the Administrators' appointment In accordance with the provisions of the sale agreement, certain matters have required close working between the Company and the Purchasers in order to facilitate transition of the business to the Purchasers These matters have included. -

- Transferring balances held in the Company's various bank accounts,
- Repaying an interest rate swap break fee to Clydesdale;
- Accounting to the Purchasers for funds received by the Company after the sale,
- Remitting the balance of funds held by the Company on trust,
- Discussions with suppliers regarding the Purchasers' intentions,
- Assisting with the novation of key supplier contracts,

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- Liaison with regard to the Group tax position, and
- Liaison with regard to the liquidation/strike-off options for dormant group companies

Revisions to the Administrators' proposals

You may recall that one of the approved methods to end the Administration was via a Creditors' Voluntary Liquidation ("CVL"), with me and my colleague appointed liquidators

I was approached in September 2011 by the joint administrator of CPD to request that he and his colleague be appointed liquidators of the Company instead

Ostensibly this will provide the administrators of CPD with a greater level of understanding of the interconnections across the wider Cheval group of companies and control of the combined books and records in order to more fully investigate the events leading up to the insolvency of both companies.

I believe that this alternative approach is in the best interests of all creditors, because it will:

- avoid the higher costs involved with extending the administration and seeking court sanction to distribute to unsecured creditors,
- enable the administrators of CPD to obtain the company records,
- provide a liquidator with further powers to investigate the events leading up to the Administration of the Company,
- provide greater clarity on the interconnections between the Company, CPD and other group companies, and
- remove any time-critical factors when conducting a creditor claim adjudication process

Pursuant to Paragraph 54(1) Schedule B1 to the Insolvency Act 1986 ("IA86"), creditor approval for a revision to the Administration proposals such that Malcolm Fillmore and Ranjit Bajjon be appointed liquidators was obtained on 26 January 2012

Exit route from Administration

As outlined above, in accordance with the revised proposals approved by creditors, the Company entered into CVL on 8 February 2012, with Malcolm Fillmore and Ranjit Bajjon appointed as joint liquidators

Final receipts and payments account

An account of the final receipts and payments in the Administration for the period from 31 July to 30 January 2012 is set out in section 4 to this report

Expenses statement

A statement of the expenses incurred by the Administrators in the period 31 July 2011 to 30 January 2012 is included at Section 5

Administrators' remuneration

The Adminstrators' remuneration was approved on a fixed fee basis by Volkomen, as secured creditor.

The Administrators drew remuneration of £75,000 on 8 June 2011 A further final fee of £5,000 was drawn prior to closure.

Creditors' rights

A statement of creditors' rights in relation to the Administrators' remuneration and expenses is set out at Section 6

Outcome for creditors

The secured creditor has recovered £16,460,000 under its fixed charge security over the Company's assets It is anticipated that the secured creditor(s) will suffer a shortfall

The Company has no preferential creditors

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It is anticipated that funds of £339,000 will become available for non-preferential unsecured creditors by virtue of Section 176A of the Insolvency Act 1986 ("IA86") and has been passed to the joint liquidators for distribution in due course The return for this class of creditor is estimated at 6 pence in the pound

If you have not already submitted your claim, please complete, sign and send the enclosed form, together with any supporting documentation, for the attention of Malcolm Fillmore at Atherton Bailey LLP, Arundel House, 1 Amberley Court, Whitworth Road, Crawley RH11 7XL.

Discharge

The Administrators shall be discharged from liability pursuant to Paragraph 98(1) of Schedule B1 to the Insolvency Act 1986 in respect of any action of theirs as Administrators on 30 January 2012

Next report

The next report to creditors will be circulated by the liquidators

Robert Hunt
Former joint administrator
Cheval Property Finance Plc

Robert Jonathan Hunt and Karen Lesley Dukes were appointed as joint administrators of Cheval Property Finance Plc to manage its affairs, business and property as its agents and act without personal liability Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales

2. Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court, 537 of 2011
Full name:	Cheval Property Finance Plc
Trading name:	Cheval Property Finance Plc
Registered number:	03131133
Registered address:	7 More London Riverside, London SE1 2RT
Company directors:	Jeffrey Harold Margolis, Allan Howard Kay, George Leo Benninger, Colin Halpern
Company secretary:	None
Shareholdings held by the directors and secretary:	None
Date of the Administration appointment:	31 January 2011
Administrators' names and addresses:	Robert Jonathan Hunt and Karen Lesley Dukes of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Changes in office holder:	None
Appointor's / applicant's name and address:	The directors of Cheval Property Finance PLC
Objective being pursued by the Administrators:	(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)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch B1 IA86, any act required or authorised under any enactment to be done by an administrator may be done by either or both (or all) of the administrators acting jointly or alone
Extensions to the period of the Administration:	None
End of the Administration:	Creditors' voluntary liquidation
Estimated dividend for unsecured creditors:	6 p/£
Estimated values of the prescribed part and the company's net property:	£465,000
Whether and why the Administrators intended to apply to court under Section 176A(5) IA86:	No
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to this Administration and the proceedings are the main proceedings

3. Summary of the former Joint Administrators' proposals

b. Proposals for achieving the purpose of the Administration

The Administrators make the following proposals for achieving the purpose of administration

i) The Administrators will continue to manage and finance the Company's business and affairs from the Company's cash reserves in such manner as they consider expedient with a view to 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)

ii) The Administrators may investigate and, if appropriate, pursue any claims that the Company may have under the Companies Acts 1985, 2006 or IA86 or otherwise In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of the Company or to maximise their realisations or for any other purpose incidental to these proposals

iii) If the Administrators think that funds will become available for unsecured creditors, the Administrators may at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement / scheme of arrangement and that the costs of so doing be met as a cost of the Administration as part of the Administrators' remuneration (where the Administrators think there will be sufficient funds for a distribution to unsecured creditors other than by virtue of the prescribed part) or out of the prescribed part as costs associated with the prescribed part (where the Administrators think that funds will become available to the unsecured creditors by virtue of the prescribed part but not otherwise).

iv) If the Administrators think that funds will become available for unsecured creditors, the Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Sch B1 IA86

v) The Administrators may use any or a combination of "exit route" strategies in order to bring the Administration to an end, but in this particular instance the Administrators are likely to wish to pursue the following options as being the most cost effective and practical in the present circumstances -

   (a) Once the Administrators have concluded all work within the Administration, the Administrators will file a notice under Paragraph 84(1) Sch B1 IA86 with the Registrar of Companies, following registration of which the Company will be dissolved three months later or apply to court under Paragraph 79 Sch B1 for the Administration to be ended and for the Company to be placed into compulsory liquidation, or

   (b) If it transpires that there are sufficient funds with which to make a distribution to unsecured non-preferential creditors once all work in the Administration has been concluded, the Administrators will place the Company into creditors' voluntary liquidation In these circumstances, it is proposed that Robert Jonathan Hunt and Karen Lesley Dukes be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either or both of them In accordance with Paragraph 83(7) Sch B1 IA86 and Rule 2 117A(2)(b) IR86, creditors may nominate alternative liquidators, provided that the nomination is made before the proposals are approved; or

   (c) Once all work in the Administration has been concluded, the Administrators will apply to the Court to allow the Administrators to distribute surplus funds, if any, to unsecured non-preferential creditors If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Sch B1 IA86, following registration of which the Company will be dissolved three months later If permission is not granted the Administrators will place the Company into creditors' voluntary liquidation or otherwise act in accordance with any order of the Court

3. Summary of the former Joint Administrators' proposals

vi) It is proposed that the unpaid pre-Administration costs detailed at Appendix A are approved for payment as expenses of the Administration In the circumstances of this case it will be for Volkomen as the sole remaining secured creditor to approve the payment of the unpaid pre-Administration costs as expenses of the Administration

vii) It is proposed that the Administrators' fees be fixed under Rule 2 106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No 9) be charged in accordance with the Administrators' firm's policy As the Administrators have stated that they think that the Company has insufficient property to enable a distribution to be made to non-preferential unsecured creditors other than by virtue of Section 176A IA86, it will be for Volkomen as the remaining secured creditor to determine these instead In any event, the basis of the Administrators' remuneration and Category 2 disbursements are to be fixed no later than 18 months after the date of the Administrators' appointment

Revised Proposals

i) That Malcolm Fillmore and Ranjit Bajjon of Atherton Bailey LLP be appointed joint liquidators of the Company and any act required or authorised to be done by the Joint Liquidators may be done by either or both of them In accordance with Paragraph 83(7)(a) Sch B1 IA86 and Rule 2 117A(2)(b) IR86, creditors may nominate alternative liquidators, provided that the nomination is made before the revised proposals are approved

4. Final receipts and payments account for the period 31 July 2011 to 30 January 2012

		Receipts and payments to 30 July 2011	Transactions 31 July 2012 to 30 January 2012	Receipts and payments to 30 January 2012
		£	£	£
Receipts				
Cash at bank	(Note 1)	703,610	0	703,610
Insurance refund		0	654	654
Book debt - dividend received		113	0	113
Third party funds		0	223	223
Interest		729	867	1,596
Total receipts		704,452	1,744	706,196
Payments		£		£
Statutory advertising		74	73	147
Insurance		507	434	941
Legal fees and expenses		10,178	11,786	21,964
Joint Administrators' remuneration and disbursements		75,029	5,370	80,399
Third party funds		0	223	223
Distribution to secured creditor Clydesdale Bank Plc		87,208	0	87,208
Repayment to Volkomen	(Note 2)	0	153,438	153,438
Bank charges		5	6	11
Irrecoverable VAT		17,056	3,446	20,502
Total payments		190,057	174,776	364,833
Balance at bank / (movement)	(Note 3)	514,395	(173,032)	341,363

Notes

1) Includes funding provided by Volkomen and receipt of funds from pre-appointment account
2) Funds returned to Purchaser as per Indemnity
3) Held in an interest-bearing bank account until 24 January 2012

5. Statement of expenses incurred from 31 July 2011 to 30 January 2012

Pursuant to Rule 2 47(1)(dc), the following is a statement of all costs (inclusive of VAT) incurred by the Administrators during the period of the report

	Paid (£)	Unpaid (£)	Total (£)
Statutory Advertising	88		88
Administrators' remuneration	6,000		6,000
Administrators' disbursements	444		444
Legal fees	14,143		14,143
Insurance	434		434
Bank charges	6		6
	21,115	**0**	**21,115**

6. Statement of creditors' rights

The IR86 provide for creditors to request further information and challenge the Administrators' remuneration and expenses. The relevant provisions are as follows -

Rule 2.48A Creditors' request for further information

(1) If—

- (a) within 21 days of receipt of a progress report under Rule 2 47—
  - (i) a secured creditor, or
  - (ii) an unsecured creditor with the concurrence of at least 5% in value of the unsecured creditors (including the creditor in question), or
- (b) with the permission of the court upon an application made within that period of 21 days, any unsecured creditor,

makes a request in writing to the administrator for further information about remuneration or expenses (other than pre-administration costs) set out in a statement required by Rule 2 47(1)(db) or (dc), the administrator must, within 14 days of receipt of the request, comply with paragraph (2)

(2) The administrator complies with this paragraph by either—

- (a) providing all of the information asked for, or
- (b) so far as the administrator considers that—
  - (i) the time or cost of preparation of the information would be excessive, or
  - (ii) disclosure of the information would be prejudicial to the conduct of the administration or might reasonably be expected to lead to violence against any person, or
  - (iii) the administrator is subject to an obligation of confidentiality in respect of the information,

  giving reasons for not providing all of the information.

(3) Any creditor, who need not be the same as the creditor who requested further information under paragraph (1), may apply to the court within 21 days of—

- (a) the giving by the administrator of reasons for not providing all of the information asked for, or
- (b) the expiry of the 14 days provided for in paragraph (1),

and the court may make such order as it thinks just

(4) Without prejudice to the generality of paragraph (3), the order of the court under that paragraph may extend the period of 8 weeks provided for in Rule 2 109(1B) by such further period as the court thinks just "

6. Statement of creditors' rights

Rule 2.109 Creditors' claim that remuneration is or other expenses are excessive

(1) Any secured creditor, or any unsecured creditor with either the concurrence of at least 10% in value of the unsecured creditors (including that creditor) or the permission of the court, may apply to the court for one or more of the orders in paragraph (4)

(1A) Application may be made on the grounds that—

(a) the remuneration charged by the administrator,
(b) the basis fixed for the administrator's remuneration under Rule 2 106, or
(c) expenses incurred by the administrator,

is or are, in all the circumstances, excessive or, in the case of an application under sub-paragraph (b), inappropriate

(1B) The application must, subject to any order of the court under Rule 2.48A(4), be made no later than 8 weeks after receipt by the applicant of the progress report which first reports the charging of the remuneration or the incurring of the expenses in question ("the relevant report")

(2) The court may, if it thinks that no sufficient cause is shown for a reduction, dismiss it without a hearing but it shall not do so without giving the applicant at least 5 business]days' notice, upon receipt of which the applicant may require the court to list the application for a without notice hearing If the application is not dismissed, the court shall fix a venue for it to be heard, and give notice to the applicant accordingly

(3) The applicant shall, at least 14 days before the hearing, send to the administrator a notice stating the venue and accompanied by a copy of the application, and of any evidence which the applicant intends to adduce in support of it

(4) If the court considers the application to be well-founded, it must make one or more of the following orders—

(a) an order reducing the amount of remuneration which the administrator was entitled to charge,
(b) an order fixing the basis of remuneration at a reduced rate or amount,
(c) an order changing the basis of remuneration,
(d) an order that some or all of the remuneration or expenses in question be treated as not being expenses of the administration,
(e) an order that the administrator or the administrator's personal representative pay to the company the amount of the excess of remuneration or expenses or such part of the excess as the court may specify;

and may make any other order that it thinks just, but an order under sub-paragraph (b) or (c) may be made only in respect of periods after the period covered by the relevant report

(5) Unless the court orders otherwise, the costs of the application shall be paid by the applicant, and are not payable as an expense of the administration