

AM03

Notice of administrator's proposals



Companies House

TUESDAY



A10 *A7JM2Z5C* 27/11/2018 #143
COMPANIES HOUSE

1 Company details

Company number 0 8 0 6 7 8 4 4

Company name in full Abakus Direct Ltd

→ Filling in this form
Please complete in typescript or in
bold black capitals

2 Administrator's name

Full forename(s) Nick

Surname Brierley

3 Administrator's address

Building name/number Regency House

Street 45-53 Chorley New Road

Post town Bolton

County/Region

Postcode B L 1 4 Q R

Country

4 Administrator's name ①

Full forename(s) Craig

Surname Johns

① Other administrator
Use this section to tell us about
another administrator.

5 Administrator's address ②

Building name/number Regency House

Street

Post town 45-53 Chorley New Road

County/Region Bolton

Postcode B L 1 4 Q R

Country

② Other administrator
Use this section to tell us about
another administrator

AM03
Notice of Administrator's Proposals

6 Statement of proposals



I attach a copy of the statement of proposals

7 Sign and date

Administrator's
Signature

Signature
X

NIS

X

Signature date

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Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	Nick Brierley
Company name	Cowgill Holloway Business Recovery LLP
Address	Regency House 45-53 Chorley New Road
Post town	Bolton
County/Region	
Postcode	B L 1 4 Q R
Country	
DX	
Telephone	0161 827 1200



Checklist

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- ☐ The company name and number match the information held on the public Register.
- ☐ You have attached the required documents.
- ☐ You have signed and dated the form.



Important information

All information on this form will appear on the public record.



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DX 33050 Cardiff.



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**Joint Administrators' Report and Statement of
Proposals Pursuant to
Paragraph 49 of Schedule B1**

**Abakus Direct Ltd -
In Administration**

28 August 2018

 **cowgill**

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1 Introduction and Background

- 1.1 The Company was incorporated by Mr Wiktor Laskowski on 14 May 2012 as an importer of furniture for sale online. Mr Laskowski had substantial experience of importing goods to sell online and, had previously traded several businesses.
- 1.2 Initial funding was provided by way of personal monies injected by the director, in the approximate sum of £50,000, to enable the purchase of stock, which was purchased/imported from China, and to assist with general trading and working capital. The Company imported all stock from China, and sold online via its ecommerce website, whilst also utilising the services of Amazon and eBay.
- 1.3 The Company initially traded from a small unit at Welcomb Street, Manchester; however, following the first few months of trading and initial growth of the Company, it became apparent that a larger facility was required as the quantity of stock held had increased. As such, the Company moved to a larger unit within the same industrial park.
- 1.4 In 2013, due to demand, the Company entered into a lease for a warehouse in Reading, which would allow for the distribution of stock between Northampton and the South of the UK, whilst the Manchester unit maintained distribution between Northern Scotland and Northampton. At this time, the Company began to buy stock from an associated company based in Poland, which was a manufacturer of budget upholstered furniture. At this stage, sales had increased to a level of approximately 1,000 units per month.
- 1.5 The Company historically operated with up to eleven members of staff, split between the two units in Manchester and Reading, which was made up of admin staff, warehouse operatives and delivery drivers. The Company traded profitably for a number of years. However, in June 2016, following Brexit, which saw significant change to currencies and the exchange rate between the British Pound and Polish Zloty, the cost of importing from Poland increased which caused margins to reduce. Initially, the Company did not pass on the increased purchase price of stock to the customer as it decided not to increase prices, but consequently, it began to record losses of up to £5,000 per week.
- 1.6 In an attempt to improve profitability, the Company subsequently implemented a price increase in order to improve the Company's gross margins; however, this resulted in loss of sales and the Company was not able to maintain its increased pricing.
- 1.7 Due to reduced margins and sales, the Company began to experience cash flow difficulties and, as a result, the Company obtained an unsecured loan in the sum of £110,000 to assist with continued trading. In February 2018, an additional loan in the sum of £80,000 was undertaken to assist with working capital.
- 1.8 In addition to this, the Company's difficulties were compounded, as following quality issues with stock that had been experienced with its Amazon customers, a number of complaints and returns were made, and the Amazon account was blocked for a period of two months in May 2018. Amazon had historically accounted for up to two thirds of the Company's turnover, and the inability to utilise the account during this period saw the Company's sales drop dramatically and, turnover reduced by over 50%.
- 1.9 At this point, the Company obtained a further loan of £30,000 to facilitate continued trading whilst the Amazon account was inactive. Following the reactivation of the Company's Amazon account in July 2018, it became apparent that significant arrears had been incurred with HM

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Revenue & Customs ("HMRC") and the Company's suppliers. As a result, the Company was unable to make payments as and when they fell due, and creditor pressure was being experienced, in particular from HMRC.

- 1.10 In July 2018, the director felt he required financial advice from the Company's accountant, Ford Campbell Freedman ("FCF"), who advised that the Company required insolvency advice and recommended that the director attend a meeting with Cowgill Holloway Business Recovery LLP ("CHBR").
- 1.11 The director met with Stewart Dobson ("SD") of CHBR on 10 July 2018, to discuss and review the Company's financial position, as a result of the issues faced and increased creditor pressure. The director was presented with various options which he subsequently considered.
- 1.12 As it was understood that a formal insolvency process may be appropriate, on 24 July 2018, Jonathan Kay ("JK"), of Robson Kay Associates Ltd ("RKA"), who is a member of the National Association of Valuers and Auctioneers, visited the Manchester premises, upon the director's instructions to review and value all Company assets.
- 1.13 On 26 July 2018, Craig Johns ("CJ") of CHBR met with the director. At this meeting, a summary of the Company's assets and liabilities was provided and reviewed and, based on the information available, it was apparent that the Company was insolvent on a balance sheet and cash flow basis. Whilst various options were discussed, as it was understood that there may be a viable business going forward, it was believed that Administration may be appropriate. As such, this process was explained to the director.
- 1.14 Following these discussions, on 2 August 2018, the director formally engaged CHBR. On this date, CHBR liaised with RKA in order to provide an overview of the position. RKA advised that a marketing campaign should be undertaken, to expose the business opportunity and try to generate interest and subsequent offers.
- 1.15 The relevant marketing document was circulated via email by RKA to 15,970 contacts in their database. In addition to this, the same marketing flyer was advertised on CHBR's website along with an internal mailshot that was issued to all partners of Cowgill Holloway LLP ("CH"), to allow the opportunity to be exposed to the clients of CH.
- 1.16 On the same date, the director, via a newly incorporated company, Abakus Direct Furniture Ltd ("ADF"), made an offer for the Company's assets in the sum of £45,000; however, at this stage, RKA were still establishing the Company's complete asset position, specifically the value of the Company's fleet of motor vehicles, some of which were subject to hire purchase and, as such, this offer was not accepted.
- 1.17 ADF resubmitted an offer later that day in the sum of £48,000, which was also rejected for the same reasons. ADF latterly submitted a revised offer of £50,000. RKA advised that this offer was acceptable in principle, subject to the equity position with the Company's motor vehicles being established. RKA confirmed that if there was equity in the financed motor vehicles, then the offer would need to be increased accordingly.
- 1.18 On 3 August 2018, the agreements in respect to the Company's fleet of motor vehicles were obtained, and following review, it was apparent that there was net equity in the fleet of motor vehicles. As a result, ADF's offer would need to be increased if all vehicles were to be included in any eventual sale. As such, ADF's offer was increased to £58,000. RKA advised this offer would be acceptable should two of the Company's seven vehicles be excluded from the sale.

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- 1.19 RKA further advised that their marketing campaign had resulted in three other expressions of interest; however, they did not lead to any formal offers for the purchase of the Company's business and/or assets.
- 1.20 On 6 August 2018, ADF increased their offer to £60,000 to include all vehicles. RKA advised that they could not justify a sale to include all of the Company's assets for any less than £62,000 and, as a result, on 7 August 2018, ADF submitted their final offer at this level, which was accepted by RKA, who confirmed that it represented the best result in the circumstances and should be accepted with a view to completion at the earliest opportunity. It was further agreed that this offer would consist of an initial payment of £25,000 upon completion, with the remaining balance being paid via deferred consideration over an eight month period.
- 1.21 CHBR instructed solicitors, Ward Hadaway ("WH") to prepare the sale and purchase agreement ("SPA"). The SPA was drafted and agreed by both parties between 13 August 2018 and 22 August 2018. In addition to this, licences to occupy the Company's trading premises' at both the Manchester and Reading sites were also prepared for a Period of three months.
- 1.22 On 22 August 2018, once the SPA was finalised, the notice of appointment was filed in Court. As a result, CJ and Nick Brierley ("NB") of CHBR Regency House, 45-53 Chorley New Road, Bolton BL1 4QR, Insolvency Practitioners licensed in the UK by the Insolvency Practitioners Association, were appointed Joint Administrators of the Company by the director on 22 August 2018.
- 1.23 The Joint Administrators will act jointly and severally in the Administration.
- 1.24 A pre-packaged sale of the Company's business and assets was completed on 22 August 2018 to ADF. Further information in relation to this sale is included in Section 2 of this report and the Joint Administrators' full statement as per Statement of Insolvency Practice No 16 is attached at Appendix H.
- 1.25 Information about the way that we will use, and store personal data in relation to insolvency appointments can be found at <https://www.cowgills.co.uk/services/business-recovery/privacy-notice/>. If you are unable to download this, please contact our office and a hard copy will be provided to you.
- 1.26 The EU Regulation on Insolvency Proceedings 2000 applies to the Administration. The proceedings are main proceedings as defined by Article 3 of the Regulation. The Company is based in the United Kingdom.
- 1.27 This report incorporates the Joint Administrators' Statement of Proposals made under paragraph 49 of Schedule B1, which will be treated as delivered to creditors on 30 August 2018.

2 Administration Strategy and Objective

- 2.1 The Joint Administrators must perform their functions with the purpose of achieving one of the following objectives:
- Rescuing the Company as a going concern; or
 - 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); or

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- Realising property in order to make a distribution to one or more secured or preferential creditors.
- 2.2 Further information on the pursuit of the above objectives is detailed below:
- 2.3 CHBR first met with the director on 10 July 2018. A potential Company Voluntary Arrangement ('CVA') was discussed; however, HMRC had historically been investigating the Company's VAT records and were unlikely to support a CVA Proposal, which, because of the level of debt, would ensure a Proposal would not be approved. Furthermore, it was understood that the business model going forward would not generate sufficient turnover to pay ongoing liabilities as well as CVA contributions. Finally, the director did not wish to propose a CVA.
- 2.4 There were no known parties interested in the purchase of the business outside of a formal insolvency procedure and, as such, it was deemed that the first objective of the Administration, rescuing the Company as a going concern could not be achieved.
- 2.5 Various insolvency options, including Creditors' Voluntary Liquidation ('CVL') and Administration were discussed. Following the initial meeting with the director, it was understood that there may be a viable business going forward. As such, a CVL was not considered appropriate, as according to RKA, any offer made for the business on an 'in-situ' basis would exceed what would be achieved, should the assets be sold on a forced sale basis in Liquidation, and, furthermore, when taking into account the significant costs of uplift and sale via auction, net proceeds would be significantly lower. In addition to this, a business sale would maintain continuity of supply, which in turn would preserve the value of the goodwill, which would have been expected to be totally eroded in Liquidation.
- 2.6 Due to the Company's lack of available funds and its inability to continue trading for a prolonged period, it was deemed necessary to carry out a short term marketing strategy by instructed agents, RKA, who were engaged on 2 August 2018.
- 2.7 RKA circulated the relevant marketing flyer via email to 15,970 contacts in their database. As a result of RKA's marketing campaign, four parties expressed an interest in the opportunity and made enquiries with RKA directly; however, only ADF made a formal offer for the business and assets of the Company. The offer, after negotiations, was recommended by RKA as it far exceeded sale proceeds via Liquidation and also eliminated employee claims as all staff were transferred to ADF.
- 2.8 Specific details in relation to the marketing campaign, expressions of interest, receipt and revision of offers and completion of a sale are contained within our report in accordance Statement of Insolvency Practice 16 ('SIP 16') which is attached at Appendix H.
- 2.9 The Joint Administrators' functions are being carried out with the objective of achieving a better realisation for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Liquidation). The Joint Administrators believe this will result in realisations being available to the secured creditors of the Company which also fulfils a purpose of the Administration under Paragraph 3 of Schedule B1 of the Insolvency Act 1986.

Pre-Packaged Sale

- 2.10 A pre-packaged sale of the Company's business and assets was concluded on 22 August 2018 to Abakus Direct Furniture Ltd. Full information on the sale pursuant to the requirements of

SIP 16 can be found at Appendix H and should be read in conjunction with the remainder of this report.

Progress Since Appointment

Administration (including statutory compliance and reporting)

- 2.11 Following our appointment, the strategy for the Administration was carefully assessed to ensure that a coherent planned process for the case could be achieved. This work will, where appropriate, have included liaison with solicitors to deal with any legal considerations surrounding the Company's insolvency (such as assessing the validity of any 3rd party security in relation to the assets) and liaising with valuation agents about the most appropriate means of realising the value in the Company's business and assets.
- 2.12 We have also dealt with a number of statutory formalities which are required of us under related legislation. Typically, this includes issuing and filing all appointment notices with creditors and the Registrar of Companies and also advertising our appointment in the London Gazette.
- 2.13 Where a pre-packaged sale of the Company's assets and business has taken place, we have prepared and issued the report on the transaction as required by Statement of Insolvency Practice 16 and we have also prepared and issued these proposals to creditors outlining how the purpose of the Administration may be achieved.
- 2.14 Other statutory duties performed are outlined in further detail at Appendix F. Please note that much of this work will have been performed to comply with statutory requirements and as such may not necessary add any value to the insolvent estate.

Trading

- 2.15 As previously noted, a pre-packaged sale of the Company's assets concluded to ADF, immediately prior to our appointment on 22 August 2018. We have therefore not traded the Company's business following our appointment.

Realisation of Assets

Sale to ADF

- 2.16 On 22 August 2018, a pre-packaged sale of the Company's business and assets was concluded to ADF in the sum of £62,000. There is no VAT payable as it is a going concern sale. Full details in respect to the sale can be found at Appendix H. To date, the sum of £25,000 has been received. The Joint Administrators will monitor payment of the deferred consideration.

Lighting Stock

- 2.17 The Company owns lighting stock that has an estimated to realise value of £5,000 as advised by RKA.
- 2.18 As per the SPA, this lighting stock will be delivered up to RKA to allow for a sale via public auction, the sale proceeds of which will be transferred to the Administration estate following completion. An update in this respect will be provided in our next report to creditors.

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Director's Loan Account ("DLA")

- 2.19 The director operated a DLA with the Company, which is currently believed to be overdrawn in the sum of £264,407. This figure has been extracted from the last set of filed accounts for the year ended 31 May 2017. The Joint Administrators will liaise with the Company accountants and review the Company bank statements and records to establish the current balance of the loan account. Following which, the Joint Administrators will liaise with the director in respect to repayment of the same. An update in this respect will be provided in our next report to creditors.
- 2.20 The work undertaken by the Joint Administrators and their staff to date in realising the Company's assets has been necessary in order to maximise the likelihood of a return to creditors being made. Where assets remain to be realised, these will be dealt with as the Administration progresses and further updates will be provided to creditors in our progress reports.
- 2.21 Further information on the estimated outcome of the Administration can be found in section 9 below.

Creditors

- 2.22 Further particulars regarding the estimated outcome for creditors can be found at Section 9 of this report.
- 2.23 An Administrator is not only required to deal with correspondence and claims from unsecured creditors (which may include retention of title claims), but also those of any secured and preferential (employee) creditors of the Company. This may involve separate reporting to any secured creditors and dealing with distributions from asset realisations captured under their security interest, most typically being a debenture.
- 2.24 The Company is not subject to any security and claims of this nature are not anticipated.
- 2.25 Claims from preferential creditors typically involve employee claims and payments made on behalf of the Company by the Redundancy Payments Service following dismissal. As a result of the pre-packed sale, the employees were transferred to ADF. It is understood that employees are not owed any outstanding wages and therefore, a claim of a preferential nature is not anticipated in this regard.
- 2.26 The above work will not necessarily bring any financial benefit to creditors generally; however, an Administrator is required by statute to undertake this work. Similarly, if a distribution is to be paid to any class of creditor, work will be required to agree those claims and process the dividend payments to each relevant class of creditor. The more creditors a company has, the more time and cost will be involved by the Administrator in dealing with those claims.

Investigations

- 2.27 In accordance with the Company Directors Disqualification Act 1986, the Joint Administrators are required to investigate the Company's affairs and to subsequently submit a report on the conduct of the Directors of the Company to the Department for Business, Energy and Industrial Strategy. As this is a confidential report, we will not be able to disclose the contents of this.

Sale of Assets to Connected Parties

- 2.28 In accordance with Statement of Insolvency Practice 13, we would advise you that the following assets were sold to a party connected with the Company:

Date of Transaction	Assets Involved & Nature of Transaction	Consideration Paid & Date	Sold To	Relationship
22 August 2018	Assets to include commercial records, goodwill, customer and purchase contracts, domain name and intellectual property, fixtures and fittings, equitable interest in the Company's fleet of motor vehicles, office equipment, plant and machinery and stock	£25,000 initial consideration received on 22 August 2018, with the deferred consideration which consists of eight monthly payments of £4,625 to be received by the 1st of each calendar month; beginning October 2018 and received in full by no later than 1 May 2019	Abakus Direct Furniture Ltd	Connected company by way of common director and shareholder, Wiktor Laskowski

- 2.29 Further detail in relation to the pre-packaged sale is contained at Appendix H.
- 2.30 As detailed above, the transaction took place on 22 August 2018 to ADF, a connected party by way of common director and shareholder, Wiktor Laskowski. Having reviewed the sale we can confirm the following:
- The purchaser and the Company were independently advised by RKA in respect of the value of the assets;
 - A review of the asset valuation has been undertaken by the Joint Administrators to which no issues have been raised.
- 2.31 RKA have advised that a sale to a connected party was appropriate as no other offers for the business and assets had been received and the offer from the connected party would result in a significantly enhanced net asset realisation when compared to selling via auction.

3 Joint Administrators' Receipts and Payments

- 3.1 A summary of receipts and payments for the Administration period from the date of our appointment to 28 August 2018 is attached at Appendix B.

4 Financial Position

- 4.1 A Statement of the Company's Affairs has been requested from the directors but has not yet been received, as the timeframe in which to return this has not yet elapsed. Attached at Appendix C is a summary of the Estimated Financial Position ("EFP") of the Company as at 22 August 2018, together with a list of creditors' names and addresses along with details of their debts (including details of any security held by them). Creditors should note that the EFP is before the costs of the Administration procedure are considered.

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- 4.2 We have the following observations to make in relation to the EFP of the Company:
- 4.3 RKA were instructed to undertake a review/valuation of the Company's tangible and intangible assets to include, commercial records, goodwill, customer and purchase contracts, the domain name and intellectual property, fixtures and fittings, equitable interest in the Company's fleet of motor vehicles, office equipment, plant and machinery and stock.
- 4.4 The values attributed to the physical assets are based on a valuation from RKA on a forced sale basis in a 'shutdown' scenario.
- 4.5 RKA did not believe that there was any value attributed to commercial records, goodwill, customer and purchase contracts, the domain name and intellectual property unless they were purchased by a connected party. These asset categories have therefore been valued at nil for the purposes of the EFP.
- 4.6 As per the last set of filed accounts, a balance of £264,407 remains outstanding in respect to the DLA; however, the director's ability to repay the outstanding amount is unknown and, as such, this is reflected as estimated to realise 'uncertain' in EFP.
- 4.7 At the point of Administration, the Company had 11 employees. Should a pre-packaged sale have not been completed and the Company had entered Liquidation, all of the Company's employees would have been made redundant, resulting in a preferential claim in a Liquidation scenario in respect to arrears of wages and holiday pay. For the purpose of the EFP, a provision of £800 per employee has been used.
- 4.8 All employees are entitled to lodge claims, which are authorised by the Department for Business, Energy & Industrial Strategy – Redundancy Payments Service ("RPS") pursuant to the provisions of the Employment Rights Act 1996.
- 4.9 The employees are also entitled to make claims of a non-preferential nature for redundancy pay, pay in lieu of notice and any arrears of pay which cannot be claimed preferentially. Such claims will rank as unsecured non preferential claims in the Liquidation. As previously advised, the Company's employees were transferred to ADF and it is not anticipated that claims of this nature will be received; however, a provision for any such claims has been included based on £1,000 per employee as the EFP is based upon a scenario in which the Company ceased to trade with no subsequent business sale.
- 4.10 It is understood that the sums of £76,294 and £1,693 remain outstanding to HM Revenue and Customs in respect to VAT and PAYE respectively.
- 4.11 The figures illustrated for the Company's unsecured creditors are not verified figures and are estimated based upon the Company's records as at the date of our appointment.
- 4.12 The EFP is not inclusive of the costs associated in the asset realisation process or the costs of Administration.

5 Proposals

- 5.1 It is proposed that we will continue to manage the affairs of the Company in order to achieve the second objective of the Administration. In the circumstances it is proposed that:

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- 5.2 If having realised the assets of the Company the Joint Administrators think that a distribution will be made to the unsecured creditors other than by virtue of Section 176A(2)(a) as noted above, they propose filing a notice with the Registrar of Companies which will have the effect of bringing their appointment as Joint Administrators to an end and will move the Company automatically into Creditors' Voluntary Liquidation ('CVL') in order that the distribution can be made. In these circumstances, it is proposed that the Joint Administrators in office at the date of conversion to CVL will become the Joint Liquidators in the CVL. The acts of the Joint Liquidators may be undertaken by either or both of them.
- 5.3 If a distribution to unsecured creditors not limited to the Prescribed Part is anticipated, the Joint Administrators may consider making an application to Court to seek permission to distribute this in the Administration. If permission is granted, the Company will exit into dissolution once the distribution has been made and the Administration is concluded.
- 5.4 If the Joint Administrators think that the Company has no property which might permit a distribution to its creditors, they will file a notice with the Court and the Registrar of Companies for the dissolution of the Company.
- 5.5 See Section 6 below on **Exit Routes** for further information on the exit routes available from Administration.
- 5.6 The Joint Administrators shall do all such other things and generally exercise all of their powers as contained in Schedule 1 of the Insolvency Act 1986, as they consider desirable or expedient to achieve the statutory purpose of the Administration.
- 5.7 If the Joint Administrators consider it necessary to extend the period of the Administration, they will seek the consent of creditors or the approval of the Court to the extension. Creditors may consent to an extension for a period of up to one year and the Court can order that the Joint Administrators' term of office be extended for a specified period determined by it.
- 5.8 The creditors consider establishing a Creditors' Committee and that if any such Committee is formed they be authorised to sanction the basis of the Joint Administrators' remuneration and disbursements and any proposed act on the part of the Joint Administrators without the need to report back to creditors generally, to include any decision regarding the most appropriate exit route from the Administration.
- 5.9 The basis of the Joint Administrators' remuneration may be fixed as one or more of the following bases and different bases may be fixed in respect of different things done by them:
- As a percentage of the value of the assets he has to deal with, or
 - By reference to time properly spent by the Administrator and his staff managing the Administration, or
 - As a set amount
- 5.10 In accordance with Statement of Insolvency Practice 9, issued by the Association of Business Recovery Professionals, the Joint Administrators be authorised to draw Category 2 disbursements as and when funds are available, in accordance with their firm's published tariff. Details of Category 2 disbursements charged by the firm can be found at Appendix F.
- 5.11 Where no Creditors' Committee is appointed the remuneration and disbursements of the Joint Administrators shall be fixed by a decision of creditors or where the Joint Administrators think that the Company has insufficient property to enable a distribution to be made to the

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unsecured creditors (other than via the Prescribed Part), approval will be sought from the secured and (if necessary) the preferential creditors in accordance with insolvency legislation. The Joint Administrators will also seek approval for any unpaid pre-administration costs detailed in this report and their discharge from liability in the same manner.

5.12 In this case, the Joint Administrators are seeking to approve the basis of their remuneration as follows:

- By reference to the time properly spent by the Joint Administrators and their staff in attending to matters arising in the Administration

5.13 Further details about the proposed fee basis can be found in Section 8 below and Appendix E.

5.14 The Joint Administrators will be discharged from liability under Paragraph 98 of Schedule B1 to the Insolvency Act 1986 immediately upon their appointment as Joint Administrators ceasing to have effect.

6 Exit Routes

6.1 All Administrations automatically come to an end after the period of one year, unless the Company's creditors agree to extend this period, or the Court orders the Joint Administrators' term of office be extended for a specified period of time.

6.2 At the time of drafting these Proposals we do not believe that an extension to the period of Administration will be necessary, however will confirm the position to creditors in a subsequent progress report in due course.

6.3 Based on information currently available, the information on the exit route(s) we believe may be appropriate in this Administration;

Creditors' Voluntary Liquidation

6.4 Based on present information, the Joint Administrators think a dividend will be paid to the unsecured creditors other than by virtue of the Prescribed Part. As a result, the Joint Administrators will either make an application to Court to enable them to make a distribution to unsecured creditors in the Administration or they will file a notice with the Registrar of Companies in order that the Administration will cease and the Company will move automatically into Creditors' Voluntary Liquidation ('CVL') to facilitate this distribution. It is proposed that the Joint Administrators in office at the date of conversion to CVL will become the Joint Liquidators of the CVL.

6.5 It is proposed that the Joint Liquidators will be authorised to act jointly and severally in the subsequent Liquidation.

6.6 Creditors have the right to nominate an alternative Liquidator of their choice. To do this, creditors must make their nomination in writing to the Joint Administrators prior to these Proposals being approved. Where this occurs, the Joint Administrators will advise creditors and provide the opportunity to vote. In the absence of a nomination, the Joint Administrators will automatically become the Joint Liquidators of the subsequent CVL.

Dissolution of the Company

- 6.7 Based on present information, the Joint Administrators think that the Company has sufficient property to enable a distribution to unsecured creditors. In the unlikely event this estimation changes, or we decide to make an application to Court to enable us to make the unsecured distribution during the Administration, a notice will be filed at Court and with the Registrar of Companies with the Joint Administrators' final report, for the dissolution of the Company. A copy of these documents will be sent to the Company and its creditors.
- 6.8 The Joint Administrators' appointment will end following the registration of the notice by the Registrar of Companies.

Compulsory Liquidation

- 6.9 If a move to CVL is not possible because a dividend to the unsecured creditors (other than by virtue of the Prescribed Part) is not anticipated, but the Joint Administrators conclude that an exit into Liquidation is appropriate so that further investigations into the Company's affairs may be carried out for example, an application to Court may be made to exit into Compulsory Liquidation instead. If this exit route is appropriate, at this stage it is anticipated (but is not mandatory) that the Joint Administrators will become the Joint Liquidators in the subsequent Liquidation.

7 Pre-Administration Costs

- 7.1 Pre-administration costs are defined as:

- (i) Fees charged, and
- (ii) Expenses incurred

by the Joint Administrators, or another person qualified to act as an insolvency practitioner before the company entered Administration (but with a view to its doing so), and "unpaid pre-administration costs" are pre-administration costs which had not been paid when the company entered Administration.

- 7.2 RKA were instructed to provide the following assistance in relation to the eventual pre-packaged sale of the Company's business and assets to ADF:
- Valuation advice;
 - Marketing advice;
 - Marketing assistance;
 - Liaising and negotiating with interested parties; and
 - Advising on the suitability of the offers received
- 7.3 Ward Hadaway were formally engaged to prepare appointment documentation and the SPA involving the Company, ADF and the Joint Administrators.
- 7.4 Below is information on the pre-administration costs incurred in this case, together with details of any amounts which remain unpaid, where applicable.

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- 7.5 Pre-appointment fees charged and expenses incurred by the Joint Administrators are as follows:

Charged By	Brief Description of Services Provided	Total Amount Charged £	Amount Paid £	Amount Unpaid £
CHBR	Attending meetings and providing advice to the Company, instructing agents to conduct a valuation on the Company's business and assets, liaising with the Company's major creditors to provide an overview of the position and to discuss strategy, marketing the business opportunity, assessing offers received in conjunction with RKA and Ward Hadaway, reviewing and agreeing the SPA and licences to occupy	£13,441	Nil	£13,441
RKA	Valuation advice of the Company's business and assets, marketing advice and assistance, liaising with and negotiating with interested parties and advising on the suitability of the offers received	£6,200	Nil	£6,200
Ward Hadaway	Preparation of the SPA and licences to occupy, preparing the relevant documentation to place the Company into Administration and advice in relation to security provided by the purchaser in relation to the deferred consideration.	£6,500	Nil	£6,500

- 7.6 The payment of the unpaid pre-administration costs set out above as an expense of the Administration is subject to the approval of creditors, separately to the approval of the Joint Administrators' Proposals. This approval will be the responsibility of the Creditors' Committee if one is appointed or alternatively by a decision of the creditors where there is no Committee.
- 7.7 For information, attached at Appendix D is a time matrix outlining the time spent by us and our staff prior to our appointment as Joint Administrators.

8 Joint Administrators' Remuneration

- 8.1 As Joint Administrators, we are required to provide creditors with details of the work we propose to undertake in the Administration and the expenses we consider will be, or are likely to be, incurred in dealing with the Company's affairs, prior to determining the basis upon which our remuneration will be fixed.
- 8.2 In addition to this, where the Joint Administrators seek agreement to the basis of their remuneration by reference to time properly spent by them and their staff in attending to matters arising in the Administration, a fees estimate outlining the time and estimated cost of the work to be done must also be provided.
- 8.3 In this case, we are seeking to agree that our remuneration be based on the time properly spent by us and our staff in dealing with the affairs of the Company. Our fees estimate and details of the work we propose to undertake in the Administration can be found at Appendix F and further information on the work done since our appointment to the date of this report can be found in Section 2.
- 8.4 Please note that where appropriate, the fees estimate may be to a particular stage of the case only and if we consider the estimate will be exceeded during the Administration, we are obliged to seek further approval for any increase in our remuneration. The fees estimate

provides details of these matters where relevant and appropriate approval to the basis of our remuneration will be sought as outlined in Section 5 of this report.

- 8.5 For information, attached at Appendix E is a time matrix outlining the time spent by us and our staff since the date of our appointment as Joint Administrators. This time is included within the overall fees estimate provided with this report.
- 8.6 We will provide updates on the expenses we consider will be, or are likely to be, incurred during this case with our progress reports in due course.
- 8.7 A copy of "A Creditors' Guide to Administrators' Fees" is available on request or can be downloaded from <http://www.cowgills.co.uk/wp-content/uploads/2016/01/Creditors-Guide-to-Administrators-fees.pdf>. If you would prefer this to be sent to you in hard copy please contact Tanya Lemon of this office on 0161 827 1200.

9 Estimated Outcome

- 9.1 An estimate of the outcome of the Administration as at 28 August 2018 is attached as Appendix G.
- 9.2 We provide the following commentary in relation to the estimate of the outcome:

Assets

Pre-Packaged Sale

- 9.3 As detailed in this report, a pre-packaged sale to ADF was completed in the sum of £62,000, which includes the initial sales consideration in the sum of £25,000, which is being held in the client account of CHBR, with the deferred consideration which consists of eight monthly payments of £4,625 to be received by the 1st of each calendar month, commencing 1 October 2018, with the last payment being scheduled for 1 May 2019.
- 9.4 The apportionments provided in the SPA are as follows:
- £5,000 for the commercial records, goodwill, customer and purchase contracts, the domain name and intellectual property;
 - £7,500 for the fixtures and fittings;
 - £12,000 for the equitable interest in the Company's fleet of motor vehicles;
 - £5,000 for the office equipment;
 - £7,500 for the plant and machinery;
 - £25,000 for the stock

Lighting Stock

- 9.5 The value attributed (£5,000) is in line with RKA's valuation on a market value ('MV') basis.

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Director's Loan Account

- 9.6 The balance outstanding as per the Company's last set of filed accounts is £264,407; however, the director's ability to repay the outstanding amount is unknown and, as such, this is reflected as estimated to realise 'uncertain' in the estimate of the outcome.

Liabilities

Secured Creditors

- 9.7 There are no secured creditors in this matter and no claims of a secured nature are anticipated.

Preferential Creditors

- 9.8 As a result of the pre-packaged sale to ADF, there are no preferential creditors in this matter and no claims of a preferential nature are anticipated.

Unsecured Creditors

- 9.9 The creditor balances have been taken from the Company's records.
- 9.10 Based on the estimate of the outcome, unsecured creditors are estimated to receive a distribution of approximately 2 pence in the pound; however, this is expected to be higher once further work in relation to the pursuit of the outstanding director's loan account has been concluded.

10 Proposals Approval and Next Report

- 10.1 We are seeking a decision of creditors on the approval of our proposals by correspondence. The letter issued to creditors with this report (or the link to this report) contains further information about this decision process.
- 10.2 An Administrator is required to provide a progress report within one month of the end of the first six months of the Administration and we will report to you again at this time.

For and on behalf of
Abakus Direct Ltd


Nick Brierley
Joint Administrator

Enc

Appendix A

Statutory Information

1 Company Information

Company Name	Abakus Direct Ltd
Trading Name(s)	Abakus Direct Ltd
Registered Number	08067844
Registered Office Address	Unit 4 Norbury Court, 7 Welcomb Street, Manchester M11 2NB
Trading Address'	Unit 4-5 Norbury Court, 7 Welcomb Street, Manchester M11 2NB; and Unit 16 Stadium Way Industrial Estate, Reading RG30 6BX
Court Details	High Court of Justice Newcastle upon Tyne District Registry
Court Reference Number	0360 of 2018

2 Details of the Company's Directors, Secretary and Shareholdings

	Date Appointed	Date Resigned	Shares Held
Director(s)			
Wiktor Laskowski	14 May 2012	-	100
Secretary			
Claudia Pina	14 May 2012	-	-

3 Joint Administrators' Details

Names of Joint Administrators	Craig Johns and Nick Brierley
Address	Cowgill Holloway Business Recovery LLP, Regency House, 45-53 Chorley New Road, Bolton BL1 4QR
Telephone Number	0161 827 1200
Fax Number	01204 414 244
Joint Administrators' IP Numbers	013152 and 019950
Authorising Body	The Insolvency Practitioners' Association
Date of Appointment	21 August 2018

Appendix B

**Receipts and Payments Account for the Period from 22 August 2018 to 28
August 2018**

Abakus Direct Ltd
(In Administration)
Joint Administrators' Summary of Receipts & Payments
To 24/08/2018

S of A £	£	£
FLOATING CHARGE RECEIPTS		
Licence Fee - 4 Norbury Court	2,349.29	
Licence Fee - 5 Norbury Court	3,561.19	
Stock	25,000.00	
		30,910.48
FLOATING CHARGE PAYMENTS		
Licence Fee - 4 Norbury Court	2,349.29	
Licence Fee - 5 Norbury Court	3,561.19	
		(5,910.48)
		25,000.00
REPRESENTED BY		
VAT Receivable		1,182.11
Client Account		25,000.00
VAT Payable		(1,182.11)
		25,000.00

Appendix C

Summary of the Estimated Financial Position of the Company as at 22 August 2018

	Notes	£
Assets Subject to Floating Charge		
Fixtures and Fittings	1	7,500
Office Equipment	1	3,000
Plant and Machinery	1	7,000
Stock	1	20,000
Lighting Stock	1	5,000
Equitable Interest in Fleet of Motor Vehicles	1	Nil
Commercial Records, Goodwill, Contracts, Domain Name & Intellectual Property	1	Nil
Director's Loan Account	2	Uncertain
		<u>42,500</u>
Estimated Funds Available for Preferential Creditors		<u>42,500</u>
Less: Estimated Preferential Creditors	3	(8,800)
		<u>33,700</u>
Estimated Net Property available to floating charge creditor		Nil
Less: Prescribed Part		Nil
Estimated Surplus / (Deficiency) to unsecured creditors c/d		<u>33,700</u>
Add: Prescribed Part		Nil
		<u>33,700</u>
Less: Unsecured Creditors:		
Trade & Expense Creditors	4	(150,027)
HM Revenue & Customs - VAT	4	(76,294)
HM Revenue & Customs - PAYE	4	(1,694)
Redundancy/PILON	5	(11,000)
Total Unsecured Creditors		<u>(239,015)</u>
Estimated (Shortfall) to Creditors		<u>(205,315)</u>
Less: Share Capital		(100)
Estimated Total Deficiency		<u>(205,415)</u>

Notes

1. Based upon valuations on a forced sale basis provided by Robson Kay Associates Ltd. Please note that there would be costs associated with the uplifting and selling of the physical assets
2. The director's ability to repay his loan account is unknown. As such this is estimated to realise as uncertain
3. Based upon a provision of £800 per employee
4. Value attained from information provided via the Company books and records
5. Provision of £1,000 per employee

N.B. The EFP has been prepared without the inclusion of costs

Cowgill Holloway Business Recovery LLP
Abakus Direct Ltd
B - Company Creditors

Key	Name	Address	£
CA00	Art D'Signs	Unit 1 Avocet Trading Estate, Burgess Hill, RH15 9NH	3,000.00
CA01	Arko Trans	ul. Szosa Polczynska 69, 78-200 Bialogard	1,749.05
CF00	Funding Circle	71 Queen Victoria Street, London, EC4V 4AY	100,000.00
CH00	HM Revenue & Customs	Enforcement and Insolvency Service, Durrington Bridge House, Barrington Road, Worthing, BN12 4SE	77,987.15
CN00	Net Trans	Plac Czerwca 1976 Roku 2/212, 02-495 Warszawa	2,062.98
CS00	STR Logistics	Mieszka I 30 p.208, 75-132 Koszalin	3,498.09
CW00	Wantrans	ul. Aleja Lipowa 61, 80-290 Lezno	941.79
CW01	W. Laskowski	Fabryka Mebli Sp. Z o.o., ul. Lubuszan 5, 75-848 Koszalin	31,250.00
8 Entries Totalling			220,489.06

Signature _____

Cowgill Holloway Business Recovery LLP
Abakus Direct Ltd
B2 - Company Creditors - Consumer Creditors

Key	Name	Address	£
CG00	Krzysztof Grabowiecki	ul. Niekladzka 4/4A, 72-300 Gryfice	3,946.57
CT00	Drew Trans	Wolcza Mala 4, 77-200 Miastko	3,578.82
2 Entries Totalling			7,525.39

Appendix D

Joint Administrators' Pre-Appointment Time Analysis

	Partner	Senior				Junior		Cashier	Total Hours	Total Cost £	Average Cost £
		Director	Manager	Administrator	Administrator	Administrator	Administrator				
Pre-Appointment Planning and Strategy	2.10	6.90	2.50	-	-	-	-	-	11.50	3,482.50	302.83
Pre-Appointment Asset Realisation	3.30	5.00	-	-	-	-	-	-	8.30	2,737.50	329.82
Pre-Appointment Creditors (claims & distributions)	-	1.70	-	-	-	-	-	-	1.70	510.00	300.00
Pre-Appointment General Administration	-	6.70	1.50	23.50	-	-	-	0.80	32.50	6,711.00	206.49
Total Hours	5.40	20.30	4.00	23.50	-	-	-	0.80	54.00	13,441.00	248.91
Current Chargeout Rates	375.00	300.00	250.00	180.00	150.00	100.00	120.00				

Appendix E

Joint Administrators' Time Analysis for the Period from 22 August 2018 to 28 August 2018

	Hours							Average Cost £		
	Senior						Total Hours			
	Partner	Director	Manager	Administrator	Administrator	Junior Administrator				
Administration (including statutory compliance and reporting)	-	5.70	3.10	9.20	-	-	1.00	19.00	4,261.00	224.26
Total Hours	-	5.70	3.10	9.20	-	-	1.00	19.00	4,261.00	224.26

Additional Information in Relation to the Joint Administrators' Fees

1 Fee Basis

- 1.1 The Joint Administrators are seeking to agree the basis of their remuneration in this case as time properly spent by them and their staff in dealing with the affairs of the Company. Attached to this appendix are details of the work the Joint Administrators propose to undertake and the expenses the Joint Administrators considers will be, or are likely to be, incurred. Information about the work done to date can be found in the body of the Joint Administrators' Report and Statement of Proposals at Section 2.
- 1.2 Where a time cost basis is being sought, the Joint Administrators' fees estimate will be included in this information, which also provides details of the rates the Joint Administrators and their staff propose to charge for each part of that work and the time they anticipate each part of that work will take.
- 1.3 The fees estimate is based on information about the Company's affairs available to the Joint Administrators at the present time. Should any matters arise which impact on this estimate, such as additional investigatory matters or potential realisable assets, further time or cost will be incurred and it may be necessary to revise the Joint Administrators' estimate of fees.
- 1.4 In this case, we do not anticipate that it will be necessary to seek further approval to increase the level of the fees estimate if the time incurred is in excess of the fees estimate enclosed with this report.
- 1.5 Each part of the work to be undertaken will necessarily require different levels of expertise and therefore related cost. In order to aid understanding, for the purposes of our fees estimate, we have indicated an average blended rate of the grades of staff such as ourselves, the case manager, the case administrator and cashier when estimating the total hours to be spent on each part of the work.
- 1.6 Below are details of the work we propose undertaking in support of the fees estimate for the Administration:

Administration (including statutory compliance & reporting)

- Notifying creditors of the Joint Administrators' appointment and other associated formalities including statutory advertising and filing relevant statutory notices at Companies House;
- Preparing and issuing progress reports to members and creditors;
- Lodging periodic returns with the Registrar of Companies for the Administration;
- Complying with statutory duties in respect of the Joint Administrators' specific penalty bond;
- Creation and update of case files on the firm's insolvency software;
- Securing the Company's books and records;
- Pension regulatory reporting and auto-enrolment cancellation;
- Completion and filing of the notice of the Company's insolvency to HM Revenue & Customs;
- Initial assessment required by Statement of Insolvency Practice 2 and the Company Directors Disqualification Act 1986 (CDDA) including the review of the Company's books and records

ABAKUS DIRECT LTD - IN ADMINISTRATION

and the identification of potential further asset realisations which may be pursued in the Administration;

- Filing a statutory return to the Department for Business, Energy and Industrial Strategy under the CDDA;
- Periodic case progression reviews (typically at the end of Month 1 and every 6 months thereafter);
- Opening, maintaining and managing the Administration estate cashbook and bank account(s);
- Dealing with all post-appointment VAT and corporation tax compliance.

Creditors (claims and distributions)

1.7 As Joint Administrators, we will deal with all unsecured creditor correspondence and claims as received, including any claims of creditors under retention of title. Based on the Proposals, we think that a distribution to creditors will become available to the unsecured creditors in this case. We will deal with the review and adjudication of creditors' claims as appropriate, if and when it is determined that a dividend is to be declared to that class of creditor.

1.8 It should be noted that the above is based on the EOS contained within the Proposals.

Investigations

1.9 As Joint Administrators, we are required to conduct investigations into the conduct of the directors of the Company and transactions entered into prior to the Company's insolvency, as required by the Company Directors Disqualification Act 1986 and Statement of Insolvency Practice 2 (Investigations by Office Holders in Administrations and Insolvent Liquidations).

1.10 This work may not necessarily lead to any financial benefit to creditors yet is work we are required to undertake by statute. We have included the time we consider will be needed to comply with the above legislation within Administration above.

1.11 If however, our initial investigations reveal that further recoveries may be available for the insolvent estate, all work undertaken to pursue these recoveries will be estimated within this time category.

1.12 At this stage, we do not foresee any substantial investigation work will be required but if following the conclusion of our initial investigations we consider that further investigation work is then required to pursue assets of the Company, we will provide creditors with an update on our fees estimate in due course.

1.13 Below is our fees estimate for the Administration. The work the Joint Administrators anticipate undertaking in relation to this estimate has been outlined above. It is an estimate for the entire Administration. If we consider this estimate will be exceeded, we will advise creditors and seek approval for our revised fees estimate as appropriate.

1.14 As previously advised the Joint Administrators are seeking to fix the basis of their remuneration by reference to the time properly spent by them and their staff in dealing with all matters arising in the Administration, an estimate of this time is included overleaf.

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	Hours							Total Hours	Total Cost £	Average Cost £
	Partner	Director	Manager	Senior Administrator	Administrator	Junior Administrator	Cashier			
Administration (inc statutory compliance & reporting)	10.00	20.00	7.00	27.50	-	-	13.50	78.00	18,070.00	231.67
Realisation of Assets	5.00	10.00	3.00	7.00	-	-	5.00	30.00	6,885.00	229.50
Creditors (claims & distributions)	1.50	2.00	1.00	4.00	-	-	4.50	13.00	1,532.50	117.88
Investigations	9.00	13.00	7.00	16.00	-	-	-	45.00	8,005.00	177.89
Trading (where applicable)	-	-	-	-	-	-	-	-	-	-
Case Specific Matters (where applicable)	-	-	-	-	-	-	-	-	-	-
Total Hours	25.50	45.00	18.00	54.50	-	-	23.00	166.00	34,492.50	207.79
Current Chargeout Rates	375.00	300.00	250.00	180.00	150.00	100.00	120.00			

2 Joint Administrators' Expenses

- 2.1 Below is a table which outlines the expenses that we consider at this stage will be, or are likely to be, incurred in dealing with the Company's affairs. We will provide an update to creditors in our future progress reports.

Expense	Provider	Basis of Fee Arrangement	Cost to Date £
Agent's costs in dealing with property/chattel asset sale	RKA	10% of realisations to be charged	Nil
Statutory Advertising	Courts Advertising Limited	£84.60 plus VAT per advert (x2 adverts anticipated)	£84.60 plus VAT
Joint Administrators' Bond	AUA Insolvency Risk Services	£162.00	Nil
Document Storage	Re-store Plc	Estimated - £100.00 plus VAT	Nil
Staff Related Travel Expenses	Direct cost of Joint Administrators & their Staff	Estimated - £100.00	Nil

3 Staff Allocation and the Use of Sub-Contractors

- 3.1 The general approach to resourcing our assignments is to allocate staff with the skills and experience to meet the specific requirements of the case.
- 3.2 The constitution of the case team will usually consist of a Partner, a Manager, and an Administrator or Assistant. The exact constitution of the case team will depend on the anticipated size and complexity of the assignment and the experience requirements of the assignment. Where the basis of the Administrator's remuneration is being proposed on a time cost basis, details of our current charge-out rates can be found below.
- 3.3 We are not proposing to utilise the services of any sub-contractors in this case.

4 Joint Administrators' Disbursements

- 4.1 Category 1 disbursements do not require approval by creditors. The type of disbursements that may be charged as a Category 1 disbursement to a case generally comprise of external supplies of incidental services specifically identifiable to the case, such as postage, case advertising, invoiced travel and external printing, room hire and document storage. Also chargeable will be any properly reimbursed expenses incurred by personnel in connection with the case. Any Category 1 disbursements we anticipate being incurred in this case are included in the table of expenses above.
- 4.2 Category 2 disbursements do require approval from creditors. These are costs which are directly referable to the appointment in question but are not payments which are made to an independent third party and may include shared or allocated costs that can be allocated to the appointment on a proper and reasonable basis such as internal room hire, document storage or business mileage.
- 4.3 We would confirm that this firm does not seek to charge any Category 2 disbursements.

5 Charge-out Rates

- 5.1 A schedule of Cowgill Holloway Business Recovery LLP's charge-out rates for this assignment effective from 1 March 2012 is detailed below. Please note this firm records its time in minimum units of 6 minutes.

Staff Grade	(Per Hour) £
Partner	375
Consultant	300
Director	300
Manager	250
Senior Administrator	180
Administrator	150
Cashier / Support Staff	120
Junior Administrator	100

Estimated Outcome Statement as at 28 August 2018

	Notes	Administration £
Assets Subject to Floating Charge		
Cash Held on Appointment re Sale	1	25,000
Deferred Consideration	1	37,000
Lighting Stock	2	5,000
Director's Loan Account	3	Uncertain
		67,000
Less Estimated costs of Administration	4	(61,876)
Estimated funds available for Preferential Creditors		5,124
Less Estimated Preferential Creditors	5	Nil
Net Property		5,124
Prescribed Part calculation c/d		n/a
Estimated Surplus / (Deficiency) to floating charge creditor		5,124
Add back Prescribed Part		n/a
Estimated surplus/(shortfall) to unsecured creditors		5,124
Less: Unsecured Creditors.		
Trade & Expense Creditors	6	(150,027)
HM Revenue & Customs - VAT	6	(76,294)
HM Revenue & Customs - PAYE	6	(1,694)
Total Unsecured Creditors		(228,015)
Estimated (Shortfall) to Creditors		(222,891)
Estimated Distribution to Unsecured Creditors (p/£)		2

Notes

- 1 This is based on the pre-packaged sale to Abakus Direct Ltd and the scheduled deferred payments
- 2 This is based on the valuation provided by Robson Kay Associates Ltd on a forced sale basis
3. The director's ability to repay his loan account is currently unknown. This will be investigated by the Joint Administrators
4. Estimate. See below
- 5 As the Company's employees have been transferred to Abakus Direct Furniture Ltd, claims of this nature are not anticipated
- 6 Taken from the Company books and records

Costs of Realisation

	£
Joint Administrators' Pre Appointment Fees	(13,441)
Agent's Pre Appointment Fees [based on 10% of realisations]	(6,200)
Agent's Fees [based on 10% of realisations] [estimate]	(500)
Legal Pre Appointment Fees	(6,500)
Joint Administrators' Fees [estimate]	(34,685)
Disbursements [estimate]	(550)
	(61,876)

Joint Administrators' Statement on Pre-Packaged Sale

Abakus Direct Ltd - In Administration (the Company)

Overview

Where a sale of all or part of a company's business or assets is negotiated with a purchaser prior to the appointment of an Administrator and the Administrator effects the sale immediately on, or shortly after appointment, this is known as a pre-packaged sale.

Prior to the appointment of an Administrator, an Insolvency Practitioner may act in an advisory capacity to the Company. During this time the Insolvency Practitioner's role is not to advise the director(s) personally or any parties connected with any eventual purchaser of the Company's business or assets. We would confirm that the director was advised to take his own independent advice on his position in this regard. It is also possible that a different Insolvency Practitioner may be the eventual Administrator and not the Insolvency Practitioner who provided the advice to the Company before any formal appointment was made.

The role of an Administrator once the Company has entered Administration is for him to perform his functions with the objective of either rescuing the Company as a going concern or achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up rather than being placed into Administration first.

If neither of these objectives is reasonably practicable, the third objective of realising property in order to make a distribution to one or more secured or preferential creditors of the Company may be pursued, providing the Administrator avoids unnecessarily harming the interests of the creditors as a whole.

In this case, the Administrator has pursued the second objective of achieving a better result for the Company's creditors as a whole, and considers that the pre-packaged sale enables the statutory purpose of Administration to be achieved and that the outcome achieved was the best available for creditors as a whole in all the circumstances.

Set out below is further information containing a summary of the circumstances relevant to the pre-packaged sale of all or part of the Company's business and assets to Abakus Direct Furniture Ltd in accordance with the provisions of Statement of Insolvency Practice 16 ("SIP16").

Background

The Company was incorporated by Mr Wiktor Laskowski on 14 May 2012 as an importer of furniture for sale online. Mr Laskowski had substantial experience of importing goods to sell online and, had previously traded several businesses.

Initial funding was provided by way of personal monies injected by the director, in the approximate sum of £50,000, to enable the purchase of stock, which was purchased/imported from China, and to assist with general trading and working capital.

The Company initially traded from a small unit at Welcomb Street, Manchester; however, following the first few months of trading and initial growth of the Company, it became apparent that a larger facility was required as the quantity of stock held had increased. As such, the Company moved to a larger unit within the same industrial park.

The Company imported all stock from China, and sold online via its ecommerce website, whilst also utilising the services of Amazon and eBay.

In 2013, due to demand, the Company entered into a lease for a warehouse in Reading, which would allow for the distribution of stock between Northampton and the South of the UK, whilst the Manchester unit maintained distribution between Northern Scotland and Northampton. At this time, the Company began to buy stock from an associated company based in Poland, which was a manufacturer of budget upholstered furniture. At this stage, sales had increased to a level of approximately 1,000 units per month.

The Company historically operated with up to eleven members of staff, split between the two units in Manchester and Reading, which was made up of admin staff, warehouse operatives and delivery drivers. The Company traded profitably for a number of years. However, in June 2016, following Brexit, which saw significant change to currencies and the exchange rate between the British Pound and Polish Zloty, the cost of importing from Poland increased which caused margins to reduce. Initially, the Company did not pass on the increased purchase price of stock to the customer as it decided not to increase prices, but consequently, it began to record losses of up to £5,000 per week.

In an attempt to improve profitability, the Company subsequently implemented a price increase in order to improve the Company's gross margins; however, this resulted in loss of sales and the Company was not able to maintain its increased pricing.

Due to reduced margins and sales, the Company began to experience cash flow difficulties and, as a result, the Company obtained an unsecured loan in the sum of £110,000 to assist with continued trading. In February 2018, an additional loan in the sum of £80,000 was undertaken to assist with working capital.

In addition to this, the Company's difficulties were compounded, as following quality issues with stock that had been experienced with its Amazon customers, a number of complaints and returns were made, and the Amazon account was blocked for a period of two months in May 2018. Amazon had historically accounted for up to two thirds of the Company's turnover, and the inability to utilise the account during this period saw the Company's sales drop dramatically and, turnover reduced by over 50%.

At this point, the Company obtained a further loan of £30,000 to facilitate continued trading whilst the Amazon account was inactive. Following the reactivation of the Company's Amazon account in July 2018, it became apparent that significant arrears had been incurred with HM Revenue & Customs and the Company's suppliers.

As a result, the Company was unable to make payments as and when they fell due, and creditor pressure was being experienced, in particular from HM Revenue & Customs.

In July 2018, the director felt he required financial advice from the Company's accountant, Ford Campbell Freedman ("FCF"), who advised that the Company required insolvency advice and recommended that the director attend a meeting with Cowgill Holloway Business Recovery LLP ("CHBR").

The director met with Stewart Dobson ("SD") of CHBR on 10 July 2018, to discuss and review the Company's financial position, as a result of the issues faced and increased creditor pressure. The director was presented with various options which he subsequently considered.

As it was understood that a formal insolvency process may be appropriate, on 24 July 2018, Jonathan Kay ("JK"), of Robson Kay Associates Ltd ("RKA"), who is a member of the National Association of Valuers and Auctioneers, visited the Manchester premises, upon the director's instructions to review and value all Company assets.

On 26 July 2018 Craig Johns ("CJ") of CHBR met with the director. At this meeting, a summary of the Company's assets and liabilities was provided and reviewed and, based on the information available, it was apparent that the Company was insolvent on a balance sheet and cash flow basis. Whilst various options were discussed, as it was understood that there may be a viable business going forward, it was believed that Administration may be appropriate. As such, this process was explained to the director.

Following these discussions, on 2 August 2018, the director formally engaged CHBR. On this date, CHBR liaised with RKA in order to provide an overview of the position. RKA advised that a marketing campaign should be undertaken, to expose the business opportunity and try to generate interest and subsequent offers. RKA provided a deadline as close of business on 3 August 2018, which would allow any interested parties time subsequently to negotiate a sale and sales contract.

The relevant marketing document was circulated via email by RKA to 15,970 contacts in their database. In addition to this, the same marketing flyer was advertised on CHBR's website along with an internal mailshot that was issued to all partners of Cowgill Holloway LLP ("CH"), to allow the opportunity to be exposed to the clients of CH.

On the same date, the director, via a newly incorporated company, Abakus Direct Furniture Ltd ("ADF"), made an offer for the Company's assets in the sum of £45,000; however, at this stage, RKA were still establishing the Company's complete asset position, specifically the value of the Company's fleet of motor vehicles, some of which were subject to hire purchase and, as such, this offer was not accepted. ADF resubmitted an offer later that day in the sum of £48,000, which was also rejected for the same reasons. ADF latterly submitted a revised offer of £50,000. RKA advised that this offer was acceptable in principle, subject to the equity position with the

Company's motor vehicles being established. RKA confirmed that if there was equity in the financed motor vehicles, then the offer would need to be increased accordingly.

On 3 August 2018, the agreements in respect to the Company's fleet of motor vehicles were obtained, and following review, it was apparent that there was net equity in the fleet of motor vehicles. As a result, ADF's offer would need to be increased if all vehicles were to be included in any eventual sale. As such, ADF's offer was increased to £58,000. RKA advised this offer would be acceptable should two of the Company's seven vehicles be excluded from the sale.

RKA further advised that their marketing campaign had resulted in three other expressions of interest to include the following:

- An interest in the purchase of stock alone in the sum of circa £20,000 was discussed at length with an unrelated third party, however, given the offer received from ADF, selling the business as a going concern was considered the best option for the Company and its creditors, as the value for creditors would be maximised and employees were scheduled to be transferred eliminating associated claims;
- Another unrelated third party queried the guide price that had been allotted to the stock. However, this party believed the quality and returns would be too great a risk to consider any purchase being feasible, and did not progress its interest;
- An email request for further details was received by RKA, however, following supply of additional information, no further contact was received in this respect.

RKA confirmed that the above expressions of interest did not lead to any formal offers for the purchase of the Company's business and/or assets.

On 6 August 2018, ADF increased their offer to £60,000 to include all vehicles. RKA advised that they could not justify a sale to include all of the Company's assets for any less than £62,000 and, as a result, on 7 August 2018, ADF submitted their final offer at this level, which was accepted by RKA, who confirmed that it represented the best result in the circumstances and should be accepted with a view to completion at the earliest opportunity. It was further agreed that this offer would consist of an initial payment of £25,000 upon completion, with the remaining balance being paid via deferred consideration over an eight month period.

CHBR instructed solicitors, Ward Hadaway ("WH") to prepare the sale and purchase agreement ("SPA"). The SPA was drafted and agreed by both parties between 13 August 2018 and 22 August 2018. In addition to this, WH prepared licences to occupy the Company's trading premises' at both the Manchester and Reading sites, which granted occupancy for a period of three months to the purchaser.

On 22 August 2018, once the SPA was finalised, the notice of appointment was filed in Court. As such, CJ and Nick Brierley ("NB") of CHBR were appointed Joint Administrators of the Company. The pre-packaged sale to ADF was completed on the same date.

A pre-packaged sale has maximised asset realisations and helped to satisfy a purpose of the Administration in accordance with Paragraph 3(1) of Schedule B1 to the Insolvency Act 1986 (as amended). The Joint Administrators believe that the second objective of Administration, achieving a better result for the Company's creditors as a whole than would be likely if the Company be wound up (without first being in Administration), will be achieved as it has maximised realisations.

Initial Introduction

As a result of the Company's financial difficulties, the director sought financial advice from the Company's accountant, FCF, and following these discussions, it was apparent that the Company required specialist insolvency advice.

The director met with SD on 10 July 2018 following an introduction from FCF, to discuss the Company's financial position. CJ of CHBR subsequently met with the director on 26 July 2018. At this meeting, and following a review of the Company's financial position, it became apparent that the Company was irrecoverably insolvent and could not continue to trade in its current form.

We would confirm that this firm has had no prior involvement with the Company, its director or shareholders and there is no significant prior personal or professional relationship between these parties, CHBR, NB or CJ.

We have considered the possible threats to compliance with the fundamental principles of the Insolvency Code of Ethics in accepting the instructions from the director, and do not consider that our involvement causes any threat to these principles and have not identified any threats to compliance with the fundamental principles of the Insolvency Code of Ethics. Furthermore, CHBR carried out the appropriate conflict review prior to accepting the appointment and, as a result, we were formally engaged by the Company on 2 August 2018.

Pre-Appointment Considerations

The following courses of alternative action were considered with management prior to the Joint Administrators' appointment and the pre-packaged sale:

- Continued trade both with or outside of a formal Company Voluntary Arrangement
- Distressed sale of the business and assets as a going concern by management
- Sale of the business and assets as a going concern by the Administrator
- Liquidation and subsequent forced sale of the Company's assets

The following courses of alternative action were considered with management prior to the Joint Administrators' appointment and the pre-packaged sale:

Trading the Business

Consideration was given to trading the business for a short period; however, it was apparent from a review of the financial information available, that this option was not viable as the Company had no working capital available to fund a period of trading and the director confirmed that he was unable to provide additional funds with the Company in its current financial position. Furthermore, it was understood the Company's overdraft facility was at or was very close to its limit and, as a result, there were insufficient funds available to continue to service existing liabilities. Without a significant injection of working capital, the Company was unable to continue trading.

Other Alternative Courses of Action

Continued Trade Both With or Outside of a Formal Company Voluntary Arrangement ('CVA')

Due to increasing pressure from HMRC, who had historically been investigating the Company's VAT records, a CVA was not considered to be a viable option as it was not considered likely that HMRC would support a CVA Proposal. Furthermore, following a review of the Company's financial position, it was apparent that the Company had very little in the form of working capital and would be unable to meet a set monthly payment in addition to its obligatory financial commitments. Finally, the director did not wish to propose a CVA.

Distressed Sale of the Business and Assets as a going Concern by Management

This was not considered appropriate due to the threat of winding up proceedings from HMRC. As a result, it was understood that the Company did not have the available funds or required time to undertake a marketing exercise whilst continuing to trade in order to effect a sale in this manner. Furthermore, no third party was known to be interested in this course of action outside of a formal insolvency procedure.

Sale of the Business and Assets as a Going Concern by the Administrator

Prior to the Joint Administrators' appointment, CHBR placed the business opportunity on its website and also circulated a marketing flyer to the partners of CH.

RKA were similarly instructed to carry out a marketing campaign. This marketing campaign, and the marketing done by CHBR did not result in any formal offers for the Company's business and/or assets over and above the offer received from ADF.

Accordingly, and when taking into account the cost of running a protracted marketing campaign, RKA advised that marketing the business beyond a small window was not required as it was not likely to generate any further interest, and it would only serve to increase costs and therefore reduce the net asset realisations which would be detrimental to creditors. As such, continued marketing following appointment was not considered appropriate.

Liquidation and Subsequent Forced Sale of the Company's Assets

Following the offer from ADF, this process was not considered to be appropriate as the offer made was on an 'in-situ' basis and exceeded what would be achieved should the assets be sold on a forced sale basis when taking into account the significant costs of uplift and sale via auction which were expected to reduce net sales consideration. In addition to this, the business sale has maintained continuity of supply which has preserved the value of the goodwill, which would have been expected to be totally eroded in Liquidation and provides continuity for the Company employees which have been transferred to the purchaser ADF, which therefore eliminates any preferential and unsecured employee claims in the Administration, ensuring that there will be a better outcome for unsecured creditors as a result.

A pre-packaged sale of the assets in Administration would ensure significantly greater realisations for the benefit of the Company's creditors.

Consultation with Major Creditors

Following formal engagement and prior to the finalisation of the SPA and latterly the appointment of Joint Administrators, CHBR liaised with HM Revenue and Customs and Funding Circle, the Company's largest creditors, in order to provide an overview of the Company's financial position and to confirm CHBR's involvement, to include an overview of the marketing and interest received as a result. CHBR discussed the proposed strategy going forward to include a summary of the proposed pre-packaged sale. Acknowledgment of the Company's impending Administration was received from both parties.

Comparative Outcome

The following table shown overleaf provides a comparative outcome with a sale of the Company's assets in Liquidation or through a restricted marketing period post Administration as against the outcome obtained via the pre-packaged sale:

Assets	Estimated Liquidation/Under Restricted Marketing Conditions £	Pre-Packaged Sale in Administration £
Commercial Records, Goodwill, Customer and Purchase Contracts, Domain Name and Intellectual Property	Nil	5,000
Fixtures and Fittings	7,500	7,500
Equitable Interest in Fleet of Motor Vehicles	Nil	12,000
Office Equipment	3,000	5,000
Plant & Machinery	7,000	7,500
Stock	20,000	25,000
Lighting Stock	5,000	n/a

The lighting stock has been excluded from this sale and is proposed to be sold by RKA for the Joint Administrators via an online auction. Anticipated sales proceeds are £5,000.

There are no secured creditors in this matter and the Company has no registered charges at Companies House.

Marketing of the Business and Assets

Marketing a business is an important element in ensuring that the best available consideration is obtained for it in the interests of the Company's creditors as a whole. The Joint Administrators advised the Company prior to their appointment, that any marketing should conform to the marketing essentials set out in SIP16 which includes the following key considerations:

- The business should be marketed as widely as possible, proportionate to its nature and size in the time available using whatever media or other sources that are likely to achieve this outcome;
- Previous marketing of the business prior to the Joint Administrators' involvement may not provide justification to avoid further marketing. The Joint Administrators must be satisfied as to the adequacy and independence of any prior marketing undertaken by the Company;
- Marketing should have been undertaken for an appropriate length of time to satisfy the Joint Administrators that the best outcome for creditors as a whole has been achieved;
- Any marketing attempts must by default, include the use of the internet.

On 2 August 2018 and immediately after instruction, CHBR advertised the Company for sale on its website and circulated details of the business opportunity to all Partners of CH to establish whether any of the circa 750 clients of CH may be interested in the business opportunity.

Following our instruction, RKA advised that due to the nature of the Company's current financial position and its inability to continue trading for a prolonged period of time, the business would require a short term period of marketing. It was considered that a further and wider marketing campaign was unlikely to result in any further interest to the business opportunity, especially in light of the quality issues experienced with stock in 2018, and the associated poor reputation that the Company had online.

RKA emailed 15,970 contacts in their database, following which, 2,759 contacts opened the email a total of 3,630 times, representing 17.3% of the total number of people emailed. A total number of 461 individuals opened the link to RKA's website.

As a result of the marketing campaign carried out by RKA, four parties expressed an interest in the opportunity and made enquiries with RKA directly; however, only ADF made a formal offer for the business and assets of the Company.

Following receipt of the offer from ADF, which was negotiated to what was considered to be an acceptable level, and in light of the lack of any additional offers, RKA positively recommended the offer for acceptance.

Valuation of the Business and Assets

As detailed earlier in this report, RKA were instructed initially by the director and latterly by the Joint Administrators to value the business and assets of the Company and to market the business for sale. The Company's assets were valued on 24 July 2018 by Jonathan Kay of RKA, who is a member of the National Association of Valuers and Auctioneers and is suitably experienced to carry out valuations of this type.

RKA confirmed their independence from CHBR and the Company and that they carry adequate professional indemnity insurance.

As we believed we would be able to sell the business, we sought a market value to compare offers. In the event that offers may have been lower than these values, we also sought individual valuations so that we could assess whether any offer merited acceptance, or if we should sell the assets on a piecemeal basis.

Details of the Assets Sold and the Nature of the Transaction

Purchaser and Related Parties

The assets of the Company have been purchased by ADF, an associated company by way of common director and shareholder, Wiktor Laskowski on 20 August 2018. The purchaser bought whatever right, title and interest the Joint Administrators held in these assets.

Assets

ADF purchased the following assets:

- Commercial records, goodwill, customer and purchase contracts, domain name and intellectual property;
- Fixtures and fittings;
- Equitable interest in the Company's fleet of motor vehicles;
- Office equipment;
- Plant & machinery;
- stock

Sale Consideration

The sales consideration is in the sum of £62,000, there is no VAT payable as it is a going concern sale. The sum of £25,000 was paid by ADF on 22 August 2018, this sum is currently being held in WH's client account pending transfer to the case account once opened.

The deferred consideration shall be paid by ADF by way of eight consecutive monthly payments of £4,625, payable on the 1st of each calendar month, commencing in October 2018, with the last payment being scheduled for 1 May 2019. If any of these payments are missed, then the entire balance will immediately become due.

The director of ADF has provided a personal guarantee as security in relation to the deferred consideration. Please note that the sale is not part of a wider transaction and there are no buy back agreements contained within the sale contract.

Connected Party Transactions

Where there are connections between an insolvent company and the purchasing entity, the purchaser meets the definition of a “connected party” and following recommendations made to the Department for Business, Energy & Industrial Strategy about pre-packaged sales to connected parties, it was felt that some of the concerns expressed about such transactions in the context of insolvency, may be overcome by having an independent party review the proposed sale and offer an opinion on the appropriateness of the grounds for the sale. This may provide reassurance to creditors that an independent person has considered the reasonableness of the proposed transaction.

As the transaction meets the definition of a connected party sale, the transaction is eligible for review by the Pre-Pack Pool (**the Pool**). The pool is an independent body of experienced business people and has been set up in response to a series of recommendations contained in an independent review of pre-packaged sales in administrations. A Pool member will offer an opinion on the purchase of a business and/or its assets by a party connected to a company where a pre-packaged sale is proposed by an Administrator.

The Pool, through its members, operates only to review and opine on applications made voluntarily by connected parties. Further information on the work of the Pool can be found in the ‘Questions and Answers about the Pre-Pack Pool’ document on the Pool’s website at www.prepackpool.co.uk.

The purchasers were made aware of their ability to approach the Pool and the potential for enhanced stakeholder confidence from the connected party approaching the Pool and preparing a viability statement for the purchasing entity.

In this case, the Pool has not been approached by the connected party.