

The Insolvency Act 1986

**Statement of administrator's proposals****2.17B**

Name of Company  
Granville Technology Group Limited

Company number  
2504182

In the  
High Court of Justice, Companies Court, Chancery  
Division

[full name of court]

Court case number  
5006/2005

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

We, Andrew Hosking, Martin Ellis and Leslie Ross of Grant Thornton UK LLP, Grant Thornton House,  
Melton Street, Euston Square, London, NW1 2EP

\* Delete as applicable

attach a copy of our proposals in respect of the administration of the above company.

A copy of these proposals was sent to all known creditors on

(b) Insert date

(b) 23 September 2005

Signed

Joint Administrator

Dated

30-9-05

**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

Andrew Hosking, Grant Thornton UK LLP, Grant Thornton House, Melton Street, Euston Square,  
London, NW1 2EP

Tel 020 7383 5100

DX Number

DX Exchange



A24 \*AIXYE95F\* 643  
COMPANIES HOUSE 01/10/2005

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

**Recovery and Reorganisation**

Grant Thornton UK LLP  
Chartered Accountants  
UK member of  
Grant Thornton International

Our Ref: MGE/LP/G11316/PF7

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**TO THE CREDITORS**

19 September 2005

Dear Sirs

**GRANVILLE TECHNOLOGY GROUP LIMITED ("GTG")  
GRANVILLE DISTRIBUTION LIMITED ("GDL")  
GRANVILLE COMPUTER SYSTEMS LIMITED ("GCS")  
CORPORATE SYSTEMS LIMITED ("CSL")  
GRANVILLE COMPUTERS LIMITED ("GCL")  
GENERAL COMPUTERS LIMITED ("GC")  
VMT LIMITED ("VMT")  
- ALL IN ADMINISTRATION (TOGETHER - "THE COMPANIES")**

**1 INTRODUCTION**

- 1.1 Martin Ellis and Andrew Hosking and Les Ross were appointed as Joint Administrators of all of the companies except VMT on 27 July 2005. The appointment was by the director. Subsequently the principal secured creditor, (the Bank) HSBC Bank plc appointed Messrs Ellis and Hosking as joint administrators of VMT on 5 August 2005.
- 1.2 Pursuant to paragraph 49 (1) of Schedule B1 to the Insolvency Act 1986 we are submitting our proposals for achieving the objectives of the administration. This report contains the information required by Rule 2.33 of the Insolvency Rules 1986.
- 1.3 In accordance with paragraph 100 (2) of Schedule B1 to the Insolvency Act 1986 the functions of the joint administrators are to be exercised by any or all of them.

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## 2 STATUTORY INFORMATION

2.1 The Companies' statutory details are as follows:

Company	CSL	GC	GCS	GCL	GDL	GTG	VMT
Registered no.	3289765	2645971	3967398	2645968	3773008	2504182	3268853
Incorporation date	04/12/1996	16/09/1991	07/04/2000	29/09/2002	19/05/1999	21/05/1990	24/10/1996
Registered office	Time Technology Park, Blackburn Road, Simonstone, Burnley, Lancs, BB12 7GT						
Authorised share capital	£1,000	£100	£100	£100	£100	£6m	£100k
Issued share capital	£2	£100	£1	£100	£1	£6m	£100k
Secretary	D J Ward (all companies except VMT)						JKG Aikman
Directors	W M Davies (all companies except VMT)						Z Moshan

2.2 No shares in any of the Companies are held by the director or company secretary except for Mr Z Moshan who holds 50,000 £1 ordinary shares in VMT.

2.3 The administration constitutes "main proceedings" as defined in Article 3 of the EC Regulation on Insolvency Proceedings i.e. that the Companies' centre of main interest is situated in the United Kingdom.

## 3 BACKGROUND TO ADMINISTRATORS' APPOINTMENT

3.1 The main trading company is GTG, which operates in the sale of computers and accessories and the part assembly and sale of Plasma and LCD screen TV's with turnover of c£140 million per annum.

3.2 GTG traded profitably in the period up to 2004, predominantly selling computers and accessories via retail and direct order (web and telesales). Profit generation had historically been driven by income from the sale of warranties whereas computer sales had historically achieved break even profit at best.

3.3 The last available audited accounts were for the year ended 30 June 2003 although draft audited accounts for the following year had been prepared. No management accounts appear to have been prepared beyond June 2004. In addition, we are advised that board minutes had been prepared but these appear not to have been retained by the company.

3.4 The most recently available trading results are summarised below :

**Trading result summary**

£'000	Draft 52 Weeks ended 28-Jun-04	Audited 52 Weeks ended 28-Jun-03	Audited 52 Weeks ended 29-Jun-02
Turnover	198,850	207,040	204,764
Cost of sales	(151,980)	(152,253)	(153,936)
Gross profit	46,870	54,787	50,828
Operating costs	(50,851)	(50,213)	(59,801)
Operating profit	(3,981)	4,574	(8,973)
Net Interest	(1,746)	(2,006)	(1,782)
Profit before tax	(5,727)	2,568	(10,735)

3.5 In 2005 margins on computer sales had been further eroded compounded by ;

- a degree of saturation in the market
- strong levels of competition
- general downturn in retail spend

and as a result we are advised that GTG made significant monthly losses in 2005.

3.6 Management attempted to address the downturn in computer sales towards the end of 2004 by diversifying into part assembly and sale of plasma and LCD TV's. By importing component parts and carrying out final assembly at Burnley the Group was able to generate improved margins on these new products. Margins on screen sales were typically 40% compared to 20% on computer sales.

3.7 Despite this, the ongoing trading losses in the core business resulted in trade creditors remaining in arrears and payment plans having to be agreed with the majority of key suppliers.

3.8 PwC were appointed to advise on the Group's prospects and recommended a disposal of some of the Group's operations. Executive management have subsequently advised us that they disagreed with the proposed strategy and, as a result, the Chief Executive Brian Lynn and Kieran Crowley the Financial Director both resigned as directors and left the Group with effect from 4 July 2005.

3.9 Subsequently the former Non Executive Chairman, William Davies, was forced to assume an executive role and an interim Financial Controller, Nicholas Roberts, was appointed one week prior to the administrators' appointment. Their initial assessment was that the financial

systems of the Group were adequate in processing raw data but that processes for the production of timely and accurate management information were inadequate.

- 3.10 As a result concerns were raised and in particular the aged creditor position was reviewed. The result of this exercise was that the creditor position was found to be even more serious than previously thought, all key suppliers effectively being up to their credit limits. In addition cash flows from daily trading were having to be utilised in full to pay creditors in order to source further supplies. Previously agreed payment plans were being jeopardised by payments being dishonoured further eroding supplier confidence.
- 3.11 The latest aged creditor listing showed trade creditors of £20.7m of which £10.4m were 120 days or over. Of these balances circa £14m was in respect of stock purchases of which £7.8m was over 120 days old.

**Aged creditor analysis**

£'000

Description	Stock	Other	Total
Up to 30 days	568	1,294	1,861
31 to 60 days	4,094	1,938	6,032
61 to 90 days	1,224	1,125	2,349
91 to 120 days	1,192	462	1,654
Over 120 days	6,612	2,136	8,748
	<b>13,680</b>	<b>6,954</b>	<b>20,634</b>

- 3.12 Management estimated that payments of c£6m were required immediately in order to ensure further supplies and deal with pressing payments to creditors. Furthermore the additional funds required to secure trading on more regular terms were estimated to be in the order of £6m. The Bank facilities of £20m were already fully drawn down.
- 3.13 Grant Thornton UK LLP was first consulted by the director of the company on 21 July 2005 with a view to giving advice on the Companies' financial position. Prior to that consultation, neither the joint administrators nor the firm, had any dealings or involvement with the company, the directors or its secretary.
- 3.14 Our firm carried out a brief investigation into the company's financial position and produced a letter of advice dated 21 July 2005 which was forwarded to the Companies' bankers. Our conclusions were that in the absence of any additional funding the Companies faced imminent collapse and that the appointment of administrators would enable the possibility of selling some or part of the business as a going concern to be explored.

- 3.15 Having considered all the options the directors considered that the best route for the companies was for them to be placed into administration and subsequently, on 27 July 2005 the director requested the appointment of administrators in accordance with paragraph 22 of Schedule B1 to the Insolvency Act 1986 and on 27 July 2005 (5 August 2005 for VMT) the Companies were placed into administration.

#### **4 ASSETS AND LIABILITIES**

- 4.1 We have requested the director submit a Statement of Affairs for each of the Companies at the time of the administrators' appointment. These have been prepared but have not yet been signed or filed at Companies House. We attach as Appendix I a summary of the estimated statement of affairs of GTG, the main trading company.

##### **Assets**

- 4.2 We would ask you to note that there has been severe limitations on the quality of information available and accordingly the estimates shown in the estimated statement of affairs must be treated with caution.
- 4.3 Freehold land consists of two strips of land at the Head Office site, for which the estimated realisable value is £250k (no professional valuation has been obtained); however this asset is subject to a prior ranking charge dated 24 June 2001 granted in favour of Seagate Technology International, a major supplier and therefore we have assumed no equity for the estate.
- 4.4 The company operated from 78 leasehold premises. Some of these locations were at prime retail sites and we are in the process of attempting to dispose of the valuable sites for a premium. Based on the interest received to date we estimate that the disposal the leasehold portfolio may realise at least £250k.
- 4.5 Stock has a book value of £8.1 million net of consignment stock. We estimate this may have a realisable value of £1.5 million but we note that there a number of purported retention of ownership claims by suppliers.
- 4.6 The book value of debtors was £30.7 million (including £2.7 million due from a French reseller) but the ledger largely consist of old and inter-company debts which totalled £18.8 million. In addition £8.2 million of debtors are over 120 days old. Lloyds TSB Commercial Finance had a £4 million facility but their current exposure is £222k plus termination costs. Overall we do not anticipate any significant realisations from book debts.
- 4.7 Chattel assets have a book value of £3.5 million. Irrespective of any diminution in value due to depreciation, shop fittings have little realisable value. The head office furniture and equipment was valued at £82k and was sold to the landlord in order to offset the rent of occupation during the administration period.

### **Liabilities**

- 4.8 The Bank provided overdraft funding of £11m, a term loan of £4.1m and a letter of credit facility of £5m. Accordingly the total exposure to the Bank is £20.1m per the statement of affairs. It is anticipated that the low estimated realisable value of the assets will be absorbed by the costs of the administration and that for the Bank recoveries under its fixed and floating charges will be minimal.
- 4.9 Preferential liabilities for arrears of pay and holiday pay based on the July payroll, are estimated to be £1.5m. Unsecured liabilities are estimated to be £68.6m including the shortfall to the Bank of £18.8m.
- 4.10 There will be no prescribed part of floating charge assets to be set aside for the benefit of unsecured creditors under Section 176A of the Insolvency Act 1986, as the bank's floating charge pre-dates 15 September 2003.
- 4.11 **For the avoidance of doubt please note that there is no prospect of a dividend to the unsecured creditors.**

## **5 PROPOSAL FOR ACHIEVING THE PURPOSE OF THE ADMINISTRATION**

- 5.1 In accordance with paragraph 3(3) of Schedule B1 to the Insolvency Act 1986, the administrators must perform their functions with the objective of:
- a) Rescuing the Companies as a going concern; or
  - b) Achieving a better result for the Companies' creditors as a whole than would be likely if the Companies were wound up (without first being in Administration); or
  - c) Realising property in order to make a distribution to one or more secured or preferential creditors
- 5.2 In light of the level of the Companies' indebtedness, we determined that it was not reasonably practicable to achieve objective (a). The Companies' secured debts considerably exceeded the anticipated realisable value of the assets and accordingly the purpose of the administrations has devolved to that of realising property to distribute to the secured creditor.
- 5.3 It is proposed that the administration shall end following the dissolution of the Companies after the final distribution of funds to the secured creditor.

## **6 CONDUCT OF THE ADMINISTRATION**

### **Operations**

- 6.1 At the time of our appointment no parties had expressed any interest in acquiring the business as a going concern. Any interest shown was mostly in relation to the proposed acquisition of either the stock, certain retail premises or goodwill.
- 6.2 Continued trading was not possible because of the extent of the trading losses and the absence of any funding. In any event trading would have been problematic as purported reservation of title claims against the stock and the absence of any warranty cover would have restricted both the price and quantity of goods that could have sold.
- 6.3 Interim funding sufficient to maintain the call centre operations was obtained for the four week period ending 24 August 2005. Accordingly the retail operation was closed with the exception of some area managers who were retained to assist with the recovery of the stock from the stores. This process has now been completed. There were 770 redundancies initially and 165 staff were retained, mainly in the call centre, to deal with customer enquiries. Subsequently additional funding was secured for an extension of the call centre operations.

### **Sale of Business**

- 6.4 We approached a number of competitor businesses, certain of which management had previously been in contact, to determine the level of interest in the business. There was little real interest in the business as a going concern however to date we have had 276 expressions of interest analysed as follows :-

Stock	148
Intellectual property	64
Sale of business	11

- 6.5 The majority of the stock has been sold for £1.5m and some additional realisations are anticipated.

### **Receipts and Payments**

- 6.6 Our receipts and payments account to 31 August 2005 is attached as Appendix II.

## **7 MATTERS REQUIRING INVESTIGATION**

- 7.1 During the course of the administration we have identified several matters that will require further investigation.



## **Stock**

- 7.2 Stock records are incomplete and there is significant concern as to missing quantities of stock. In particular there are discrepancies in relation to the stock recovered from the retail premises. Current indications are that under 50% of the stock listed at these premises has been recovered. Our agents' view is that the stock records at these stores were overstated and that these records had not been updated for some months.
- 7.3 In addition, substantial quantities of stock, in excess of £3m, have been advanced to commence a start-up reseller operation in France. The loss to the company was in excess of £3.6 million and there is insufficient explanation on file as to the rationale for both trading and also the deficiency. The shares of this company were placed in an offshore vehicle with no benefit to GTG, notwithstanding GTG being the sole provider of working capital.

## **Book Debts**

- 7.4 A review of the trade debtors ledger which was showing a value of £11.2m as at the 24 July 2005 has proved to be significantly over stated and returns of stock to the company had not been recorded since March 2005.
- 7.5 A number of inter-company balances with other companies within the Group are also being investigated.
- 7.6 The provisions of the Insolvency Act 1986 provides certain remedies to enable office holders to recover assets on behalf of an insolvent estate. Subject to our further investigations we will be considering the merits of any claims and the most appropriate strategy to adopt in the circumstances.

## **8 MEETING OF CREDITORS**

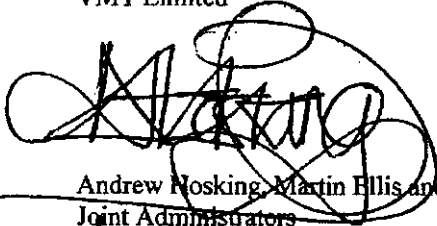
- 8.1 In accordance with Paragraph 52 (1) (b) of Schedule B1 to the Insolvency Act 1986, a creditors' meeting for the purposes of considering the administrators' proposals for achieving the purpose of administration need not be convened by the administrators when in their opinion there will be insufficient property to allow a distribution to unsecured creditors.
- 8.2 **Accordingly, the administrators do not propose to convene a meeting of creditors.**
- 8.3 In the event that creditors require further information in respect of the conduct of the administration, we request that they write to us at the address on the first page of this report.
- 8.4 The telephone number for customer queries is 0870 381 7097.

## **9 ADMINISTRATORS' REMUNERATION AND DISBURSEMENTS**

- 9.1 The administrators' remuneration is determined in accordance with Rule 2.106 of the Insolvency Rules 1986 as amended by the Enterprise Act 2002. Where a statement to the

effect that there will be no funds available to unsecured creditors has been made under Paragraph 52(1)(b) of Schedule B1 to the Insolvency Act 1986, then the administrators' remuneration shall be approved by the company's secured creditor(s). The administrators have made such a statement at paragraph 8.1, and accordingly will agree their remuneration with the secured creditor.

Yours faithfully  
for and on behalf of  
Granville Technology Group Limited  
Granville Distribution Limited  
Granville Computer Systems Limited  
Corporate Systems Limited  
Granville Computers Limited  
VMT Limited

A large, stylized handwritten signature in black ink, appearing to read 'Andrew Hosking', is written over the printed name and title.

Andrew Hosking, Martin Ellis and Les Ross  
Joint Administrators

# APPENDIX I

## GRANVILLE TECHNOLOGY GROUP LIMITED ESTIMATED STATEMENT OF AFFAIRS AS AT 27 JULY 2005

	Book value £'000	Estimated to realise £'000
<b>Fixed charge</b>		
Freehold land	504	250
Less: prior fixed charge	<u>(504)</u>	<u>(504)</u>
Shortfall to the holder of the fixed charge	-	(254)
Leasehold property portfolio	239	250
Due to HSBC Bank plc	<u>(20,100)</u>	<u>(20,100)</u>
Shortfall under fixed charge	<u><u>(19,861)</u></u>	<u><u>(19,850)</u></u>
<b>Floating charge</b>		
Stock	8,608	1,500
Debtors	30,721	390
Chattel assets	<u>3,328</u>	<u>83</u>
	42,657	1,973
Less: Preferential creditors:	<u>(1,000)</u>	<u>(1,000)</u>
Available to floating chargeholder	41,657	973
Shortfall under fixed charge	<u>(19,861)</u>	<u>(19,850)</u>
Surplus/(shortfall to bank)	<u><u>21,796</u></u>	<u><u>(18,877)</u></u>
Unsecured creditors:		
Trade creditors	(20,291)	
Accruals	(16,000)	
Customer deposits	(11,700)	
Tax and Social security	<u>(1,784)</u>	
		(49,775)
Fixed charge shortfall on freehold land		<u>(354)</u>
		<u><u>(69,006)</u></u>

Note: the above outcome excludes the costs of the administration

## APPENDIX II

### GRANVILLE TECHNOLOGY GROUP LIMITED - IN ADMINISTRATION RECEIPTS AND PAYMENTS ACCOUNT FOR THE PERIOD 27 JULY 2005 TO 31 AUGUST 2005

	Total £
<b>Receipts</b>	
Stock	138,390
Book debts	359,977
Leashold property	202,354
Rates rebate	20,611
Fixtures and fittings	30,000
Intellectual property	51,000
	<u>802,332</u>
<b>Payments</b>	
Payroll	383,400
Call centre fees	145,453
Staff expenses	29,684
Overheads	13,980
Charges and interest	18,524
Rent	82,500
Security	173,467
VAT	33,429
	<u>880,437</u>
<b>Balance at bank</b>	<u><u>(78,105)</u></u>

Recovery and Reorganisation

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**TO THE CREDITORS**

21 September 2005

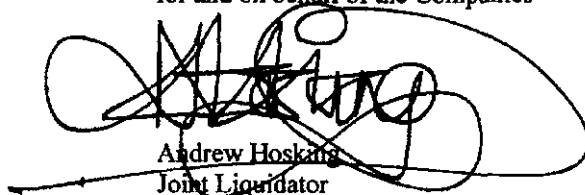
Dear Sirs

**GRANVILLE TECHNOLOGY GROUP LIMITED  
GRANVILLE DISTRIBUTION LIMITED  
GRANVILLE COMPUTER SYSTEMS LIMITED  
CORPORATE SYSTEMS LIMITED  
GRANVILLE COMPUTERS LIMITED  
GENERAL COMPUTERS LIMITED  
VMT LIMITED - ALL IN ADMINISTRATION (THE COMPANIES)**

The joint administrators were granted an order of the High Court dated 20 September 2005 limiting the disclosure of certain details of the Statement of Affairs on the basis of commercial confidentiality and cost.

A summary of the Statement of Affairs is enclosed as an appendix to the attached Statement of Proposals; the details excluded from this report are the names and address of the Companies' creditors.

Yours faithfully  
for and on behalf of the Companies



Andrew Hosking  
Joint Liquidator

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The property, business and affairs of the Companies are being managed by Andrew Hosking, Martin Ellis and Leslie Ross, appointed joint administrators on 27 July 2005, and on 5 August 2005 in respect of VMT Limited.

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