

The Insolvency Act 1986

Administrators' progress report**2.24B**

Name of Company

CanDu Entertainment Group Limited (In Administration)

Company number

05415747

In the

High Court of Justice, Chancery Division, Companies Court

[full name of court]

Court case number

2456 of 2008

(a) Insert full name(s)
and address(es) of
administrator(s)I / We (a) Alan Hudson and Robert Hunter KellyErnst & Young LLP, No. 1 Colmore Square, Birmingham, B4 6HQ

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

from

to

(b) Insert date

(b) 20 March 2009

(b) 4 September 2009

Signed

Joint Administrator

Dated

7 SEPTEMBER 2009

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

Michael Surr

Ernst & Young LLP, No. 1 Colmore Square, Birmingham, B4 6HQ

Tel: 0121 535 2000

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

TUESDAY



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COMPANIES HOUSE

TO MEMBERS AND ALL KNOWN CREDITORS

7 September 2009

Ref: CDU/AH/DF/SKL/PCF21.1

Michael Surr
Direct line: 0121 535 2389
Direct Fax: 0121 535 2389

Dear Sirs

**CanDu Entertainment Limited ("CanDu")
CanDu Entertainment Group Limited ("Group")
(Both in Administration) (together "the Companies")**

PC2

08/09/2009

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COMPANIES HOUSE

High Court of Justice, Chancery Division, Companies Court
Court references: 2457 of 2008 and 2456 of 2008

Registered office address: c/o Ernst & Young LLP, No. 1 Colmore Square, Birmingham, B4 6HQ

I write in accordance with Rule 2.117 of The Insolvency Rules 1986 to provide you with a report on the progress of the Administrations. The report covers the period from 20 March 2009 to 4 September 2009 and should be read in conjunction with the Joint Administrators' Statement of Proposals ("the Proposals") dated 6 May 2008 and our previous reports to creditors dated 20 September 2008 and 9 April 2009.

CanDu Entertainment Limited (In Administration) and CanDu Entertainment Group Limited (In Administration), registered numbers 04836872 and 05415747 respectively, entered Administration on 20 March 2008 and A Hudson and R H Kelly were appointed to act as Administrators. The appointment was made by Agilo Limited under the provisions of paragraph 14 of Schedule B1 to the Insolvency Act 1986. Under the terms of the appointment, any act required or authorised to be done by the Joint Administrators can be done by either of them.

Summary of the Proposals

As discussed in the Proposals, an Administration is an insolvency process in which a company's affairs, business and property are managed by one or more Administrators who are appointed to carry out the following statutory purpose.

The Administrator of a company must perform his function with the objective of:

- a. Rescuing the Companies as a going concern; or
- b. Achieving a better result for 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.

Following our appointment, we immediately sold the business and assets of the Companies with a view to achieving purpose (c) as outlined above. A sale of the business and assets of both Companies as a going concern was completed with Yellowhammer Bars Limited (formerly Company Time Limited) ("the Purchaser") by the Joint Administrators on 20 March 2008.

Of the total consideration received for the sale of the business and assets of the Companies, £10.164m was a deemed payment by the Purchaser of the business and assets subject to a fixed charge. A cash payment was not made by the Purchaser but £10.164m of indebtedness was rolled over to the Purchaser by the secured creditor, Agilo Limited.

Cash realisations of £1,300,723 were however received for the floating charge assets from the sale.

As discussed in my previous report, we consider it appropriate to move the Companies into Creditors' Voluntary Liquidation ("CVL") in order to distribute the prescribed part to the unsecured creditors. The Joint Administrators' final receipts and payment account at Appendix 1 show funds to be moved into the Liquidations of CanDu and Group of £256,469 and £8 respectively. Please note that a further £7,780 will be received in the CVL of CanDu from H M Revenue & Customs as a result of VAT reclaimed in the Administration.

Extensions to the initial period of appointments

An extension of the initial period of appointment was consented to by the secured creditors, Agilo Limited and CBPE Nominees Limited (formerly Close Brothers Limited) on 9 March 2009, in accordance with paragraph 76(2)(b) of Schedule B1 of the Insolvency Act 1986, to extend the Administrations for six months to 19 September 2009. The purpose of the extension was to enable the Joint Administrators to finalise the outstanding matters in both Administrations.

Summary of progress

1. Properties

As stated in the Proposals, at the date of appointment the Companies operated from 40 sites, including seven freehold properties. As a result of the sale of business to the Purchaser, asset realisations were achieved from the freehold properties. Licences to occupy 23 leasehold properties were also granted to facilitate transfer of the leases to the Purchaser. The remaining 10 leasehold properties remained with the Companies as these were excluded from the sale agreement.

The final status of the properties is summarised below:

Status as at 4 September 2009	No. of sites
<i>Freehold properties:</i>	
Sold	7
<i>Leasehold properties:</i>	
Assigned (1 partially assigned)	10
Returned to landlord - surrender accepted/forfeiture of lease	4
Returned to landlord - surrender not accepted	19
	40

Freehold properties

The Administrators successfully sold the freehold properties to the Purchaser as part of the sale agreement.

Leasehold properties

Occupied under licence

As discussed in my previous reports, a substantial amount of time has been spent since my appointment in dealing with the 23 properties initially occupied by the Purchaser under a licence granted by the Administrators. Negotiations with the landlords have resulted in the assignment of nine of the 23 properties to the Purchaser or other third parties.

Where negotiations have been unsuccessful, the licences to occupy were terminated under the terms of the sale agreement. This has been the outcome in the case of 13 properties. In order to minimise the Companies' liabilities, these properties have been returned to the landlords as CanDu is unable to fulfil its ongoing obligations under those leases. The properties of four leases have been successfully returned to the landlords and one property partially assigned to the Purchaser, with the landlords of the remaining properties refusing to accept a surrender of the lease to these properties.

Assigned

Nine properties have been assigned to the Purchaser through successful negotiations with the landlords, and one property partially assigned and partially returned to the landlord.

Returned to landlord

At the end of the Administrations, 23 leasehold properties have been returned to landlords. This comprises 13 sites as a result of the Purchaser terminating its licence to occupy (excluding one property partially assigned, as discussed above), and a further 10 properties which were excluded from the sale agreement. Of the 10 properties excluded from the sale agreement, five sites were formerly occupied by CanDu and five were subject to a sub-tenancy lease agreement, these were also returned to the landlords.

The Joint Administrators have been unable to agree a surrender on 19 of the 23 properties. Following our request to surrender the leases, three of the properties formerly occupied by the Purchaser have been successfully returned to the landlords and one of the excluded properties was determined by the landlord under the terms of the lease and the lease forfeited.

The Administrators' requests to surrender CanDu's interest in the properties' leaseholds, in order to minimise the liabilities of CanDu, have not been accepted. Third party guarantees form part of a majority of the leases and as such, the landlords are reluctant to accept a surrender of the lease which would terminate the guarantee for rent in place. The leases will be disclaimed by the Liquidators once CanDu enters Liquidation.

2. Other asset realisations

Since my previous report, a further £9,106 has been received from local authorities as a result of CanDu's prepayments for property rates for the period 20 March 2008 to 5 April 2008 bringing total rates refunds to £30,827. Total rates refunds received have been repaid to the Purchaser under the terms of the sale agreement.

CanDu has received £1,472 since our last report from utility companies for prepayments made prior to our appointment bringing total prepayments and other debtors to £214,248. Under the terms of the sale agreement, £14,248 has been repaid to the Purchaser. The remaining £200,000 constitutes the consideration for the sale of the Companies' debts to the Purchaser.

Group has received a refund of £477 relating to monies held on account by legal advisors, this has also been repaid to the Purchaser under the terms of the sale agreement.

Since my previous report, additional interest of £24 has been earned on the Companies' funds held, bringing total interest earned to £23,439. Funds had been moved to non-interest bearing accounts to finalise the Companies' tax positions.

Realisations from rent receipts have reduced by £2,195 from my previous report to total £687,740 as the Purchaser was refunded their overpayment. These monies relate to funds provided by the Purchaser to enable property related payments to be made in accordance with the licences to occupy granted on the leasehold properties. The property payments made from these funds have increased by £42,823 since my last report to total £681,342. A surplus of £6,398 relates to monies received from the Purchaser to which payment was unaccepted by the certain landlords. As such, these funds will be transferred into the CVL as an asset realisation.

3. Other costs of realisations

Final legal fees and disbursements of £35,067 have been paid since my last report, bringing total costs to £139,269.

Insurance premiums of £52 have been paid since my last report. Insurance costs of £1,522 for the 18 month period from my appointment have been incurred in total. Minimal bank charges have also been charged since my last report to bring total bank charges to £632 for both the Companies.

4. End of the Administrations

As discussed above, in accordance with Section 83 of Schedule B1 to the Insolvency Act 1986, notice (Form 2.34B) shall be sent to the Registrar of Companies to move the Companies into

CVL. This has been attached at Appendix 4 for your reference. As outlined in my Proposals the Joint Administrators are empowered to do this with both R H Kelly and myself acting as Joint Liquidators.

Receipts and payments account

I enclose at Appendix 1, a receipts and payments account for the period from 20 March 2009 to 4 September 2009.

Joint Administrators' remuneration and disbursements

The Joint Administrators' remuneration is fixed on a time cost basis by the secured creditors in accordance with Rule 2.106(5A) of the Insolvency Rules 1986. The Administrators incurred time costs of £363,423 for the period to 21 August 2009, against which the sum of £166,803 was drawn. Since my previous report, remuneration of £16,803 was approved by the secured creditors and drawn in relation to tax work undertaken in the Administrations. An analysis of the time spent is attached as Appendix 2 to this report. At Appendix 3 there is a statement of the Administrators' policy in relation to charging time and disbursements.

The sum of £1,737 was drawn in respect of disbursements, as recorded in the abstract of receipt and payments at Appendix 1. There is an analysis of category 2 disbursements (ie. those disbursements paid to the Joint Administrators' firm) at Appendix 2.

Secured creditors

Agilo Limited has received distributions totalling £685,000 as a secured creditor. This excludes the deemed consideration of £10,164,397 paid by the Purchaser and transferred to Agilo Limited as a distribution under its fixed charge.

Of the funds distributed to Agilo Limited, an adjustment has been made to reflect the lower amount being available under the fixed charge as a result of additional costs being incurred in relation to property issues. As such, the total distribution under the fixed charge is £10,085,929 and the total distribution (net of funds required for the prescribed part and for the costs of the Liquidation) under the floating charge is £763,468.

Preferential creditors

As stated in my previous report, there are no preferential creditors of the Companies as all arrears of pay, accrued holiday pay and outstanding pension contributions were met by the Purchaser.

Non preferential creditors

There will be insufficient realisations under the floating charge to enable a distribution to be made to the non preferential creditors of the Companies other than by virtue of the prescribed part, discussed below.

The prescribed part

The prescribed part is a proportion of floating charge assets set aside for non preferential creditors pursuant to section 176A of the Insolvency Act 1986. The prescribed part applies to floating charges created on or after 15 September 2003. Provisions of the prescribed part apply to the Companies.

As previously advised, the Joint Administrators will move the Companies into CVL to distribute the prescribed part to the non preferential creditors of CanDu, of which Group is the largest individual creditor.

Based on the final net realisations under the floating charge, the amount available under the prescribed part to be distributed to CanDu's non preferential creditors will be c. £207,800 before costs of distribution.

Group represents c. 85% of the estimated total non preferential claims against CanDu and as such will receive the majority of the distribution under the prescribed part.

The dividend received by Group from CanDu will constitute a floating charge realisation and is also subject to the provisions of the prescribed part. It is our understanding that Group may have one non preferential creditor who would be entitled to distribution under the prescribed part in Group. Surplus realisations will be distributed to the secured creditor of Group.

I propose to write to you again following the Companies being placed into CVL. However, should you have any queries regarding the Administrations, please contact my colleague, Michael Surr, on the direct line above.

Yours faithfully
for the Companies



A Hudson
Joint Administrator

The Association of Chartered Certified Accountants authorises A Hudson and The Institute of Chartered Accountants of Scotland authorises R H Kelly to act as Insolvency Practitioners under section 390(2)(a) of the Insolvency Act 1986.

The affairs, business and property of the Companies are being managed by the Joint Administrators, A Hudson and R H Kelly, who act as agents of the Companies only and without personal liability.

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Appendices

1. Joint Administrators' receipts and payments account
2. Summary of Joint Administrators' time costs and category 2 disbursements
3. Joint Administrators' policy on fees and disbursements
4. Form 2.34B
5. Form 2.24B

Appendix 1

CanDu Entertainment Limited (In Administration)

Joint Administrators' abstract of receipts and payments from 20 March 2009 to 4 September 2009

	Statement of affairs realisable value £	Fixed £	Floating £	Total £	Total previous report £
Receipts					
Newco rent receipts		687,739.64		687,739.64	689,934.34
Interest income		5,088.97	18,350.27	23,439.24	23,414.85
Sale consideration not distributed		112,500.00		112,500.00	112,500.00
Fixtures and fittings	366,000.00		366,098.00	366,098.00	366,098.00
Furniture and equipment	258,600.00		258,624.00	258,624.00	258,624.00
IT equipment			1.00	1.00	1.00
Stock	182,081.00		310,000.00	310,000.00	310,000.00
Cash floats	186,753.00		166,000.00	166,000.00	166,000.00
Prepayments and other debtors	182,166.00		200,000.00	200,000.00	212,776.10
Rates refunds					21,721.80
Reallocation of distribution made under floating		78,468.05		78,468.05	
VAT payable					
	<u>1,175,600.00</u>	<u>883,796.66</u>	<u>1,319,073.27</u>	<u>2,202,869.93</u>	<u>2,161,070.09</u>
Payments					
Bank charges and interest			630.34	630.34	586.20
Joint Administrators' fees & disbursements		75,000.00	93,539.85	168,539.85	151,736.85
Agents' fees		3,668.00	7,500.00	11,168.00	11,168.00
Legal fees		118,505.35	18,206.15	136,711.50	101,711.50
Legal disbursements		66.75	490.50	557.25	490.50
Secured creditors			763,468.05	763,468.05	500,000.00
Public notices			369.72	369.72	369.72
Insurance		1,522.50		1,522.50	1,470.00
Specific bond			264.00	264.00	264.00
VAT receivable			7,780.46	7,780.46	
Group control account			109.60	109.60	99.60
Newco rent payments		681,341.75		681,341.75	638,518.96
Corporation tax			6,412.62	6,412.62	6,412.62
ROT settlements			167,525.46	167,525.46	167,525.46
	<u>-</u>	<u>880,104.35</u>	<u>1,066,296.75</u>	<u>1,946,401.10</u>	<u>1,580,353.41</u>
Balances in hand		3,692.31	252,776.52	256,468.83	580,716.68

Note: Deemed consideration

	Statement of affairs realisable value £	Fixed £
Freeholds	7,100,000.00	7,100,000.00
Leaseholds	150,000.00	150,020.00
Goodwill	3,039,520.00	2,914,375.00
Intellectual property		1.00
Customer list		1.00
	<u>10,289,520.00</u>	<u>10,164,397.00</u>



CanDu Entertainment Group Limited (In Administration)

Joint Administrators' abstract of receipts and payments from 20 March 2009 to 4 September 2009

	Statement of affairs realisable value £	Fixed £	Floating £	Total £	Total previous report £
Receipts					
Group control account			109.60	109.60	99.60
	<u>-</u>	<u>-</u>	<u>109.60</u>	<u>109.60</u>	<u>99.60</u>
Payments					
Public notices			75.60	75.60	75.60
Specific bond			24.00	24.00	24.00
Bank charges and interest			2.45	2.45	
	<u>-</u>	<u>-</u>	<u>102.05</u>	<u>102.05</u>	<u>99.60</u>
Balances in hand	-	-	7.55	7.55	-

Appendix 2

**CanDu Entertainment Limited
CanDu Entertainment Group Limited
(Both In Administration) ("the Companies")**

**Summary of Joint Administrators' time costs and category 2 disbursements
from 20 March 2009 to 21 August 2009**

Classification of work function	Hours				Total hours	Total time costs	Total average hourly rate
	Partner / director	Manager	Other senior professionals	Assistants & support			
Accounting & administration	14.50	11.90	168.90	143.90	339.20	53,902.00	158.91
Bank & statutory reporting	21.20	3.50	75.20	18.10	118.00	25,065.50	212.42
Creditors	20.50	26.50	48.40	264.50	359.90	46,742.00	129.87
Debtors	0.00	0.00	0.00	7.50	7.50	600.00	80.00
Employee matters	0.50	0.00	18.50	4.40	23.40	4,082.50	174.47
Immediate tasks	11.70	0.00	12.00	33.50	57.20	10,869.00	190.02
Investigations & CDDA	4.00	0.00	12.50	97.00	113.50	13,122.50	115.62
Legal issues	0.00	0.00	1.50	0.00	1.50	300.00	200.00
Other assets	2.50	0.50	5.50	1.10	9.60	2,046.00	213.13
Other matters	1.20	0.00	4.90	0.00	6.10	1,521.50	249.43
Property	69.00	44.20	447.50	195.70	756.40	130,241.00	172.19
Retention of title	2.00	5.00	5.50	86.70	99.20	11,559.00	116.52
Statutory duties	9.00	15.00	38.70	28.50	91.20	17,945.00	196.77
Trading	1.80	0.00	0.00	0.00	1.80	883.50	490.83
VAT & taxation	12.50	58.00	38.30	16.10	124.90	44,543.00	356.63
Total hours	170.40	164.60	877.40	897.00	2,109.40	363,422.50	173.28
Total time costs	78,504.00	54,885.00	151,388.00	80,647.50			
Average hourly rate	448.97	333.44	172.54	89.91			

Expenses	1,774.03
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Job title	Rates (£) 01.07.2007 - 30.06.2008	Rates (£) 01.07.2008 onwards
Partner	470	495
Account director	385	405
Assistant director	335	350
Senior executive	260	275
Executive	190	200
Assistant executive	145	155
Analyst (3)	115	120
Analyst (2)	95	100
Analyst	80	85
Cashier	95	100

Category 2 disbursements

Of the disbursements of £1,774.03 recorded in the analysis above, £1,067.84 relates to category 2 disbursements (as defined at Appendix 3). The category 2 disbursements are analysed as follows:

Type and purpose	£
Mileage	1,018.01
Postage	49.83
Total	1,067.84

**CanDu Entertainment Limited
CanDu Entertainment Group Limited
(Both In Administration)(“the Companies”)**

Office holders' charging policy for fees

The Institute of Chartered Accountants in England and Wales has determined that the Administrators' remuneration should be fixed on the basis of time properly spent by the Administrators and their staff in attending to matters arising in the Administrations.

The Administrators engaged a director and other staff to work on the cases. The work required was delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance was provided by cashiers dealing with the Companies' bank accounts and statutory compliance diaries, secretaries providing typing and other support services and filing clerks. Work carried out by all staff was subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters was charged to a separate time code established for each case. Each member of staff had a specific hourly rate, which was subject to change over time. The average hourly rate for each category of staff over the period is shown in Appendix 2, as are the latest hourly rates used. The latest hourly rates may be higher than the average rates, if hourly rates increased over the period covered by this report.

Office holders' charging policy for disbursements

Statement of Insolvency Practice No. 9 (“SIP 9”) published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

Category 1 disbursements comprise payments made by the office holders' firm, which comprise specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent's assets without approval from the creditors committee. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment.

Category 2 disbursements comprise payments made by the office holders' firm which include elements of shared or overhead costs. Such disbursements were subject to approval from the secured creditor as if they were remuneration. In line with SIP 9, approval was obtained for category 2 disbursements before they were drawn.