PRICEWATERHOUSECOOPERS

SFI Holdings Limited – in Administration

High Court of Justice, Chancery Division, Companies Court Case No. 4148 of 2005

Joint Administrators' proposals for achieving the purpose of the Administration

12 August 2005

1. Purpose of this document

1. Purpose of this document

I previously wrote to all creditors to explain that SFI Holdings Limited ("the Company") had entered into Administration and that MJA Jervis, DGL Hargrave and I had been appointed as Joint Administrators ("the Administrators") on 23 June 2005.

We were appointed as Administrators to manage the affairs, business and property of the Company. We will act until such time as our proposals for achieving the purpose of the Administration have been agreed by creditors and implemented, following which the Administration will be ended.

The purpose of an Administration is to achieve one of the following objectives: -

(a) Primarily, rescuing the Company as a going concern, or failing that
(b) Achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration), or finally
(c) Realising property in order to make a distribution to one or more secured or preferential creditors.

For the reasons detailed in this document, objective (b) is being pursued as it was not reasonably practical to rescue the Company as a going concern.

This document and its appendices form the Administrators' statement of proposals for achieving the purpose of the Administration as required by Paragraph 49 Schedule B1 of the Insolvency Act 1986 ("Sch.B1 IA86").

An initial creditors' meeting will be held by correspondence on 31 August 2005 under Paragraph 58 Sch.B1 IA86 to consider these proposals and decide whether a creditors' committee should be formed. Formal notice of the meeting, on Form 2.25B, is enclosed. However, if within 5 business days of the day upon which these proposals are circulated, at least 10% in value of the creditors so request in the prescribed manner, then a physical (face to face) creditors' meeting shall be convened by the Administrators.

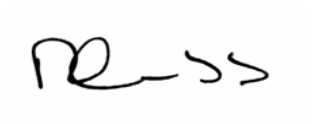
Please note that you are not obliged to respond but you will be bound by our proposals if they are approved at the creditors' meeting by the requisite majority of creditors. It is therefore important that you read this document carefully. You may put forward any modifications that you wish to see incorporated into the proposals and make your views known on whether the proposals should be accepted.

1. Purpose of this document

If you have not already done so, please let me have details of your claim against the Company on the enclosed form D355E as soon as possible.

If you have any concerns or questions regarding the background to this case or what is being proposed, please do not hesitate to contact my colleagues, Chantell Janssen on 020 7804 4238 or Jo-Anne Mitchell on 01293 566 663.

Yours faithfully
For and on behalf of SFI Holdings Limited



DC Chubb
Joint Administrator

MJA Jervis, DGL Hargrave and DC Chubb were appointed as Joint Administrators of SFI Holdings Limited ("the Company") to manage its affairs, business and property. MJA Jervis, DGL Hargrave and DC Chubb contract as agents of the Company without personal liability. MJA Jervis and DC Chubb are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. DGL Hargrave is licensed to act as an insolvency practitioner by the Insolvency Practitioners Association.

2. The Administrators' statement of proposals

(i) Brief history and summary of the Administrators' actions to date

Background and summary of events prior to 2005 insofar as I am aware

Since May 2004, the Company has acted as the ultimate holding company of the SFI Group ("the Group"). The Group operated a number of pub chains including 'The Slug & Lettuce' and 'The Litten Tree', and expanded rapidly between 1996 and 2002 through a combination of acquisitions and a planned opening programme. On 11 September 1998, the Group's shares were admitted to the London Stock Exchange, however following well publicised financial difficulties, the shares were de-listed with effect from 12 May 2003,

The Company was incorporated in April 2004 to facilitate a restructuring of the group which took place in May 2004 as a result of these financial difficulties. Following that restructuring, the operational trading of the Group was hived into a wholly owned subsidiary of the Company, called SFI Group Limited ("SFIG"). SFIG in turn owns the share capital of a number of subsidiaries which hold various leasehold property interests and intellectual property rights used by SFIG in its ongoing trading.

Despite the restructuring, the Group's financial difficulties continued. Whilst the restructuring had improved the Group's financial position, the Group remained financially weak, and lacked funds for substantial capital expenditure or investment. The Group's cost base remained predominantly fixed by virtue of its leasehold portfolio, and the Group's financial gearing remained relatively high.

2005 and the events leading to the Administration insofar as I am aware

A trading update issued by the Group on 24 January 2005 announced that trading had continued to improve, with like for like sales up 2% in the financial year to that date. However, management forecast that the Group would have an additional funding requirement in September 2005 and therefore appointed Kroll Corporate Finance ("Kroll") as strategic advisers to the Group to investigate further restructuring options. These options included seeking additional finance and marketing the Group to establish the value that could be recovered in the event of a sale.

In January 2005, my firm, PricewaterhouseCoopers LLP ("PwC"), was engaged by the Group's bankers to monitor and report on the progress of Kroll and the directors during the strategic review.

2. The Administrators' statement of proposals

On 3 June 2005, following an extensive sale process, Kroll presented the offers received to the Group Board, including an offer from R20 Limited, on behalf of the Laurel Pub Company ("Laurel") for certain assets of the Group. On consideration of these offers, Kroll advised the Board that in its view there were no offers available or likely to be available for the acquisition of shares in the Group at a level which would result in a more advantageous outcome than the Laurel offer, in terms of amount and deliverability within the cash funding requirement timescale.

The directors therefore concluded that the Laurel offer should be progressed as an alternative option to obtaining additional finance, whilst discussions regarding the September 2005 funding requirement continued.

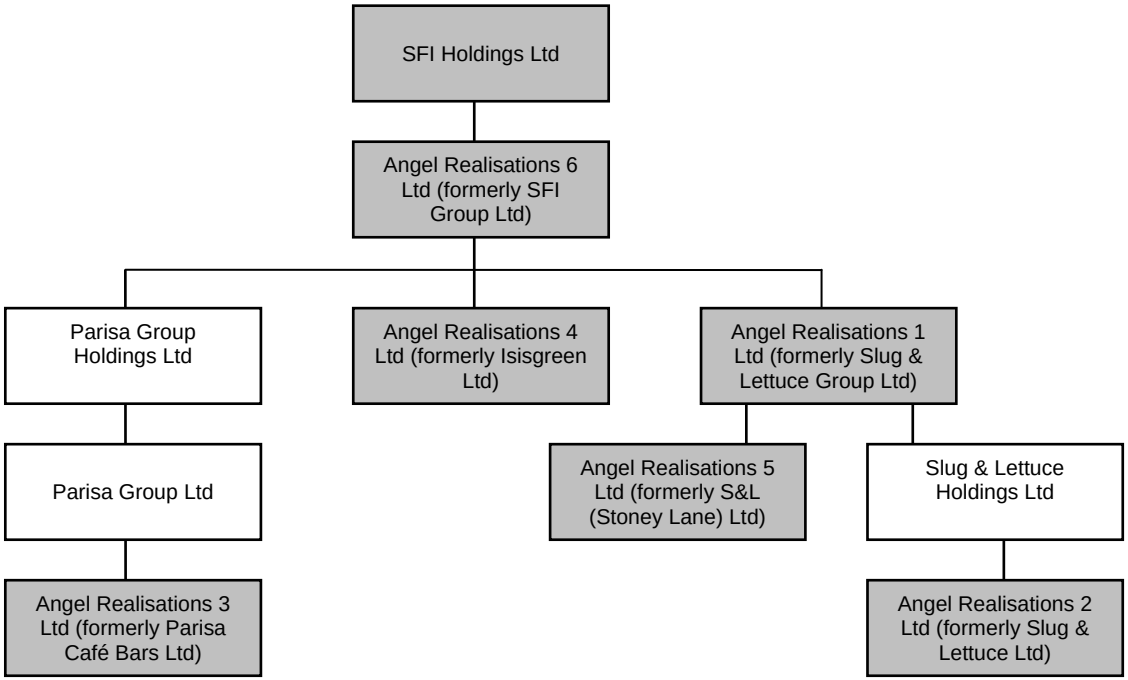
On 22 June 2005 the directors, advised by Eversheds and Kroll, concluded that since they had not obtained a commitment from the Group's finance providers for the provision of the additional funding requirement expected in September 2005, it would be difficult to continue trading without a serious risk of incurring liabilities that the Group could not discharge. They resolved that it would be in the best interests of the Group and its creditors if SFIG and certain other key Group subsidiaries, including the Company, were placed into Administration to preserve the Group's business and enable an Administrator to consider the offer received from Laurel.

I was appointed as Administrator of the Company on 23 June 2005, following an application by the directors of the Company. I was also appointed Administrator of six key Group subsidiaries including SFIG. The remaining Group companies to which I was not appointed are believed to be dormant or to have no assets with any realisable value.

At the date of my appointment, the Group operated 150 sites across the UK. A simplified Group structure chart is produced on the following page, detailing each of the Group companies to which I was appointed, together with certain intermediate holding companies to which I was not appointed but which are included to assist your understanding of the Group structure.

A complete Group structure chart is included at appendix A.

2. The Administrators' statement of proposals



SFI Holdings Limited:
Holding company created to facilitate the May 2004 restructuring of the Group.

Angel Realisations 1 Limited
Holds 17 property leases and certain intellectual property rights.

Angel Realisations 2 Limited:
Holds 11 property leases.

Angel Realisations 3 Limited:
Holds certain intellectual property rights.

Angel Realisations 4 Limited
Holds 2 property leases.

Angel Realisations 5 Limited
Holds 1 property lease.

Angel Realisations 6 Limited:
This is the main trading company of the Group through which all of the Group's trading operations were conducted after the May 2004 restructuring. It also holds all of the Group's other leasehold property interests.

Notes: -

As a condition of the sale to Laurel, the Administrators were required to change the names of the companies in Administration.

All subsidiaries are 100% owned.

2. The Administrators' statement of proposals

The circumstances giving rise to the Administrators' appointment

The matters giving rise to the Group's financial difficulties have been explained in the previous section. Based on the advice received by them, the directors concluded that a disposal of the Group's operations would be the best way of recovering value for the stakeholders of the Group.

Efforts prior to my appointment to achieve a share sale of the Group's business had been unsuccessful. Given the difficulties associated with ongoing trading and the risk of incurring liabilities that the Group could not discharge, the directors resolved that it would be in the best interests of the Group and in particular the Company and its creditors, if the Company was placed into Administration to allow consideration of the offer received from Laurel by an Administrator.

The manner in which the Company's affairs and business have been managed and financed since Administration

Strategy on appointment

As noted above, the Company acted solely as a non-trading holding company. The operational trading of the group was carried out through SFIG, a wholly owned subsidiary of the Company. The only asset of the Company that I am presently aware of is its investments in its subsidiaries (the shareholding held in SFIG, and the resulting interest in the other Group subsidiaries owned by SFIG).

Upon my appointment, I considered the possibility of concluding a sale of the Company's shareholding in SFIG. However, following a review of the Kroll sales process, and discussions with both Kroll and the directors, I concluded that efforts to achieve a share sale of the Group's business would not realise the same value for creditors as a whole than on a 'business and assets' basis.

My efforts have therefore been focussed on maximising realisations in SFIG and its subsidiaries on a 'business and assets' basis. If these realisations are sufficient to allow repayment in full of those companies' creditors, it will leave a surplus available to the Company in its capacity as shareholder.

2. The Administrators' statement of proposals

Sale of business to Laurel

As the Group's financial difficulties had been well publicised, and since Kroll had undertaken extensive marketing of the business, firstly on a share sale basis, and then on a business and assets basis, I considered that any credible potential interested parties would have already had an opportunity to review the business and make an offer. The marketing carried out prior to my appointment indicated that the offer received by the Group from Laurel to acquire 98 of the Group's units represented fair market value.

In addition, the Group's bank overdraft facilities were withdrawn at the time of my appointment and consequently, there were no funds available to pay significant rent and salary payments that fell due on the day following my appointment. Consequently, I was unable to undertake a further marketing exercise without the risk of significant trading difficulties, erosion of further value for the creditors, and the potential loss of the offer made by Laurel.

In my opinion the Laurel offer represented the best available deal in the circumstances, ensuring the ongoing trade of the majority of the Group's business, mitigating significant potential leasehold and employee liabilities, yielding considerable value for the creditors and providing the opportunity to pursue further asset recoveries via a managed exit of the remaining sites.

Accordingly, immediately after my appointment, I completed the sale to Laurel of the ninety eight units subject to their offer. Laurel took on all of the staff at those units (although they were employees of SFIG) together with all SFIG head office staff. The directors of the Group are not connected to Laurel; however the executive directors remaining at the date of my appointment did transfer as employees to Laurel.

The proceeds received to date from the Laurel sale have been distributed to the secured creditors in accordance with the priority afforded to them by the Insolvency Act 1986. Further proceeds are held in escrow pending the satisfaction of a number of issues, primarily relating to leases.

2. The Administrators' statement of proposals

Management of the Group's remaining leasehold interests

My staff and I sought to assess the potential value in the leases of the remaining fifty two Group sites not sold to Laurel ("the Retained Sites"). Davies Coffer Lyons ("DCL") were appointed on 27 June 2005, following a tender process involving six firms of property agents, to act as my agents to value, market and oversee the sale of the leasehold interest in all of the Retained Sites

All of the Retained Sites continued to trade after my appointment whilst their potential value was assessed by DCL. The assessment involved DCL undertaking a desktop valuation of the Retained Sites and the likely prospects for achieving a sale of them, whilst my staff worked with the former management team to assess the current and projected trading performance of each of the Retained Sites.

A number of the Retained Sites were subsequently closed as the assessment noted above indicated that the value attributed to the leasehold interest by DCL was insignificant (after costs) or there was a risk that trading losses would erode any potential value accruing to the creditors, or that a combination of these factors applied. Accordingly over a three day period from 28th June 2005 these sites were closed.

The remainder of the Retained Sites continued to trade whilst offers for the leasehold interests were sought. In order to minimise the costs of ongoing trading, I have entered into a Management Services Agreement with Laurel under which they deal with the day-to-day management of the units for a fixed weekly fee.

With the assistance of the Administrators, and using the PwC network, DCL actively marketed the Retained Sites (including the closed ones) to known industry and local players and were successful in eliciting expressions of interest from in excess of 120 parties. I reviewed all offers with DCL and identified those with value, substance and real potential. These expressions of interest have been refined to 20 offers for specific and combined site sales. Contracts have been issued to all interested parties and as is usual in these circumstances, we are working through a number of issues with each interested party and the respective landlord.

2. The Administrators' statement of proposals

Dividend prospects

I am not aware of any preferential creditor claims against the Company.

The outcome for ordinary unsecured creditors is unclear. At the present time, it is unclear whether realisations in SFIG and its subsidiaries will be at a level sufficient to allow repayment in full of those companies' creditors, leaving a surplus available to the Company in its capacity as shareholder. This is likely to depend on the level of any recovery from a claim by the Group against the Group's former auditors. That claim is discussed in more detail in the section below.

In addition to its own bank debt, the Company has issued guarantees to the Group's secured creditors in respect of the debts due by the other Group companies to the secured creditors. The Company has granted fixed and floating charges over its assets to the secured creditors to support its own debt and its guarantee liability.

The prescribed part (which is that part of the floating charge realisations that should be made available for ordinary unsecured creditors) is relevant to this Administration because the relevant floating charge held by the secured creditors was created after 15 September 2003, when the Enterprise Act 2002 came into force. However, it is unclear what, if any, the level of floating charge realisations will be, and therefore the resulting level of any prescribed part.

Ordinary unsecured creditors should therefore note that any amounts received by the Company from its shareholdings (less any prescribed part) will in the first instance go towards repayment of the secured creditors. Only if the secured creditors are paid in full, will any surplus (plus the prescribed part) be available to the ordinary unsecured creditors.

It is also unclear whether the Administrators will make an application to Court under Section 176A (5) IA 86.

2. The Administrators' statement of proposals

Claim by the Group against the former auditors, Horwath Clark Whitehill ("HCW")

On 12 November 2002, the Group announced the initial results of a financial review, which had "identified a number of serious accounting discrepancies", as a result of which, "the value of the Group's current assets had been over-stated and liabilities under-stated by an amount which, in aggregate, was likely to exceed £20m".

The Group appointed various professional advisors to assist it in quantifying the resulting losses incurred as a consequence of these discrepancies and to assist the Group in considering legal action against HCW for the recovery of those losses. On 24 March 2005, a letter of claim ("the Claim") was issued in accordance with the Professional Negligence Pre-Action Protocol. At the date of my appointment, formal litigation had not yet commenced.

Given the commercial considerations, and the fact that these proposals are a public document, I do not consider it appropriate to comment further on the Claim.

Explanation as to why a 'Receipts & Payments account' has not been provided

There is no statutory requirement for the inclusion of a 'Receipts and Payments account' ("R&P") within these proposals. An R&P account details the amounts realised and paid to date by the Administrators and is normally included as a matter of good practice. However in this case, I consider that providing such information could impact on the level of any recovery from the Claim against HCW and accordingly, no R&P has been provided.

R&P accounts will be provided to creditors within the Administrators' six-monthly progress reports to creditors, but only once the Administrators consider that the information therein is no longer commercially sensitive.

2. The Administrators' statement of proposals

Ending the Administration

The appointment of the Administrators will automatically cease to have effect at the end of the period of one year beginning with the date that their appointment took effect. However if the Administrators consider it necessary for achieving the purpose of the Administration, this statutory one-year period may be extended either by application to the Court or with the consent of the creditors. In any event, as part of the terms of the sale to Laurel, the Administrators can be required to apply for an extension by Laurel and this right is expected to be exercised if the assignments of the relevant leasehold interests cannot be completed within the statutory one-year period.

Once the purpose of the Administration has been achieved, the Administrators will follow the most appropriate exit route. This will depend on the level of any recovery by the Group from the Claim against HCW, and the amounts realised from the sale of the assets not subject to the Laurel sale.

If a dividend becomes payable to ordinary unsecured creditors then the Administrators are likely to follow one of the following options: -

- if the statutory one-year period does require to be extended, the Administrators could apply to the Court once asset disposals are complete, to allow the Joint Administrators to distribute surplus funds, to ordinary unsecured creditors; or
- if no extension is required, placing the Company into creditors' voluntary liquidation ("CVL"); or
- placing the Company in a Company Voluntary Arrangement ("CVA") following which the Administration can be brought to an end;

If it transpires that there are no prospects of a dividend, the Administrators are likely to file notice under Paragraph 84(1) Sch.B1 IA86 with the Registrar of Companies, following which the Company will be dissolved three months later.

2. The Administrators' statement of proposals

(ii) Proposals for achieving the purpose of the Administration

The Administrators make the following proposals for achieving the purpose of the Administration.

a) The Administrators will continue to manage and finance the Company's business, affairs and property from trading revenues and asset realisations in such manner as they consider expedient with a view to 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).

b) The Administrators may investigate and, if appropriate, pursue any claims that the Company may have under the Companies Act 1985 or IA86. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of the Company or to maximise their realisations or for any other purpose incidental to these proposals.

c) If the Administrators think that funds will become available for unsecured creditors, the Administrators may at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent Liquidator or supervisor of a company voluntary arrangement / scheme of arrangement and that the costs of so doing be met as a cost of the Administration, and to the extent that this work is carried out by the Administrators or their own staff, as part of the Administrators' remuneration.

d) It is not anticipated that a creditors' committee will be established, as the Company is not expected to have the statutory minimum of at least three creditors who are willing to act on it. However, if it transpires that the Company does have at least three creditors, the Administrators propose to approach creditors to seek the election of a creditors' committee and to consult with it from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.

e) The Administrators will consult with any creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous, or if the Administrators are required to do so by Laurel. If a creditors' committee is not appointed, the Administrators shall either apply to the Court or seek consent from the appropriate classes of creditors for an extension.

f) The Administrators may use any or a combination of the "exit route" strategies in Paragraphs 76 to 80 and 83 to 84 of Sch. B1 IA86 in order to bring the Administration to an end, but in this particular instance the Administrators are likely to wish to pursue one of the following options as being the most cost effective and practical in the present circumstances: -

2. The Administrators' statement of proposals

i. Once the asset disposals are complete, the Administrators may apply to the Court to allow the Administrators to distribute surplus funds, if any, to non-preferential unsecured creditors. In such circumstances the Administration shall be brought to an end either: -

(i) automatically at the end of one year after the Administrators' appointment pursuant to Paragraph 76(1) Sch.B1 IA86
or
(ii) by notice to the Registrar of Companies on completion of the Administration under Paragraphs 80 or 84 Sch.B1 IA86.

OR

ii. Should it be tax advantageous in particular, the Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of the Company's creditors and shareholders for approval. In such circumstances, the Administration will be brought to an end either: -

(i) automatically one year after the Administrators' appointment pursuant to Paragraph 76(1) Sch.B1 IA86
or
(ii) by notice to the Registrar of Companies on completion of the Administration under Paragraphs 80 or 84 Sch.B1 IA86.

OR

iii. Once the asset disposals are complete, or substantially so, and all matters requiring to be dealt with in the Administration are complete, the Administrators may place the Company in Creditors' Voluntary Liquidation. In these circumstances, it is proposed that MJA Jervis and DC Chubb be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either or both of them. In accordance with Paragraph 83(7) Sch.B1 IA86 and Rule 2.117(3) IR86, creditors may nominate alternative Liquidators, provided that the nominations are made after the receipt of these proposals and before they are approved.

OR

iv. If it transpires that there are insufficient funds available to make a distribution in respect to non-preferential unsecured claims, then once all of the assets have been realised and the Administrators have concluded all work within the Administration, the

2. The Administrators' statement of proposals

Administrators will file notice under Paragraph 84 (1) Sch. B1 IA86 with the Registrar of Companies, following which the Company will be dissolved three months thereafter.

g) The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch.B1 IA86 in respect of any action of theirs as Administrators when they cease to be Administrators of the Company at a time appointed by the creditors' committee, or, if there is no creditors' committee, by resolution of the appropriate class(es) of creditors or in any case by the Court.

h) It is proposed under Rule 2.106 of the Insolvency Rules 1986 that the Administrators fees be fixed by reference to the time properly given by them and the various grades of their staff according to their firm's usual charge out rates for work of this nature and that Category 2 disbursements (as defined by Statement of Insolvency Practice No.9) be charged in accordance with their firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors (by resolution of the appropriate class(es) of creditors) to determine these instead. If the Administrators determine that the Company has insufficient property to enable a distribution to be made to non-preferential unsecured creditors other than by virtue of Section 176A IA86, a resolution of the creditors will be taken as passed if approved by the / each secured creditor and preferential creditors whose debts amount to 50% of preferential debts, disregarding the debts of creditors who do not respond or withhold approval.

Creditors will be asked to vote upon the following matters at the initial meeting of creditors held via correspondence on 31 August: -

- that the "Administrators' proposals for achieving the purpose of the Administration" dated 12 August 2005 be adopted

2. The Administrators' statement of proposals

(iii) The Joint Administrators' comments on the directors' statement of affairs

A statement of affairs for the Company ("the Statement") was delivered to the Administrators on 9 August 2005 and is included as Appendix B. The Statement was signed by WHM Robson, the Group's financial director and statements of concurrence have been provided by four of the other directors, with the remaining statement of concurrence expected shortly.

The Administrators have been provided with explanatory notes by the directors and would make the following comments on the Statement: -

- In accordance with the standard format of a statement of affairs, no provision has been made for the costs of realising the Company's assets or the Administration.
- The Administrators have not carried out anything in the nature of an audit on the information.
- It can be seen that the only assets of the company are its investments in other Group companies.

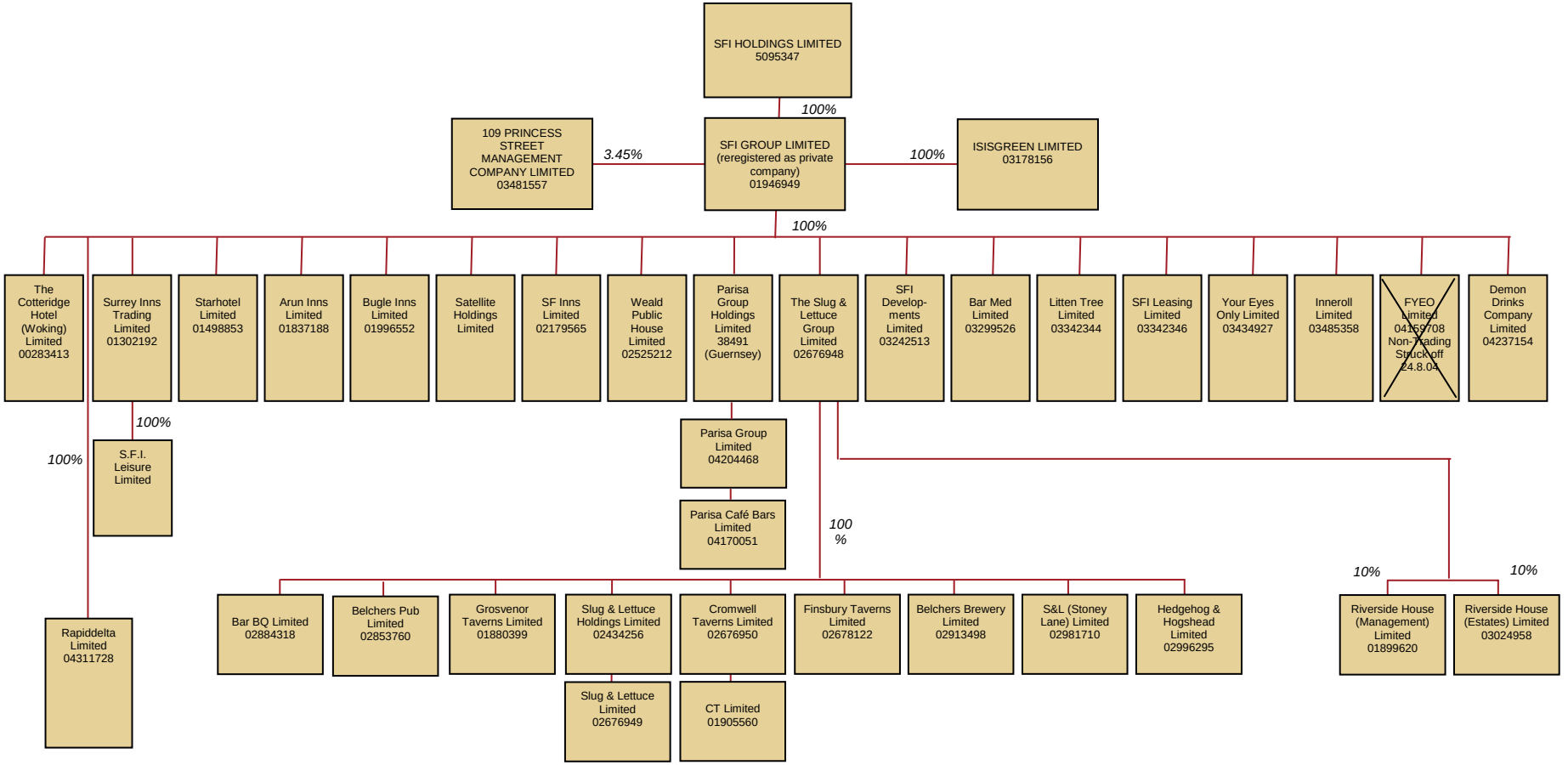
A list of unsecured creditors was not included in the Statement provided by the directors.

2. The Administrators' statement of proposals

(iv) Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court Case No. 4148 of 2005
Full name:	SFI Holdings Limited
Trading name:	
Registered number:	5095347
Registered office address:	SFI House, 165 Church Road East, Woking, Surrey GU21 6HJ
Company directors:	S Lawson, WHM Robson, FEJG Brackenbury, EJ Denning, EC Lavelle, HR Siegle
Company secretary:	EC Lavelle
Shareholdings held by the directors and secretary:	None
Date of the Administration appointment:	23 June 2005
Administrators' names and addresses:	DC Chubb, MJA Jervis, DGL Hargrave of PricewaterhouseCoopers LLP, 12 Plumtree Court, London EC4A 4HT
Appointor's / applicant's name and address:	The directors of the Company, c/o SFI House, 165 Church Road East, Woking, Surrey GU21 6HJ
Objective being pursued by the Administrators:	A better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any function to be exercised by the persons appointed to act as Administrators may be done by any or all of the persons appointed or any of the persons for the time being holding that office.
Estimated dividend for unsecured creditors:	Uncertain
Estimated values of the prescribed part and the Company's net property:	Uncertain
Whether and why the Administrators intend to apply to Court under Section 176A(5) IA86:	Uncertain
The European Regulation on Insolvency Proceedings (Council Proceedings)(EC) No. 1346/2000 of 29 May 2000:	The European Regulation on Insolvency Proceedings applies to this Administration and the proceedings are main proceedings
Any other information which the Administrators think necessary to enable creditors to decide whether or not to vote for adoption of the proposals:	None

Appendix A Complete Group structure chart



Appendix B The directors' statement of affairs including creditors' details

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

I The initial meeting of creditors and the creditors' committee

Am I obliged to vote at the meeting that is being conducted by correspondence - "(postal) meeting"

You are not obliged to return the Form 2.25B to register your vote. You will not prejudice your claim and entitlement to dividend if you do not do so.

How do I ensure that my vote counts?

In order to be counted, a creditors' vote must be received by the Administrator by 12.00 hours on the closing date specified on Form 2.25B and must be accompanied by written details of the creditor's claim (Rule 2.48(2)).

If any vote is received without written details of the creditor's claim, or the Administrator decides that the creditor is not entitled to vote according to Rules 2.38 and 2.39, that creditor's vote shall be disregarded (Rule 2.48(3)).

The closing date shall be set at the discretion of the Administrator. In any event, it must not be set less than 14 days from the date of issue of the Form 2.25B (Rule 2.48(4)).

Who decides whether my claim ranks for voting purposes?

The Administrator has the power to accept or reject any part of your claim (Rule 2.39(1)). If he is in doubt whether your claim should be admitted, he should mark it as objected to and allow you to vote. If however, the objection is sustained, then your vote will be declared invalid (Rule 2.39(3)). If your vote was critical to the outcome of the meeting, this could change the resolutions that were passed and/or result in a further meeting (Rule 2.39(4)).

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

What happens if I disagree with the Administrators' decision?

You are entitled to appeal to the court within 14 days of the Administrator reporting the result of the postal meeting to the court for an order reversing the Administrators' decision on your claim (Rule 2.39(5)). If the court does reverse the Administrators' decision it can order another meeting or make such other order as it thinks just (Rule 2.39(4)).

Creditors also have the right to appeal to the court if they believe that the administration unfairly harms their interests (Paragraph 74(1) Sch.B1 IA86).

We recommend that you seek legal advice about the merits of taking these steps in any particular circumstances.

How do I calculate my claim for voting purposes?

Votes are calculated according to the amount of creditor's claim as at the date on which the Company entered administration, less any payments that have been made to him after that date in respect of his claim and any adjustments by way of set-off in accordance with Rule 2.85 as if that Rule were applied on the date that the votes were counted (Rule 2.38(4)).

What majorities are needed to approve resolutions?

A resolution to approve the proposals or any modification to them is passed at the creditors' postal meeting in administration proceedings if supported by a majority in excess of 50% in value of the creditors voting on the resolution (Rule 2.43(1)).
Any resolution is invalid if those voting against it include more than 50% of the creditors to whom notice of the meeting was sent and who are not, to the best of the chairman's / Administrator's belief, connected to the Company (Rule 2.43(2)).

What happens if I cannot yet quantify my claim with certainty?

A creditor cannot vote in respect of a debt for an unliquidated amount or any debt whose value is not ascertained, unless the chairman / Administrator agrees to put on the debt an estimated minimum value for voting purposes (Rule 2.38(5)).

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

What happens if my debt is wholly or partly secured?

A secured creditor whose debt is wholly or partly secured is entitled to vote only in respect of the balance (if any) of his debt after deducting the value of their security as estimated by him. However, if the Administrators have made a statement under Paragraph 52(1)(b) Sch.B1 IA86 and an initial creditors' meeting has been requisitioned by creditors under Paragraph 52(2) Sch.B1 IA86, a secured creditor is entitled to vote in respect of the full value of this debt without any deduction for the value of his security (Rule 2.40).

What happens if I hold a negotiable instrument?

A creditor shall not vote in respect of a debt on or secured by a current bill of exchange or promissory note unless he is willing: -

a) to treat the liability to him on the bill or note of every person who is liable on it antecedently to the Company and against whom a bankruptcy order has not been made (or in the case of a company, which has not gone into liquidation) as security in his hands; and

b) to estimate the value of the security and, for the purpose of his entitlement to vote, to deduct it from his claim (Rule 2.41).

What happens if I am a creditor under a hire-purchase, conditional sale agreement or leasing agreement?

An owner of goods under a hire-purchase or chattel leasing agreement, or a seller of goods under a conditional sale agreement is entitled to vote in respect of the amount of the debt due and payable to him by the Company on the date the Company entered Administration. In calculating the amount of any debt for this purpose, no account shall be taken of any amount attributable to the exercise of any right under the relevant agreement, so far as the right has become exercisable solely by virtue of: -

- the making of an administration application
- a notice of intention to appoint an administrator or any matter arising as a consequence, or
- of the Company entering administration (Rule 2.42).

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

Am I bound by the Administrators' proposals if they are approved at the meeting?

The Administrators' proposals, when approved by the creditors' meeting, will dictate how the Company's affairs will be conducted in future and how creditors' claims will be addressed.

Once approved the proposals are binding on all creditors, including those who did not vote at the postal meeting. For this reason, it is important that creditors properly consider the proposals and decide whether and how they wish to vote.

What are the functions of the creditors' committee?

The creditors' committee shall assist the Administrator in discharging his functions, and act in relation to him in such manner as may be agreed from time to time (Rule 2.52(1)).

In particular, it has the duty to agree the basis of the Administrator's remuneration (Rule 2.106(3)).

How is the creditors' committee formed?

The creditors' committee is established at the creditors' meeting. It is not obligatory but the creditors decide whether it is necessary (Paragraph 57(1) Sch.B1 IA86).

The committee must consist of at least three and not more than five creditors of the company elected at the meeting (Rule 2.50(1)).

Any creditor of the company is eligible to be a member of the committee, so long as his claim has not been rejected for the purpose of his entitlement to vote (Rule 2.50(2). A body corporate may be a member of the committee, but it can only act as such through a properly appointed representative (Rule 2.50(3)).

No person may act as a member of the committee unless and until he has agreed to do so (Rule 2.51(2)). Unless the relevant proxy or authorisation contains a statement to the contrary, such agreement may be given by the creditors' proxy-holder or representative under Section 375 of the Companies Act 1985 present at the meeting establishing the committee (Rule 2.51(2)).

A person acting as a committee member's representative must hold a letter of authority entitling him so to act (either generally or specially) and signed by or on behalf of the committee-member (Rule 2.55(2)).

Appendix C Common questions and answers (references to “Rules” are to the Insolvency Rules 1986)

No member may be represented by a body corporate, or by a person who is an undischarged bankrupt, a disqualified director or a person who is subject to a bankruptcy restrictions order, bankruptcy restrictions undertaking or interim bankruptcy restrictions order or is subject to a composition or arrangement with his creditors (Rule 2.55(4)).

No person shall on the same committee act at one and the same time as representative of more than one committee-member (Rule 2.55(5)).

The creditors' committee does not come into being, and accordingly cannot act, until the Administrator has issued a certificate of its due constitution (Rule 2.51(1)).

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

II A creditor's guide to administrators' fees (in accordance with Statement of Insolvency Practice No.9)

The following information about the Administrators' fees is from Statement of Insolvency Practice No.9 ("SIP 9") produced by the Association of Business Recovery Professionals, Appendix C: A Creditors' Guide to Administrators' Fees (England and Wales) (Revised 1 July 2004).

Introduction

When a company goes into administration the costs of the proceedings are paid out of its assets. The creditors, who hope eventually to recover some of their debts out of the assets, therefore have a direct interest in the level of costs, and in particular the remuneration of the insolvency practitioner appointed to act as administrator. The insolvency legislation recognises this interest by providing mechanisms for creditors to determine the basis of the administrator's fees. This guide is intended to help creditors be aware of their rights under the legislation to approve and monitor fees and explains the basis on which fees are fixed.

The nature of administration

Administration is a procedure which places a company under the control of an insolvency practitioner and the protection of the court with the following objective:

(a) Rescuing the company as a going concern, or

(b) Achieving a better result for the creditors as a whole than would be likely if the company were wound up without first being in administration

or, if the administrator thinks neither of these objectives is reasonably practicable

(c) Realising property in order to make a distribution to secured or preferential creditors.

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

The creditors' committee

The creditors have the right to appoint a committee with a minimum of 3 and a maximum of 5 members. One of the functions of the committee is to determine the basis of the administrator's remuneration. One of the functions of the committee is to determine the basis of the administrator's remuneration. The committee is normally established at the meeting of creditors which the administrator is required to hold within a maximum of 10 weeks from the beginning of the administration to consider his proposals. The administrator must call the first meeting of the committee within 6 weeks of its establishment, and subsequent meetings must be held either at specified dates agreed by the committee, or when a member of the committee asks for one, or when the administrator decides he needs to hold one. The committee has power to summon the administrator to attend before it and provide such information as it may require.

Fixing the administrator's fees

The basis for fixing the administrator's remuneration is set out in Rule 2.106 of the Insolvency Rules 1986, which states that it shall be fixed either:

- As a percentage of the value of the property which the administrator has to deal with, or
- By reference to the time properly given by the administrator and his staff in attending to matters arising in the administration.

It is for the creditors' committee (if there is one) to determine on which of these bases the remuneration is to be fixed, and if it is fixed as a percentage fix the percentage to be applied. Rule 2.106 says that in arriving at its decision the committee shall have regard to the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the administrator;
- The effectiveness with which the administrator appears to be carrying out, or to have carried out, his duties;
- The value and nature of the property which the administrator has to deal with.

If there is no creditors' committee, or the committee does not make the requisite determination, the administrator's remuneration may be fixed by a resolution of a meeting of creditors having regard to the same matters as the committee would. If the remuneration is not fixed in any of these ways, it will be fixed by the court on application by the administrator.

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

There are special rules about creditors' resolutions in cases where the administrator has stated in his proposals that the company has insufficient property to enable a distribution to be made to unsecured creditors except out of the reserved fund which may have to be set aside out of floating charge assets. In this case a resolution of the creditors shall be taken as passed if, and only if, passed with the approval of: -

- Each secured creditor of the company; or

if the administrator has made or intends to make a distribution to preferential creditors-

- Each secured creditor of the company; and
- Preferential creditors whose debts amount to more than 50% of the preferential debts of the company, disregarding debts of any creditor who does not respond to an invitation to give or withhold approval.

Note that there is no requirement to hold a creditors' meeting in such cases unless a meeting is requisitioned by creditors whose debts amount to at least 10 per cent of the total debts of the company.

A resolution of creditors may be obtained by correspondence.

What information should be provided by the administrator?

When seeking fee approval

When seeking agreement to his fees the administrator should provide sufficient supporting information to enable the committee or the creditors to form a judgement as to whether the proposed fee is reasonable having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend on: -

- The nature of the approval being sought;
- The stage during the administration of the case at which it is being sought; and
- The size and complexity of the case.

Appendix C Common questions and answers (references to "Rules" are to the Insolvency Rules 1986)

Where, at any creditors' or committee meeting, the administrator seeks agreement to the terms on which he is to be remunerated, he should provide the meeting with details of the charge-out rates of all grades of staff, including principals, which are likely to be involved on the case.

Where the administrator seeks agreement to his fees during the course of the administration, he should always provide an up to date receipts and payments account. Where the proposed fee is based on time costs the administrator should disclose to the committee or the creditors the time spent and the charge-out value in the particular case, together with, where appropriate, such additional information as may reasonably be required having regard to the size and complexity of the case. The additional information should comprise a sufficient explanation of what the administrator has achieved and how it was achieved to enable the value of the exercise to be assessed (whilst recognising that the administrator must fulfil certain statutory obligations that might be seen to bring no added value for creditors) and to establish that the time has been properly spent on the case. That assessment will need to be made having regard to the time spent and the rates at which that time was charged, bearing in mind the factors set out above. To enable this assessment to be carried out it may be necessary for the administrator to provide an analysis of the time spent on the case by type of activity and grade of staff. The degree of detail will depend on the circumstances of the case, but it will be helpful to be aware of the professional guidance which has been given to insolvency practitioners on this subject. The guidance suggests the following areas of activity as a basis for the analysis of time spent: -

- Administration and planning
- Investigations
- Realisation of assets
- Trading
- Creditors
- Any other case-specific matters

Appendix C Common questions and answers (references to “Rules” are to the Insolvency Rules 1986)

The following categories are suggested as a basis for analysis by grade of staff:

- Partner
- Manager
- Other senior professionals
- Assistants and support staff

The explanation of what has been done can be expected to include an outline of the nature of the assignment and the administrator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain

- Any significant aspects of the case, particularly those that affect the amount of time spent.
- The reasons for subsequent changes in strategy.
- Any comments on any figures in the summary of time being spent accompanying the request the administrator wishes to make.
- The steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, fee drawing or fee agreement.
- Any existing agreement about fees.
- Details of how other professionals, including subcontractors, were chosen, how they were contracted to be paid, and what steps have been taken to review their fees.

It should be borne in mind that the degree of analysis and form of presentation should be proportionate to the size and complexity of the case. In smaller cases not all categories of activity will always be relevant, whilst further analysis may be necessary in larger cases.

Where the fee is charged on a percentage basis the administrator should provide details of any work which has been or is intended to be sub-contracted out which would normally be undertaken directly by an administrator or his staff.

After fee approval

Where a resolution fixing the basis of fees is passed at any creditors' meeting held before he has substantially completed his functions, the administrator should notify the creditors of the details of the resolution in his next report or circular to them. In all subsequent reports to creditors the administrator should specify the amount of remuneration he has drawn in accordance with the

resolution. Where the fee is based on time costs he should also provide details of the time spent and charge-out value to date and any material changes in the rates charged for the various grades since the resolution was first passed. He should also provide such additional information as may be required in accordance with the principles set out above. Where the fee is charged on a percentage basis the administrator should provide the details above regarding work which has been sub-contracted out.

Expenses and disbursements

There is no statutory requirement for the committee or the creditors to approve the drawing of expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the administrator proposes to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the administrator's own firm), they must be disclosed and be authorised by those responsible for approving his remuneration. Such expenses must be directly incurred on the case and subject to a reasonable method of calculation and allocation.

What if a creditor is dissatisfied?

If a creditor believes that the administrator's remuneration is too high he may, if at least 25 per cent in value of the creditors (including himself) agree, apply to the court for an order that it be reduced. If the court does not dismiss the application (which it may if it considers that insufficient cause is shown) the applicant must give the administrator a copy of the application and supporting evidence at least 14 days before the hearing. Unless the court orders otherwise, the costs must be paid by the applicant and not as an expense of the administration.

What if the administrator is dissatisfied?

If the administrator considers that the remuneration fixed by the creditors' committee is insufficient he may request that it be increased by resolution of the creditors. If he considers that the remuneration fixed by the committee or the creditors is insufficient, he may apply to the court for it to be increased. If he decides to apply to the court he must give at least 14 days' notice to the members of the creditors' committee and the committee may nominate one or more of its members to appear or be represented on the application. If there is no committee, the administrator's notice of his application must be sent to such of the company's creditors as the court may direct, and they may nominate one or more of their number to appear or be represented. The court may order the costs to be paid as an expense of the administration.

Appendix C Common questions and answers (references to “Rules” are to the Insolvency Rules 1986)

Other matters relating to fees

Where there are joint administrators it is for them to agree between themselves how the remuneration payable should be apportioned. Any dispute arising between them may be referred to the court, the creditors' committee or a meeting of creditors.

If the administrator is a solicitor and employs his own firm to act on behalf of the company, profit costs may not be paid unless authorised by the creditors' committee, the creditors or the court.