

The Insolvency Act 1986
Statement of Administrator's
Proposals
Pursuant to Section 23(1)(a) of the
Insolvency Act 1986

S.23(1)(a)

For official use

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To the Registrar of Companies

Company Number

3891960

Name of Company

(a) Insert full
name of
company

(a) 7C (Pembroke) Limited - In Administration

(b) Insert full
name(s) and
address(es)

I/We (b) David Thurgood
Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Simon Morris
Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

administrator(s) of the company attach a copy of my/our proposals for achieving
the purposes set out in the administration order filed herein. A copy of these
proposals was sent to all known creditors on:

Insert date

13 February 2003

Signed

Date

Presenter's
name, address
and reference (if
any)

Simon Campbell
Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Ref
DRT/MKS/SGC/CJD/I/C1087
2

For official use

Insolvency Section

Post Room



7C LIMITED, 7C (PEMBROKE)
LIMITED & 7C (HOLDINGS) LIMITED
(IN ADMINISTRATION)

REPORT OF THE JOINT
ADMINISTRATORS PURSUANT TO
RULE 2.16 OF THE INSOLVENCY
RULES 1986

14 February 2003
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Glossary

7CH	-	7C (Holdings) Limited
7CL	-	7C Limited
7CP	-	7C (Pembroke) Limited
7C India	-	7C India Limited
7C Italy	-	7C Italia Spa
The Group	-	Collectively all of the above companies

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1 Background and events leading up to the Administration Order

Introduction

- Summarised at Appendix A is certain statutory information in respect of this group. We summarise key details of 7CH, 7CL and 7CP below:

7CH (number 03483227)

- The principal activity of 7CH is as Group holding company.

7CL (number 03414543)

- 7CL operates three call centres in London, Birkenhead and a site near Speke Airport called Matchworks.

7CP (number 03891960)

- 7CP operates one call centre in Pembroke, Wales. Until May 2002, its main customer was ITV Digital.

- The business operates as a customer relationship service provider. It operates from six call centres as follows:

- Liverpool (Matchworks)
- Liverpool (Birkenhead)
- Pembroke, Wales
- London
- Palermo, Italy (through 7C Italy)
- Delhi, India (through 7C India)

- The Group has relied on equity funding totalling some £40million to date.

History and Operations

- The Group was founded in 1998 as a result of the buy-out of AT&T's European customer care solutions business. 7CH acted as a non-trading holding company of 7CL. In July 2000, 7CP commenced trading in Pembroke, Wales with one customer, ITV Digital.

- In the four years since the acquisition, combined turnover has increased from approximately £3million per annum and the number of locations has increased from 1 to 6.

- The Group achieved turnover of £31.9million in the year ended 30 June 2001 and £33.8million in the year to 30 June 2002. In these periods the Group incurred losses before tax of £18.3million and £13.7million respectively. The losses were caused in part by a combination of the write off of redundant assets, relocation and restructuring costs and formation costs relating to 7C Italy. The results for the year to 30 June 2002 were adversely affected by the collapse of ITV Digital, which accounted for 45% of Group turnover.

Historical trading results

- The Group's historical trading results are summarised in Table A below.

Table A: Historic trading results

	Year ended		4 months to	
	30 June 2001	30 June 2002	31 October 2002	
	£000	£000	£000	£000
Turnover	31,867	33,853	4,641	
Gross Profit	9,322	9,765	1,501	
(Loss) after tax	(18,391)	(13,760)	(3,229)	

Sources:

Audited Group accounts for the year ended 30 June 2001
 Draft audited Group accounts to the year ended 30 June 2002
 Aggregated management accounts for the 4 months to 31 October 2002

Events leading up to the making of an Administration Order

- Management focus was on maintaining relationships with a small number of multinationals producing a higher level of income and thus increasing gross margins. In the two years to 30 June 2002, the number of customers reduced from 29 to 7.
- Combined with this, management's strategy involved developing operations at low cost sites in Liverpool, Italy and India. The sites in Italy and India were developed as joint ventures. This strategy required a significant capital outlay.
- In March 2002, administrators were appointed to ITV Digital, which accounted for 45% of Group business. The trading contract was terminated on 1 May 2002. The loss of revenue combined with the associated bad debt write off and redundancy costs totalled approximately £1.9million. Additionally, the impact of the loss of revenue was to increase the Group cash "burn-rate" to in excess of £500,000 per month.

- This affected the Group's ability to fund the expansion of Liverpool Matchworks and India. Therefore, the directors attempted to obtain additional equity funding of some £8million, initially from existing shareholders and, when this failed, from third party investors. However, on 18 November 2002, it became apparent that no additional funding would be forthcoming.
- The directors approached several interested purchasers to facilitate share sales of the various companies in the Group. However, by 22 November 2002, it became clear that no acceptable offers would be forthcoming, other than for 7C Italy.
- At this point the directors determined that:
 - without additional funding, the prospects of the Group achieving breakeven or better were very limited
 - the level of losses was such that continued trading could only be justified on the basis that the directors were taking every possible step to minimise the loss to creditors
 - trading should continue for a limited period of time to allow a possible offer for the assets of the business from an interested third party to be concluded on a going concern basis in the expectation that this would improve the overall position of the creditors
 - it was highly likely that the Group would have to be placed into formal insolvency proceedings.
- Therefore, the directors sought a sale of the business and assets of the Group. In the view of the directors, there were three possible interested parties who would be able to act quickly enough. Each was approached and an offer from one of these to acquire the business and assets of 7CL and 7CP, and the shares in 7C India, via an insolvency procedure was received on 27 November 2002.
- In our view, it was not possible to trade the Group in administration due to the strong risk of key sub-contractors refusing to continue to supply the Group, significant ongoing trading losses and the inability to fund such trading. We therefore considered that immediate sales out of administration would be in the best interests of creditors of the Group, as it would provide new entities with which to trade as well as a dividend against their pre-appointment claims.
- The Administration Orders were granted on 30 November 2002.
- The purpose of the Administration Orders was to achieve a more advantageous realisation of the Group's assets than would be achieved on a winding-up.

2 Actions of the Joint Administrators since appointment

Sale of business

- In the days leading up to the Administration Order being granted, we had discussions with a number of interested parties in order to generate the highest possible value for the business and to enable a sale to be concluded as soon as possible following our appointment.
- We identified the offer from Vertex Data Science Limited ("Vertex") as being the best bid and re-negotiated it so that it was capable of being accepted and represented proper value for the business and assets of the Group.
- The business and assets of 7CL and 7CP were hived down into a sole-purpose vehicle on 1 December 2002. This company was sold to Vertex Data Science Limited on 2 December 2002.
- The shares of 7C India were sold to Vertex on 2 December 2002.
- The sale had the added benefits of transferring the contracts of employment of some 200 employees to Vertex, preserving their employment rights and thus substantially reducing claims in the Administration.
- The continuation of the business should significantly enhance the prospects for realisation of the book debts. Vertex have agreed to assist in their collection.
- The Contract provided for the assignment, subject to landlords' consent, of 2 leasehold properties which will also mitigate claims against 7CL and for a number of specific suppliers to be paid as essential payments in order to safeguard the continuation of the business for Vertex. These suppliers were paid from the gross price received from Vertex.
- The shares of 7C Italy were sold to Gruppo Cos Italia on 29 November 2002.

Book debts

- The other major asset of the Group is the book debts that at the date of our appointment had a gross book value of £1.38m (before any existing bad debt provisions).
- Soon after our appointment, we, in conjunction with Vertex, raised further invoices on behalf of 7CL and 7CP in the sum of £1.66m, circa £1.12m of which related to November's Work-in-Progress due to those companies.
- As part of the sale agreement process, we agreed a 'pass-through' of £260k to a key supplier, Huntswood, in respect of a major contract.

- The remainder of this invoicing, £280k, was in respect of work performed after 2 December 2002, and therefore due to Vertex.
- To date, £1.48m has been collected from debtors and we expect a further £590k to be realised shortly.
- We have provided circa £430k against pre-appointment debts in respect of disputed sums.
- In respect of any unpaid debts, we will submit a VAT Bad Debt Relief claim on behalf of 7CL and 7CP.

Other assets

- The other assets of the Group include:
 - cash at bank of £434k, which has been realised
 - a potential VAT refund on trading for the period 1 October to 1 December 2002 of £147k
 - an inter-company debtor of circa £140k from 7C Italy, which Gruppo Cos Italia have agreed to honour.
- A summary of the Administrator's receipts and payments accounts, along with our Estimated Outcome Statements are attached at Appendix C. These show a total balance of £4.1m that is held on an interest bearing account.

Other actions

- Vertex is operating from 7CL's 2 leasehold premises in Moorgate, London and Liverpool under licence. Negotiations are underway with a view to assigning these leases to them. In the meantime, we are honouring 7CL's rental obligations on receipt of funds from Vertex.
- The Administrators will be preparing a detailed report to the Department of Trade and Industry in relation to the failure of the Group that will include reports on the conduct of the Directors.

Directors' Statement of Affairs

- The summary of the draft Directors' statements of affairs is attached at Appendix B. We expect that these will be finalised by the time of the creditors' meetings. However, it should be noted that there are differences between the Statements of Affairs and the Administrators' Estimated Outcome Statements due to certain conditions precedent within the sale of the business to Vertex.

Outcome for creditors

- Our Estimated Outcome Statements are shown at Appendix C.

Secured Creditors

- There are two charges registered in favour of National Westminster Bank plc against 7CL. However, no sums were due to the Bank as at the date of our appointment.

Preferential Creditors

- The Inland Revenue are creditors of 7CL and 7CP in the sum of £1.1m, which represents unpaid PAYE and NI Contributions for the 5 months to November 2002.
- No preferential liability exists in respect of VAT. As detailed above a refund is expected from this source.
- As previously reported, the employees of the company were all transferred to Vertex under TUPER regulations along with all pay and pension liabilities. No preferential liability therefore exists in this respect.
- The preferential creditors will be repaid in full.

Unsecured Creditors

- The directors have produced separate Statements of Affairs for each of the three companies. However, it is our understanding that, for practical purposes, the creditors of 7CL and 7CP were treated as dealing with one overall trading entity, '7CL'. In conjunction with our solicitors, we are investigating this further as it will have an impact on the likely dividend to unsecured creditors.
- Accordingly, at this stage we have shown a combined Estimated Outcome Statement for 7CL and 7CP.
- We estimate that there will be no return to unsecured creditors of 7CH.
- The majority, if not all, of 7CH's unsecured claims are inter-company balances.
- In conjunction with the directors and former management, we are currently auditing the purchase ledgers of 7CL and 7CP to establish against which company creditors will have valid claims.
- We hope to have further information in this regard by the time of the creditor meetings, to give creditors an indication of the potential dividend.
- In the meantime, we are also seeking legal advice over certain issues relating to the standing and priority of claims and may have to seek directions from the Court.
- Substantial progress has been made towards achieving the initial purpose of the Administration Order. The Administrators believe that the realisation of the remaining assets will be substantially complete by 31 March 2003. At this point, the joint administrators will decide upon the preferred course of action to exit the Administration and enable distributions to be made to the creditors.

3 Joint Administrators' proposals

In accordance with Section 23 of the Insolvency Act 1986, we make the following proposals to the creditors for achieving the purposes of the Administration Orders dated 30 November 2002. We will seek approval of the proposals as a single resolution at the meeting of creditors to be held on 28 February 2003:

- i that the Joint Administrators continue to realise the remaining assets of the companies;
- ii that the Joint Administrators investigate and if appropriate and with the sanction of the Creditors' Committee, pursue any claims that the companies may have;
- iii that if the Joint Administrators consider it appropriate, they apply to the Court under Section 18 of the Insolvency Act 1986 for an order that the administration orders be varied;
- iv that in the event that no creditors committee is formed the Joint Administrators' remuneration be fixed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the administrations;
- v that the joint administrators decide at the appropriate time upon the preferred course of action to exit the Administrations and enable distributions to be made to the creditors; and
- vi that the Joint Administrators, in consultation with the formal Creditors Committee (if one is formed), do all such other things and generally exercise their powers as Joint Administrators as they in their discretion consider desirable in order to achieve the purposes of the Administration Orders or to protect and preserve the assets of the companies or to maximise their realisations or for any other purpose incidental to these proposals.

Simon Morris, David Thurgood & Andrew Hosking

Joint Administrators

14 February 2003

APPENDIX A

Statutory Information			
Registered Number	7CL 03414543	7CH 03483227	7CP 03891960
Date of Incorporation	5 August 1997	18 December 1997	10 December 1999
Registered Office	St Alphage Gardens Fore Street London EC2Y 5DS	St Alphage Gardens Fore Street London EC2Y 5DS	St Alphage Gardens Fore Street London EC2Y 5DS
Authorised Share Capital	100 Ordinary of £1	12m Ordinary of 1p £5.3m Preference	100 Ordinary of £1
Issued Share Capital	2 Ordinary of £1	6m Ordinary of 1p £5.2m Preference	1 Ordinary of £1
Shareholders	7CH	Various	7CH
Directors	David Fitzsimons Alan Fort Zachary Lewy Simon Philips Duncan Wilkes	David Fitzsimons Alan Fort Glen Lewy Zachary Lewy Simon Philips Julian Spray Duncan Wilkes	Alan Fort Zachary Lewy Simon Philips Duncan Wilkes
Secretary	Paul Edelstyn	Paul Edelstyn	Paul Edelstyn
Charges	1 National Westminster Bank plc Mortgage Debiture Created: 12/10/98 Registered: 22/10/98 2 National Westminster Bank plc Charge of Deposit Created: 22/08/02 Registered: 24/08/02	None	None

Directors' Draft Statement of Affairs

Statements of Affairs as at 30 November 2002

	7CL		7CH		7CP	
	Book Value £000	Estimated to realise £000	Book Value £000	Estimated to realise £000	Book Value £000	Estimated to realise £000
Assets						
Goodwill	49	0				
Equipment	2,840	3,525			830	500
Investment in subsidiary companies				885		
Inter-company debtors	3,472	126	2,503	0	1,932	0
Trade debtors	1,850	1,844	39,987		300	485
Prepayments	1,342	0				
Other debtors	429	0				
Cash at bank	839	839	0	0		
	<u>10,821</u>	<u>6,334</u>	<u>42,490</u>	<u>885</u>	<u>3,062</u>	<u>985</u>
Preferential Liabilities						
PAYE / NI	(1,023)		0		(98)	
Pension payments	(32)		0		(2)	
		<u>(1,055)</u>		<u>0</u>		<u>(100)</u>
Available to unsecured creditors		<u>5,279</u>		<u>885</u>		<u>885</u>
Unsecured creditors						
Trade creditors	(5,637)				(2,216)	
Lease Liability	(1,391)				(1,372)	
Accruals	(703)				(603)	
Inter-company creditors	(41,919)		(2,915)			
Contingent Liabilities	(1,059)		(36)			
Preference Shareholder Dividend						
		<u>(50,709)</u>		<u>(2,951)</u>		<u>(4,191)</u>
Deficit to unsecured creditors		<u>(45,430)</u>		<u>(2,066)</u>		<u>(3,306)</u>
Shareholders						
Ordinary Share Capital	0		(60)		0	
Preference Share Capital			(5,186)			
		<u>0</u>		<u>(5,246)</u>		<u>0</u>
Deficit to Shareholders		<u>(45,430)</u>		<u>(7,312)</u>		<u>(3,306)</u>

INB. All subject to the costs of realisation

NB. All subject to the costs of realisation

Administrators' comments on the Directors' Draft Statements of Affairs

General

- The Statements includes the book value of assets and liabilities at the date of the Administration Order, together with the Directors' estimates of the value that the assets will realise in the Administration. The statement does not include any provision for the costs of realisation or the general Administration costs.

Assets

- The Estimated to Realise values for Equipment and Investments in subsidiary companies are the gross sums actually realised.
- The inter-company balance of £2.9m owed to 7CL by 7CH may be set off against the shareholder loan from 7CH to 7CL of £40m.
- The inter-company balance of £1.9m owed to 7CP from 7CL is the trading balance for the current year. It does not include the previous year's balance of £2.3m owed by 7CP to 7CL in respect of the failure of ITV Digital.
- We believe that the figure of £839k for Cash at Bank of 7CL should be £833k, which includes £25k belonging to 7CH. Furthermore, undertakings to pay suppliers of £399k had been given by the directors prior to the Administration Order and as part of the sale agreement; Vertex requested that the Administrators honour these payments. Accordingly, they were paid on 2 and 3 December 2002. This left £434k as a net realisation.
- The directors have not included a potential reclaim of VAT of £147k to 7CL.

Liabilities

- We believe that the pension liabilities for 7CL and 7CP have been passed to Vertex under TUPER provisions incorporated in the sale agreement
- The trade creditor, lease liability and accrual figures for 7CL and 7CP do not take account of:
 - various essential payments and agreed write-offs made with key creditors as part of the sale agreements entered into by the joint administrators and Vertex
 - various payments made just after the sale from the companies bank accounts as detailed above
 - further ransom payments made by Vertex to key creditors.
- Contingent Liabilities include provisions for:
 - claims from landlords on unexpired leases for rent and dilapidations
 - repayment of grants
 - various outstanding legal claims

Joint Administrators' Estimated Outcome Statements as at 14 February 2003

Estimated Outcome Statement as at 14 February 2003						
	7C Limited			7C (Pembroke) Limited		
	R&P to date £'000	Future R&P £'000	Estimated Outcome £'000	R&P to date £'000	Future R&P £'000	Estimated Outcome £'000
RECEIPTS						
Sale of Equipment	3,325	200	3,525	500		4,025
Sale of Shares	1		1			1
Book Debts	1,088	530	1,617	423	62	2,103
Cash at Bank	409		409			409
Inter-company		140	140			140
VAT Refund		147	147			147
Other Assets	23		23			23
Interest	12		12			12
Total Receipts	4,857	1,017	5,874	923	62	6,859
PAYMENTS						
Essential Payments	(997)		(997)	(792)		(1,789)
Administrators' Fees		(250)	(250)		(50)	(300)
Solicitor's Fees	(49)	(86)	(135)	(20)		(155)
Debtor Refunds		(32)	(32)			(32)
Debt Collection Costs		(81)	(81)		(24)	(105)
Insurance & Sundry Costs	(1)	(15)	(16)			(16)
Recoverable VAT	(9)	9	0	(4)	4	0
Total Payments	(1,056)	(455)	(1,510)	(816)	(70)	(2,396)
NET TOTAL	3,802	562	4,364	107	(8)	4,463
PREFERENTIAL CREDITORS						
Inland Revenue						(1,123)
BALANCE AVAILABLE FOR UNSECURED CREDITORS						3,340

Note 1: Not including costs of liquidation/CVA

Joint Administrators' Estimated Outcome Statements as at 14 February 2003 (cont)

7C (Holdings) Limited - In Administration			
Estimated Outcome Statement as at 14 February 2003			
	R&P to date £'000	Future R&P £'000	Estimated Outcome £'000
RECEIPTS			
Sale of 7C India	250		250
Sale of 7C Italy	635		635
Cash at Bank	25		25
Total Receipts	<u>910</u>	<u>0</u>	<u>910</u>
PAYMENTS			
Essential Payments	(665)		(665)
Administrators' Fees		(200)	(200)
Solicitor's Fees	(45)		(45)
Recoverable VAT	(8)	8	0
Total Payments	<u>(718)</u>	<u>(192)</u>	<u>(910)</u>
NET TOTAL	<u>192</u>	<u>(192)</u>	<u>0</u>
AVAILABLE FOR UNSECURED CREDITORS		Note 1	0

Note 1: Not including costs of liquidation/CVA