

Administrator's progress report 2.24B(CH)

Name of Company H2O Networks Limited	Company Number 04896797
In the High Court of Justice, Chancery Division, Companies Court (full name of court)	Court case number 1501 of 2011

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

We (a) Toby Scott Underwood and David James Kelly of PricewaterhouseCoopers LLP, 101 Barbirolli Square, Lower Mosley Street, Manchester, M2 3PW

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

from

to

(b) 18 April 2011

(b) 17 October 2011

(b) Insert dates

Signed

Joint Administrator

Dated

14/11/2011

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.

Clare Davison	
Benson House, 33 Wellington Street, Leeds, LS1 4JP	
	Tel 0113 289 4062
DX Number	DX Exchange

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



A38

16/11/2011

250

COMPANIES HOUSE

WEDNESDAY



To all known Creditors

14 November 2011

Our ref: CND/281011/H2O/420

Dear Sirs

H2O Networks Limited - in Administration ("the Company")

In accordance with Rule 2 47 of the Insolvency Rules 1986 ("IR86"), the Joint Administrators ("the Administrators") write to provide creditors with details of the progress of the Administration of the Company in the six months since the Administrators' appointment on 18 April 2011

The Administrators are required to provide certain statutory information pursuant to Rule 2 47(1)(a) to (d) IR86, which is included in Appendix A

At this time the Joint Administrators are unable to provide a reliable estimate of the likely dividend to creditors as there are material uncertainties regarding future net realisations and the final level of creditor claims. These matters are discussed below

Statutory and financial information

The Administrators enclose the following for your information

- Appendix A Statutory information in respect of the Company,
- Appendix B Administrators' receipts and payments accounts to 17 October 2011,
- Appendix C Expenses incurred to 17 October 2011,
- Appendix D Statement of Creditors Rights
- Appendix E Administrators' time costs to 17 October 2011 together with charge out rates for PricewaterhouseCoopers LLP
- Form 2 24B Notice of the Administrators' progress report
- Form D355F Statement of Claim Form

Overview of the administration

The Company's business and assets (excluding balances due from the 13 Group and shares in two joint ventures) were sold to CityFibre Networks Limited ("CFN") on 18 April 2011. Full disclosure of this transaction was provided in the initial letter to creditors on 26 April 2011. The total consideration for the sale was £4.7 million, £3.4 million being paid on completion, with £1.3 million deferred until October 2011. The deferred consideration is secured by a first ranking debenture over the assets of CFN.

An update on each of the remaining assets and the deferred consideration is detailed below

*PricewaterhouseCoopers LLP, Benson House, 33 Wellington Street, Leeds LS1 4JP
T: +44 (0) 113 289 4000, F: +44 (0) 113 289 4460, www.pwc.co.uk*



Asset Realisations

Deferred Consideration

As detailed above, deferred consideration of £1.3 million was due on 18 October 2011. CFN contacted the Administrators' prior to this date to discuss an alternative payment schedule.

CFN paid £92,000 on 18 October 2011, with a further £200,000 now payable on 30 November 2011 and the balance of £1,008,000 due on 31 January 2012. In consideration for the change in payment timing, an additional amount of £62,500 is payable by CFN.

The deferred consideration is secured by a first ranking debenture over the assets of CFN.

Shares in joint ventures

The Company held shares in two joint ventures, H2O Ireland Limited and H2O Communications Limited. The administrators have concluded that these contain no value and therefore no funds are expected from this source.

Balance due from Earlestown Technology Limited (formerly i3 Group Limited)

Earlestown Technology Limited ("Earlestown") owes the Company £11.5 million. The administrators approached Earlestown to discuss settlement, however, a notice of intention to appoint administrators was filed by Earlestown on 17 May 2011 and the company entered administration on 24 May 2011. The Administrators are in dialogue with Matthew Dunham and Les Ross of Grant Thornton LLP, the administrators of Earlestown.

The administrators of Earlestown have confirmed in their proposals that the estimated dividend to unsecured creditors is 1.4p in the £. This would mean that funds of c£161,000 would be paid into the Administration. However, the timing and certainty of this is currently unknown and is based on future realisations by Earlestown in administration.

Forensic investigations

We continue to investigate a number of unusual transactions which took place prior to our appointment. For confidentiality reasons, I am unable to give any further information at this stage, however if any of our investigations result in recoveries for the creditors of the Company, we will provide an update as soon as they are concluded.

Approval of the Administrators' proposals

On 3 June 2011 the Administrators circulated to creditors their proposals for achieving the purpose of the Administration.

The proposals were approved by creditors without modification at a meeting held on 23 June 2011.

Receipts & payments account

Attached at Appendix B is an abstract of the receipts and payments in relation to the Company from the date of appointment on 18 April 2011 to 17 October 2011.



Expenses statement

A statement of the expenses incurred by the Administrators in the period 18 April 2011 to 17 October 2011 is included at Appendix C. This statement provides an estimate of expenses incurred and unpaid for the period, therefore are yet to be finalised and may be subject to adjustments before payment. The statement excludes any potential tax liabilities that may be payable as an expense of the Administration in due course because amounts will depend on the position at the end of the tax accounting period.

Administrators' remuneration

The Administrators' remuneration has been approved on a time costs basis by the general body of creditors; however, the Administrators have yet to draw any remuneration against the costs incurred.

The time costs charges incurred in the period covered by this report are £274,274.14. This represents 996.63 hours at an average hourly cost of £275.20. This amount does not necessarily reflect the amount that will be drawn as remuneration by the Administrators for this period in due course. In accordance with the Statement of Insolvency Practice 9, a full analysis of the Administrators' time costs and Category 2 disbursements for the period up to 17 October 2011 is provided in Appendix E.

Pre-Administration costs

The Administrators sought approval for the unpaid pre-appointment costs at the meeting of creditors. These costs were detailed in the Administrators' Proposals and as such costs of £113,425 have been drawn in full.

Creditors' rights

A statement of creditors' rights in relation to the Administrators' remuneration and expenses is set out at Appendix D.

Estimated outcome for creditors

Secured creditor

The administrators understand that there is a debenture registered in favour of Cityfibre Holdings Limited ("CFH") dated 22 February 2011.

In the directors' statement of affairs the amount listed against the debenture is £277,700, however, initially the Administrators understood that the amount due to CFH was £100,000.

This amount was subsequently adjusted by CFH to £307,768 in June 2011.

The administrators are still in discussions with CFH to determine the validity of this charge.

Preferential creditors

Preferential claims arise in respect of unpaid wages, subject to statutory limits, and holiday pay for employees. The administrators believe that there will be no preferential claims against the Company as all employees were transferred to the Purchaser on appointment.

Unsecured creditors

The Administrators' set the final date for proving as 17 October 2011. All unsecured creditor claims received to date have now been agreed and the current level of admitted claims is £82,044,423. The Administrators will declare and pay an interim dividend of 3p in the £ to unsecured creditors before 17 December 2011.



Prescribed Part

The Prescribed Part (Section 176A IA86 and the Insolvency Act 1986 (Prescribed Part) Order 2003) applies where there are floating charge realisations, net of costs, to be set aside for unsecured creditors. For each company, this equates to

- 50% of net property up to £10,000
- 20% of net property in excess of £10,000
- Subject to a maximum amount of £600,000

The Prescribed Part applies to the Company as there are charges created and registered at Companies House following the Prescribed Part order coming into force on 15 September 2003.

However, as the floating charge debt (subject to validity), will be discharged in full the Prescribed Part calculation will not be relevant as the unsecured creditors' position will not change.

Investigations into the conduct of directors

The Administrators have a duty to review the conduct of everyone who has acted as a director of the Company in the three years prior to the Administration and report to the Insolvency Service on their findings. I can confirm that this report has been completed and submitted. For confidentiality reasons, I am unable to give any further information.

Professional advisors

On this assignment the Administrators have used the professional advisors listed below. The Administrators have also indicated alongside, the basis of their fee arrangement with them.

Service Provided	Name of Professional Firm	Basis of Fee	Fees Taken
Legal Advice	Addleshaw Goddard LLP	Time costs	£41,298 82
Chattel agents and valuers	Edward Symmons LLP	Fixed Fee	£10,000 00

The choices were based on the Administrators' perception of the advisors' experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of the fee arrangement with them. The Administrators have reviewed the fees charged and are satisfied that they are reasonable in the circumstances of this case.

Ending the Administration

The Administrators currently envisage that once the objective of the Administration has been achieved and funds have been distributed to creditors they will file notice under Paragraph 84(1) Sch B1 IA86 with the Registrar of Companies, and the Company will be dissolved three months later.

Alternatively, the Administrators may, in accordance with their proposals, place the Company into creditors' voluntary liquidation.

Future reporting

Pursuant to Rule 2.47 of IR86, the Administrators will provide creditors with a further report on the progress of the Administration in six months time, or at the end of the Administration, whichever is sooner.



Should you have any further questions, please do not hesitate to contact my colleague, Clare Davison, on 0113 289 4062 or clare.n.davison@uk.pwc.com

Yours faithfully
For and on behalf of the Company

A handwritten signature in black ink, appearing to read 'Toby Underwood', written over a horizontal line.

Toby Underwood
Joint Administrator

Toby Scott Underwood and David James Kelly have been appointed as joint administrators of the Company to manage its affairs, business and property as its agents. Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

Appendix A: Statutory Information

Court details for the Administration:	1501 of 2011 High Court of Justice, Chancery Division, Companies Court
Full name:	H2O Networks Limited
Trading name:	H2O Networks Limited
Registered number:	04896797
Registered address:	Benson House, 33 Wellington Street, Leeds LS1 4JP
Company directors:	Mark Collins, William Mesch, Roy Shelton and Carl Cumiskey,
Company secretary:	David Fleming
Shareholdings held by the directors and secretary:	None
Date of the Administration appointment:	18 April 2011
Administrators' names and addresses:	Toby Underwood and David Kelly of PricewaterhouseCoopers LLP, 101 Barbirolli Square, Lower Mosley Street, Manchester, M2 3PW
Appointor's / applicant's name and address:	Applicant Total Asset Limited – in administration 1 City Square, Leeds, LS1 2AL
Objective being pursued by the Administrators:	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, during the period for which the Administration is in force, any function to be exercised by the persons appointed to act as Administrators may be done by any or all of the persons appointed or any of the persons for the time being holding that office.
Proposed end of the Administration:	Creditors Voluntary Liquidation or dissolution
Estimated dividend for unsecured creditors:	5-6p in the £, however, please note this is based on the creditors figures in the directors' statement of affairs and is subject to change dependent on final creditor claims received and further asset realisations
Estimated values of the prescribed part and the company's net property:	N/A
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	N/A
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 main proceedings

APPENDIX B

**H2o Networks Limited
(In Administration)
Administrators' abstract of receipts and payments**

**18 April 2011 to 17
October 2011**

	£
FIXED CHARGE REALISATIONS	
Intellectual Property Rights	1 00
Goodwill	1 00
	<u>2.00</u>
COST OF REALISATION / PAYMENTS	
	<u>0 00</u>
	0.00
DISTRIBUTIONS TO FIXED CHARGE CREDITORS	
Distribution to secured creditors	0 00
NET FIXED CHARGE REALISATIONS/(PAYMENTS)	<u>2.00</u>
FLOATING CHARGE REALISATIONS	
Intercompany Debtors	1,900,000 00
Customer Contracts	1,140,000 00
Stock (including network assets)	1,000,000 00
Trade Debtors	600,000 00
Plant (including vehicles and computers)	60,000 00
Business Name	1 00
Business Rights	1 00
Third Party Licences	1 00
Transferred Records	1 00
Deferred Consideration	(1,300,006 00)
Balance at Bank	9,298 53
Refunds	321 51
Interest	5,361 27
	<u>3,414,979.31</u>
COST OF REALISATION / PAYMENTS	
Agents' Fees	(10,000 00)
Legal Fees	(41,298 82)
Storage Costs	(643 91)
Statutory advertising	(147 24)
Pre appointment Office Holders' Fees	(113,424 82)
VAT Receivable	(33,083 14)
	<u>(198,597.93)</u>
PREFERENTIAL CREDITORS	
Employees arrears of wages and holidays	0 00
	<u>0.00</u>
DISTRIBUTIONS TO FLOATING CHARGE CREDITORS	
Distribution to secured creditors	0 00
NET FLOATING CHARGE REALISATIONS/(PAYMENTS)	<u>3,216,381.38</u>
UNSECURED CREDITORS	
Trade creditors	<u>-</u>
TOTAL BALANCE AT BANK	<u><u>3,216,383.38</u></u>

APPENDIX C**H2O Networks Limited
(In Administration)
Expenses accrued**

	Estimated accrued unpaid expenses	Expenses paid to 17 October 2011	Total expenses incurred to 17 October 2011
	£	£	£
PAYMENTS			
Agents' Fees	-	10,000 00	10,000 00
Legal Fees	-	41,298 82	41,298 82
Storage Costs	-	643 91	643 91
Statutory advertising	-	147 24	147.24
Pre appointment Office Holders' Fees	-	113,424 82	113,424 82
Office Holders' Fees (Note 1)	274,274 14	-	274,274.14
Office Holders' expenses	3,098 87	-	3,098 87
	277,373.01	165,514.79	442,887.80

Note 1 - The level of fees detailed represents time incurred by the Administrators' and their staff in dealing with the Administration and does not reflect the level of fees that will be drawn

Appendix D: 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 ☐

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

Appendix D: Statement of creditors' rights

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.

Analysis of time costs from 18 April 2011 to 17 October 2011

Appendix E

Aspect of Administration	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Support Staff	Total hours	Time costs £	Average hourly rate £
1 Strategy & Planning	22 00	38 50	3 45	26 40	4 35		4 80	99 50	37,919 80	381 10
2 Accounting and treasury			1 05	0 42	9 25	10 15		20 87	3,797.93	181 98
3 Statutory and other compliance	3 70		1 85	2 40	76 10	29 25		113 30	24,562 55	216 79
4 Investigations	15 00	53 50	20 10	77 50	246 00	78 70		490 80	122,267.80	249.12
5 Freehold/leasehold property					5 00			5.00	1,130 00	226 00
6 Reporting / Liaison with appointor	6 50	23 50		21 00			1 00	52 00	20,015 00	384.90
7 Creditors / Liabilities				17 80	47 51	17 50		82 81	18,535 66	223 83
8 Employees/Pensions					3 35	2 10		5 45	1,220.35	223 92
9 Tax/VAT	1 00			2 65	11 05	0 60		15 30	4,238.95	277 06
10 Book debts		38 50		60 50				99 00	34,875 50	352.28
11 Sale of Business	6 20		3 50					9 70	4,401 50	453 76
12 Other Assets				0 90				0 90	269 10	299 00
13 Closure	2 00							2 00	1,040 00	520 00
Total for period to 17 October 2011	56 40	154 00	29 95	209 57	402.61	138 30	5 80	996.63	274,274.14	275.20

Charge out rates per hour from 1 May 2011

- insolvency 520 436 383 299 226 142 76

Charge out rates per hour from 1 July 2011

- specialist 960 725 620 495 350 245 100

Category 2 disbursements (for services provided by the Administrators' own firm)

Photocopying At 4 pence per sheet copied, only charged for circulars to creditors and other bulk copying

Mileage At a maximum of 64p per mile (up to 2000cc) or 81p per mile (over 2000cc)

Category 1 disbursements - All other disbursements charge at cost

	Costs to 17 October 2011 £
548 61	
143 11	
2,407 15	
Total	3,098.87