

Liquidator's Progress Report**Pursuant to Sections 92A, 104A and 192 of the
Insolvency Act 1986****S.192**

To the Registrar of Companies

Company Number

04896797

Name of Company

(a) Insert full name of
company

(a) H20 Networks Limited – in Liquidation

(b) Insert full name(s)
and address(es)We (b) Toby Underwood and David Kelly of PricewaterhouseCoopers
LLP, Benson House, 33 Wellington Street, Leeds, LS1 4JPthe liquidators of the company attach a copy of our Progress Report
under section 192 of the Insolvency Act 1986The Progress Report covers the period from 3 April 2013
to 2 April 2014

Signed

Date 28/05/14.

Presenter's name,
address and
reference
(if any)Hugh Rothwell, PricewaterhouseCoopers LLP, Benson House, 33 Wellington Street, Leeds, LS1
4JP Tel 0113 289 4165

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COMPANIES HOUSE


**Second progress report
to members & creditors**

27 May 2014

Company **H2O Networks Limited - in Liquidation**
Registered Number **04896797**
Registered address **Benson House
33 Wellington Street
Leeds
LS1 4JP**
Type of Insolvency **Creditors' Voluntary Liquidation**
Date of Appointment **3 April 2012**
Appointees **Toby Underwood and David Kelly**
Address **PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW**

Dividend Prospects	Current estimate p in £	Previously paid p in £
Unsecured	Unknown	4

Please note that the guidance on dividend prospects is indicative only. It should not be used as the sole or principal basis of any bad debt provision decision.

H2O Networks Limited – In liquidation (“the Company”)

Report to Members & Creditors

In accordance with Rule 4 49C of the Insolvency Rules 1986 (“IR86”), this is the liquidators’ second progress report to members and all known creditors. Attached at appendix A is a summary of the financial information relating to the liquidation.

Background information and updates regarding the disposal of the Company’s assets have been provided to creditors in previous reports. This information is not repeated here for the purpose of this report.

Appointment of Administrators

On 18 April 2011, Toby Underwood and David Kelly of PricewaterhouseCoopers LLP were appointed Joint Administrators of the Company. The Administration was concluded on 3 April 2012, being the date the Company moved into Creditors’ Voluntary Liquidation.

Asset Realisations

The Company’s assets have been realised as follows:-

	Actual realisations £
Assets not specifically pledged	
Recoveries from investigations	29,375
Surplus from the Administration	1,899,129
Refunds	14
Interest	6,381
	<hr/> 1,934,899 <hr/>

Assets not specifically pledged

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

As reported in the administration, Earlestown Technology Limited (“Earlestown”) owed the Company £11.5million. Earlestown entered administration in May 2011 and has subsequently moved into liquidation.

We understand that there are unlikely to be any material distributions from the liquidation.

Forensic investigations

We have recovered £29,375 from a small investigation. In addition, as previously reported, the Liquidators and their legal advisers are continuing to investigate a small number of unusual transactions which took place prior to the administration. For confidentiality reasons, I am still unable to give any further information, or estimate potential recoveries from these investigations at this stage. However if our investigations result in recoveries for creditors of the Company, we will provide an update as soon as they are concluded.

Outcome for creditors

Secured creditors

As you are aware from previous reports, Cityfibre Holdings Limited ("CFH") had a debenture dated 22 February 2011. The amount due to CFH under the debenture was disputed during the administration

In the directors' statement of affairs the amount listed against the debenture was £277,700. CFH then submitted a claim for £307,768 which was disputed

We have now resolved the dispute and distributed £150,000 to CFH under the floating charge. This discharges CFH's lending in full.

Preferential creditors

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

Unsecured creditors

The unsecured creditor claims received and admitted total £82,047,212. The former Joint Administrators' declared and paid a first interim dividend of 3p in the £ to unsecured creditors on 14 November 2011 resulting in a total distribution of £2,461,332.72.

A second interim distribution of 1p in the £ was paid to unsecured creditors in the liquidation on 23 May 2012. Total funds distributed in relation to this dividend are £820,555.75.

A final distribution is expected to be paid to unsecured creditors, however the timing and quantum of this is currently unknown as it is dependent on the outcome of the forensic investigations.

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 would apply 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 has been discharged in full the Prescribed Part does not apply. This does not affect the position for unsecured creditors.

Investigations

The Liquidators have reviewed the affairs of the Company prior to liquidation and have also considered the points raised by creditors in discharging their duties under the Company Directors' Disqualification Act 1986.

Creditors are reminded that the Liquidators have a statutory obligation to consider the directors' conduct and to submit a return/report to the Insolvency Service. The Liquidators can confirm that they have complied with this requirement.

Professional Advisers

On this assignment the Liquidators have used the professional advisers listed below

Name of Professional Adviser	Nature of Work	Basis of Fee Arrangement	Fees paid in this period £
Addleshaw Goddard LLP	Legal advice in relation to the forensic investigations	Time costs	£101,248 18

The Liquidators' choice was based upon their perception of the advisers' 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 Liquidators have reviewed the fees charged and are satisfied that they are reasonable in the circumstances of the case.

Liquidators' remuneration

You may recall that during the preceding administration, in accordance with resolutions passed at the initial creditors meeting held on 23 June 2011, the former Administrators' fees were fixed under Rule 2 106 IR86 by reference to time properly given by the Administrators and their staff in attending to matters arising. In accordance with Rule 4 127 IR86, the remuneration basis agreed in the administration will continue in the liquidation.

In the year to 2 April 2014, the Liquidators have incurred time costs of £69,922.10. This represents 250.77 hours at an average hourly rate of £278.83. Total time costs incurred in the liquidation are £179,495 04, representing 626.81 hours at an average hourly rate of £286 36. To date, £75,000 has been drawn by the Liquidators.

It has been the Joint Liquidators' policy to delegate the routine administration of the liquidation to junior staff in order to maximise the cost effectiveness of the work performed. These staff have been supervised by senior staff and the liquidators. Any matter of particular complexity or significance that has required responsibility of an exceptional kind has also been dealt with by senior staff and the Liquidators.

Details of the time costs incurred from 3 April 2013 to 2 April 2014, by work category, are attached at Appendix C.

In common with all professional firms, scale rates increase from time to time over the period of the administration of each insolvency case. PricewaterhouseCoopers LLP, or any successor firm, reserves the right to change the rates and grade structure. Full details of the charge out rates charged to this case from this date are included at Appendix C. Specialist departments within PricewaterhouseCoopers LLP, such as tax, VAT, property and pensions, sometimes charge a small number of hours should the Liquidators require their expert advice. Their rates vary, however, the figures given provide an indication of the maximum rate per hour.

All staff who work on this assignment (including cashiers, support and secretarial staff) charge time directly to the assignment and are included within any analysis of time charged. Each grade of staff is allocated an hourly charge out rate which is reviewed from time to time. Work undertaken by cashiers, support and secretarial staff is charged for separately and is not included in the hourly rates charged by partners or other members of staff. Time is charged by reference to actual work carried out on the assignment in 6 minute units. The minimum time chargeable is 3 minutes (i.e. 0.5 units).

Liquidators' disbursements

Category 1 disbursements

The Liquidators' have incurred disbursements of £205.18 during the period 3 April 2013 to 2 April 2014. Disbursements of £150.25 have been drawn to date

Category 2 disbursements

The Liquidators' current disbursements policy, as approved by the creditors, is as follows.

1. Photocopying for circulars or any other bulk copying is charged at 4p per sheet,
2. Mileage – this is reimbursed at a maximum of 64p per mile (up to 2,000cc) and 81p per mile (over 2,000cc)

All other disbursements are reimbursed at cost. No disbursements have been incurred by the Joint Liquidators with respect to photocopying or mileage between 3 April 2013 and 2 April 2014. Disbursements will be drawn in full.

Receipts & payments account

Attached at Appendix A is an abstract of the receipts and payments up to 2 April 2014.

Expenses statement

A statement of the expenses incurred and paid by the Liquidators in the period 3 April 2013 to 2 April 2014 is included at Appendix B. The statement excludes any potential tax liabilities that may be payable as an expense of the Liquidation in due course because amounts due will depend on the position at the end of the tax accounting period.

Creditor's rights

An explanatory note giving creditors a statement of their rights in relation to the Liquidators' remuneration and expenses, and their rights to request further information, can be found online at

<http://www.icaew.com/~media/Files/Technical/Insolvency/creditors-guides/creditors-guide-to-liquidators-fees-england-and-wales-apr-10.pdf>

A copy may also be obtained free of charge by contacting Clare Davison on 0113 289 4062, or clare.n.davison@uk.pwc.com

Additional information

If any creditor requires further explanations on any aspect of the Liquidators' progress report, then please telephone or write to Clare Davison who will be pleased to deal with such enquiries, however, any request for further information regarding the Liquidators' remuneration or disbursements should be made in writing (Rule 4.49E).

In addition, should any creditor consider the Liquidators' remuneration and disbursements to be excessive or inappropriate, they have the right to challenge the amounts in accordance with Rule 4.131 IR86.

H2O Networks Limited - in Liquidation
Summary of financial information as at 2 April 2014

Appendix A

	Total for the period from appointment to 2 April 2013	For the period from 3 April 2013 to 2 April 2014	Total from appointment to 2 April 2014	Estimated outcome
	£	£	£	£
Fixed Charge Realisations				
Surplus from administration	2 00	-	2 00	2 00
	<u>2 00</u>	<u>-</u>	<u>2 00</u>	<u>2 00</u>
Fixed Charge Payments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance of Fixed Charge Funds	<u>2 00</u>	<u>-</u>	<u>2 00</u>	<u>2 00</u>
Floating Charge Realisations				
Recoveries from investigations	-	29,375 00	29,375 00	Unknown
Surplus from the administration	1,899,126 74		1,899,126 74	1,899,126 74
Refunds	14 23		14 23	14 23
Interest	4,048 01	2,332 51	6,380 52	7,800 00
	<u>1,903,188 98</u>	<u>31,707 51</u>	<u>1,934,896 49</u>	<u>Unknown</u>
Floating Charge Payments				
Insurance	(106 00)	-	(106 00)	(106 00)
Legal fees	(35,210 19)	(101,248 18)	(136,458 37)	(236,458 37)
Storage Costs	(162 82)	(145 41)	(308 23)	(600 00)
Statutory Advertising	(73 62)	(73 62)	(147 24)	(220 86)
Corporation Tax	(6,099 26)	(730 15)	(6,829 41)	(7,200 00)
Liquidators Fees	-	(75,000 00)	(75,000 00)	(175,000 00)
Liquidators Expenses	-	(150 25)	(150 25)	(250 00)
Bank Charges	(15 00)	(25 75)	(40 75)	(55 75)
VAT Account	-	(9,953 92)	(9,953 92)	-
	<u>(41,666 89)</u>	<u>(187,327 28)</u>	<u>(228,994 17)</u>	<u>(419,890 98)</u>
Distribution to secured creditor	(150,000 00)	-	(150,000 00)	(150,000 00)
Distribution to unsecured creditors - 2nd interim dividend of 1p in the £	(820,555 75)	-	(820,555 75)	(820,555 75)
Balance of Floating Charge Funds	<u>890,966 34</u>	<u>(155,619 77)</u>	<u>735,346 57</u>	<u>Unknown</u>
Balance at Bank	<u>890,968 34</u>		<u>735,348 57</u>	
Estimate of funds available to unsecured creditors				Unknown
Unsecured creditors (Admitted to date)				82,047,212.40
Estimate for final dividend for unsecured creditors				Unknown

H2o Networks Limited - in Liquidation

Appendix B

Expenses incurred* for the period 3 April 2013 to 2 April 2014

	Unpaid expenses as at 3 April 2013	Expenses incurred in period	Expenses paid in period	Unpaid expenses as at 2 April 2014
Legal Costs & Disbursements	60,000.00	79,819.18	101,248.18	38,571.00
Liquidators' Fees	109,572.94	69,922.10	75,000.00	104,495.04
Liquidators' Expenses	144.25	205.18	150.25	199.18
Storage Costs	-	145.41	145.41	-
Statutory Advertising	-	73.62	73.62	-
Corporation Tax	-	730.15	730.15	-
Bank Charges	-	25.75	25.75	-
Total	169,717.19	150,921.39	177,373.36	143,265.22

* Please note that this schedule provides an estimate of expenses incurred for the period 3 April 2012 to 2 April 2014. Any balance that remains unpaid as at the date of this report is yet to be finalised and may therefore be subject to adjustments before final payment.

H2o Networks Limited - in Liquidation

Analysis of time costs for the period from 3 April 2013 to 2 April 2014

Aspect of assignment	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Secretarial	Total hours	Time cost £	Average hourly rate £
1 Strategy & Planning	5.00	14.50	0.70	2.13	2.00	-	2.10	26.43	11,120.10	420.74
2 Administration	-	-	-	-	2.30	0.80	-	3.10	623.80	201.23
3 Assets	-	-	-	-	1.10	-	-	1.10	264.00	240.00
4 Investigations	-	-	47.50	15.00	73.70	19.10	-	155.30	41,604.80	267.90
5 Creditor claims/distributions	-	-	-	-	0.70	0.80	-	1.50	284.90	189.93
6 Accounting and treasury	-	-	0.83	0.56	5.95	11.50	1.40	20.24	3,701.00	182.86
7 Reporting to appointor/committee	-	-	1.00	4.50	1.00	-	-	6.50	2,040.00	313.85
8 Statutory and compliance	3.00	-	0.65	4.45	14.10	0.35	-	22.55	6,664.05	295.52
9 Tax/VAT/Pensions	-	-	-	4.60	8.20	1.25	-	14.05	3,619.45	257.61
Total for the period from 3 April 2013	8.0	14.5	50.7	31.2	109.1	33.8	3.5	250.77	69,922.10	278.83
Total at 2 April 2014								376.04	109,572.94	291.39
Total								626.81	179,495.04	286.36

Current Charge out rates per hour

- insolvency	555.00	465.00	405.00	320.00	240.00	152.00	112.00
- specialist	1,180.00	1,085.00	870.00	520.00	440.00	230.00	120.00

Area of work	Work undertaken includes:
Strategy & Planning	Case updates and planning meetings
Accounting and treasury	Managing company accounts
Reporting to appointor/committee	Preparing and drafting progress reports to creditors
Statutory and compliance	All statutory filing required, six month reviews
Investigations	Liaising with lawyers and other government bodies Unable to provide further information due to confidentiality reasons
Tax & VAT	VAT 427 returns, Preparing and submitting post appointment tax returns