Rule 2 47

Form 2 24B

The Insolvency Act 1986

Administrator's progress report

2.24B

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 Jonathan Hunt and Karen Lesley Dukes of PricewaterhouseCoopers LLP, 7 More London Riverside, SE1 2RT

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

(b) Insert dates

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

Signed ______________

Joint / Administrator(s)

Dated 19 August 2011

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Cheval Property Finance Plc – in Administration
High Court of Justice, Chancery Division, Companies Court
Case No. 537 of 2011

Joint Administrators' progress report for the period from 31 January to 30 July 2011

19 August 2011

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1. Joint Administrators' progress report for the period from 31 January to 30 July 2011

Introduction

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 Cheval Property Finance Plc ("the Company") in the six months since the Administrators' appointment on 31 January 2011

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

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 last two years 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 Volkomen in considering the appropriate strategy with respect to its lending
- The IBR was delivered in May 2010 The key conclusions included that 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 shortfall in respect of Volkomen's secured lending of up to £10 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 by £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

1. Joint Administrators' progress report for the period from 31 January to 30 July 2011

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), in each case 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 assets sold and 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 have now collated sufficient information to enable them to prepare a corporation tax computation for the period up to the date of their appointment It is anticipated that the pre-appointment tax return will be filed with HM Revenue & Customs shortly, together with the first return for the post-Administration periods up to 30 June 2011

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 transition arrangements effectively 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, and
- Liaison with regard to the Group tax position

Approval of the Administrators' proposals

On 22 March 2011 the Administrators circulated to creditors their proposals for achieving the purpose of administration

The Administrators' proposals were deemed approved in accordance with Rule 2 33(5), a meeting of creditors not having been requisitioned by creditors in the prescribed manner

Receipts and payments account

An account of the receipts and payments for the six months to 30 July 2011 is set out in Section 3

Expenses statement

A statement of the expenses incurred by the Administrators in the period 31 January 2011 to 30 July 2011 is included at Section 4 The statement excludes any potential and unpaid tax and VAT liabilities that may be assessed as payable as expenses of the Administration in due course

Administrators' remuneration

Volkomen as secured creditor is responsible for approving the Administrators' remuneration The basis of the Administrators' remuneration has been fixed as being by reference to the time properly charged in attending to matters arising in the Administration

As shown in Section 4, the Administrators' time costs for the six months to 30 July 2011 total £101,882, against which £75,000 has been drawn with Volkomen's prior approval

Creditors' rights

A statement of creditors' rights in relation to the Administrators' remuneration and expenses is set out at Section 5

Outcome for creditors

Secured Creditors

As at the date of the Administrators' appointment, the Company's secured creditors were Volkomen and Clydesdale It is currently anticipated that Volkomen will suffer a shortfall of circa £300k in respect of its £16 8m of lending

Amounts due to Clydesdale under the £25m loan swap of £87k have since been settled by means of funding provided by Volkomen Accordingly, Clydesdale is no longer a creditor of the Company and has released its security in full.

Preferential creditors

There are no preferential creditors as all liabilities under employee contracts were transferred to Checked Limited on completion of the sale

Unsecured creditors

In accordance with Paragraph 52(1)(b) IA86, the Administrators think that the Company has insufficient property to enable a distribution to be made to non-preferential unsecured creditors other than by virtue of the Prescribed Part This is because the majority of the Company's assets are subject to Volkomen's fixed charge and, as stated above, it is expected that Volkomen will not recover its lending in full

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, subject to a maximum amount of £600,000

The Prescribed Part applies to the Company as Volkomen's charges were created and registered at Companies House following the Prescribed Part order coming into force on 15 September 2003

Under the terms of the sale agreement, the Purchasers had the option to settle the Company's creditor claims within four months of completion. The Administrators understand that the majority of the Company's unsecured creditors have now been paid by the Purchasers but that some liabilities remain

The Administrators' proposals provided for unsecured claims to be established in principle and at the Administrators' discretion if and when it became apparent that a surplus would become available for unsecured creditors The Administrators now intend to commence this process with a view to facilitating earlier payment to creditors than might otherwise be the case once the Administrators have established the most appropriate distribution mechanism

If you have not already submitted your claim, please do so using the form enclosed with this report as it is anticipated that a dividend is payable to unsecured creditors out of the Prescribed Part.

The Administrators are also considering the most appropriate strategy for bringing the Administration to an end, taking into consideration the need to agree creditor claims and make a distribution of funds available under the Prescribed Part to unsecured creditors Creditors will be advised of the Administrators' decision in due course

Next report

The Administrators anticipate that they will circulate their next report to creditors at the earlier of the conclusion of the Administration or in approximately six months

Robert Hunt
Joint Administrator
Cheval Property Finance Plc

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, Plumtree Court, London EC4A 4HT
Details of any extension(s) to the initial period of appointment	None
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
Proposed end of the Administration:	Creditors' voluntary liquidation or dissolution
Estimated dividend for unsecured creditors:	Uncertain
Estimated values of the prescribed part and the company's net property:	Uncertain
Whether and why the Administrators intend 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. Receipts and payments account for the period 31 January to 30 July 2011

		Receipts and payments to 18 March 2011	Transactions 19 March to 30 July 2011	Receipts and payments to 30 July 2011
		£	£	£
Receipts				
Cash at bank	(Note 1)	691,022	12,588	703,610
Book debt - dividend received			113	113
Interest		138	591	729
Total receipts		691,160	13,292	704,452
Payments		£		£
Statutory advertising		74	-	74
Insurance		-	507	507
Legal fees and expenses		10,178	-	10,178
Joint Administrators' remuneration and disbursements		-	75,029	75,029
Distribution to secured creditor· Clydesdale Bank Plc		87,208	-	87,208
Bank charges		-	5	5
Irrecoverable VAT		2,050	15,006	17,056
Total payments		99,510	90,547	190,057
Balance at bank / (movement)	(Note 2)	591,650	(77,255)	514,395

Notes

1) Includes funding provided by Volkomen and receipt of funds from pre-appointment account
2) Held in an interest-bearing bank account

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

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

	Paid (£)	Unpaid (£)	Total (£)
Statutory advertising	74		74
Administrators' remuneration	75,000	26,882	101,882
Administrators' disbursements	29	320	349
Legal fees	10,178	2,770	12,948
Insurance	507		507
Bank charges	5		5
	85,793	**29,972**	**115,765**

5. 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 "

5. 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

Cheval Property Finance Plc - in Administration – statement of claim

Creditor's name and address	
Registered number (if creditor is a company)	
Claim amount • Total amount of your claim (including VAT) at the date the administration commenced*[or, if the company was in liquidation when it entered administration, at the date the prior liquidation commence] • Any payment received by the creditor in relation to the claim after the appointment of the administrators *[or, if applicable, prior liquidators]* • Total value (including VAT) of any monies owed by the creditor to the company • Total value (including VAT) of any retention of title in respect of any goods to which the debt relates	£ £ £ £
Please provide details of any documents that substantiate your claim including where applicable, details of any reservation of title If available, please attach a statement of account	
What goods or services did you provide?	
If you have security for your debt, please provide details of the type and value of the security, the date it was given, and provide details of how you have valued your security If no security held, leave this section blank	
We have a duty as administrators to consider the conduct of the directors prior to our appointment Are there any particular matters relating to the purchase of goods and services from yourselves, or any other matters that you feel should be reviewed? If so, please provide brief details on this form, or on a separate sheet if there is insufficient room	
Signature of creditor or person authorised to act on behalf of the creditor	Date
Name in block capitals	
Position with or relation to the creditor (e g director, company secretary, solicitor)	

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* You must deduct any trade or other discounts which would have been available to the company but for its administration, except any discount for immediate, early or cash settlement