

14 October 2009

Our Ref MHT/JW/261537/A6

TO ALL KNOWN CREDITORS

Dear Sirs

Farepak Food & Gifts Limited - In Creditors' Voluntary Liquidation ("Farepak")

In accordance with Section 105 of the Insolvency Act 1986, I attach herewith my account of the conduct of the Liquidation since my last report dated 8 October 2008.

1 REPORTS TO LIQUIDATION COMMITTEE

- 1.1 The Court directed that the Committee should be made up of two Customers, HM Revenue & Customs, an employee and a trade creditor, all of whom had lost money.
- 1.2 Since 4 October 2008, I have reported to the Committee on four occasions, in December 2008 and in February, August and September 2009. The members of the Committee have received comprehensive reports from me regarding the progress of the Liquidation and have also received reports from my solicitors and my firm's forensic accounting team.
- 1.3 All of my actions as Liquidator have been discussed in detail with the Committee and have been approved by them.

2 LEGAL PROCEEDINGS AGAINST THIRD PARTIES

- 2.1 As previously reported, the Liquidators issued proceedings against several parties in April 2008, as sanctioned by the Liquidation Committee.
- 2.2 Since then, I have continued working with my solicitors and my firm's forensic accounting team to examine any relevant documents relating to the period prior to my appointment as Joint Administrator on 13 October 2006.



- 2.3 Because this is a legal action, neither the Liquidators nor the members of the Liquidation Committee are able to provide any further information or comment on the litigation whilst it continues, as this may jeopardise the outcome of the case. If the proceedings are successful, further monies could become available for the benefit of creditors.

3 TRUST MONIES

- 3.1 As you are aware from my previous reports, shortly before Farepak went into Administration the directors of Farepak had tried to set up an arrangement (known as a "Trust") so that money paid into Farepak's bank account on 11 October 2006 or later could be returned to Customers who had paid that money. Unfortunately the Trust was not set up properly and the Administrators were advised by their lawyers that the Court would have to decide whether there was a Trust at all, and if so, to whom the monies should be paid.
- 3.2 There was a Court hearing in December 2006 where the Judge said that he thought only money handed over by Customers to Agents on or after 11 October 2006 which the Agents then paid to Farepak on 11 October 2006 or later could be included in the Trust. The Judge also said that he needed information on when Customers made their last payment to their Agent and when the Agent made their last payment to Farepak.
- 3.3 Since then, the Liquidators' staff and the claims management team have built a database of Customers who paid money on or after 11 October 2006. All the forms submitted by Agents and Customers have been reviewed to find out when those monies were paid to the Agent by a Customer.
- 3.4 On 8 October 2008, I reported that the Court hearing was to be in 2009.
- 3.5 On 31 July 2009 the Judge made a final ruling ordering that payments should be made to various Customers and Agents after the Liquidators had carried out some final checks. Once these were completed, the Liquidators were in a position to send cheques to Customers whose Trust claims had been accepted by the Court.
- 3.6 These cheques were sent out on 21 September 2009 to the Customers and Agents whose Trust claims had been accepted by the Court. These cheques are not dividend payments and the ruling will not affect the estimated dividend payment of 5p in the £ but any Customer who receives a cheque will have their claim reduced to take into account that they have received a cheque from the Trust.

4 AGREEMENT OF CLAIMS

Trade Suppliers

- 4.1 As Liquidator, I have now agreed the claims of trade creditors totalling approximately £4 million. I am continuing to discuss the claims of six creditors whose claims total £235,000.

Employees

- 4.2 Employees have preferential claims in respect of unpaid wages and holiday pay which have been paid in full. They also have unsecured claims in respect of pay in lieu of notice and redundancy. Not all claims have been received yet but I estimate that these unsecured claims will total approximately £150,000.

Agents and Customers

- 4.3 I have retained the services of a claims management team to deal with the claims of Agents and Customers. I have co-ordinated the work of the team in preparing the information which was considered by the Judge for the Trust ruling and in identifying and removing duplicate claims, for example where an Agent has received a refund from their credit card company. The claims management team is also engaged in locating further claimants, for example where an Agent may not have sent in all their Customer details.
- 4.4 At the time of writing, I have received 119,297 claims which total £37.1 million. The total number of claims has reduced from my last report as we have removed duplicate entries and those who have received refunds or who have chosen not to claim.
- 4.5 The claims management team will now be working with me to reduce the claims of those Customers and Agents who have received a cheque in respect of their Trust claims.

5 PROSPECTS FOR CREDITORS

Preferential Creditors

- 5.1 Preferential creditors were the Redundancy Payments Service and the former employees of Farepak in respect of arrears of wages up to a maximum of £800 and accrued holiday pay. These claims totalled £13,076 and have been paid in full.

Unsecured Creditors

- 5.2 I still believe that there will be funds available to enable a dividend of around 5p in the £ to be paid to unsecured creditors.
- 5.3 Because of the extremely large number of creditors, the costs of declaring and paying a dividend will be high. I have always sought to work in the most efficient and cost-effective manner possible in order to maximise the funds available to creditors. I am working to ensure that, as far as possible, all money that may be due to Farepak is received before paying a dividend, in order to maximise the dividend paid to creditors. This will keep the costs associated with paying dividends as low as possible to avoid reducing the amount of money available for unsecured creditors, including Customers and Agents. I should, however, point out that because the money paid to Farepak on or after 11 October 2006 was Trust money, the Liquidators had to pay this back to the Customers and Agents.
- 5.4 It is not yet possible to confirm when a payment will be made to unsecured creditors. I am still pursuing monies for the benefit of unsecured creditors by way of the legal action I have commenced against third parties. The length of time this will take to resolve is in the hands of the Court.
- 5.5 I will continue to update the Liquidation Committee regularly about this.

6 PAYMENTS**Forensic Accounting Fees**

- 6.1 Since my last report, my firm's specialist forensic accounting team have continued to analyse and examine the accounting and computing records of Farepak which date from prior to my appointment as Joint Administrator on 13 October 2006. They have worked in conjunction with my solicitors and barristers to prepare documentation required to advance the legal action against third parties. This work has been very detailed and has been approved by the Liquidation Committee, which has received regular progress reports.
- 6.2 I confirm that all fees in respect of my firm's forensic accounting team have been approved on a time cost basis by the Liquidation Committee.
- 6.3 The Liquidation Committee has approved fees in the sum of £1,078,836 as shown on the attached Receipts and Payments account which covers the two years of the Liquidation.

Legal Fees and Disbursements

- 6.4 During the two years of the Liquidation, I have discharged legal fees and disbursements of £548,092 in respect of work carried out by my solicitors during the Liquidation. These have been incurred in connection with a number of issues, including the Trust application which was heard earlier this year and the ongoing litigation against the third parties referred to in Section 2 above.
- 6.5 My solicitors' fees have been subject to a 10% discount and, although not specifically required by the Insolvency Act, all legal fees have been approved by the Liquidation Committee before payment.
- 6.6 In addition, as ordered by the Court, a further £22,406 has been paid to solicitors acting for the other parties in connection with the work on the Trust application referred to in Section 3 above.

Claims Management

- 6.7 As Liquidator, I have continued to employ some of Farepak's staff in the claims management team. They had previously dealt with the creation of the database of Farepak's Customers (as Farepak held details of Agents only). Since the date of my last report, they have assisted me with the ongoing agreement of the claims of Agents and Customers and in the preparation for the Trust application. The Liquidation Committee has agreed that the use of Farepak's staff, rather than my staff, for this work has continued to reduce the costs in the Liquidation.
- 6.8 Since my appointment as Liquidator, the cost of this work has totalled £370,544 including gross wages of £237,947 and rent of £80,869. The remaining expenditure included items such as utility bills, security and postage.
- 6.9 During the course of the year, the claims management team has been reduced significantly. The Liquidation Committee remain satisfied that the use of Farepak staff and the rental of premises is the most cost-effective way of managing the Agent and Customer claims process.

Trust Monies to Customers

- 6.10 This is the total of the cheques dispatched on 21 September 2009 to those Customers and Agents whose claims had been accepted by the Court. The Judge ordered that the remaining funds should be released to the Liquidation for the benefit of the general body of creditors and these are included in the Receipts and Payments account.

Corporation Tax

- 6.11 During the course of the year, I have discharged corporation tax in respect of the interest earned on the funds invested throughout the course of the Administration and Liquidation.

Management of Media Enquiries

- 6.12 Due to the ongoing level of press interest in Farepak and to keep costs as low as possible, I have retained the services of a media agency to assist me in handling the large volume of press enquiries. In addition, I continue to receive enquiries from MPs and Government ministers. The sum of £34,014 represents the costs of dealing with these enquiries during the two years of the Liquidation.

Postage Costs

- 6.13 Since my last report, costs have been incurred with regard to the printing and mailing to Agents of the first report in the Liquidation and the mailing of the cheques to those Customers and Agents whose Trust claims were accepted by the Court.

Other Payments

- 6.14 The remaining payments during the second year of the Liquidation are self-explanatory and I do not propose to itemise these further.

7 JOINT LIQUIDATORS' REMUNERATION

- 7.1 I am obliged to fix my remuneration in accordance with Rule 4.127(2) of the Insolvency Rules 1986. This permits my remuneration to be fixed either as a percentage of the assets realised and distributed or, alternatively, by reference to the time myself and my staff have spent attending to matters in this Liquidation.
- 7.2 Where a Liquidation Committee exists, it is for the Committee to determine how the remuneration is to be fixed. In this respect I would report that all my fees have been approved on a time cost basis by the Liquidation Committee.
- 7.3 I would confirm that the Liquidation Committee has, to date, approved the Liquidators' fees since the commencement of the Liquidation in the sum of £609,561. £337,695 of this has yet to be paid. The Liquidation Committee has also approved the fees for taxation work of £9,050 and for the forensic work in the sum of £1,078,836. The total discount given by my firm on fees since the Liquidation began on 4 October 2007 is 6.9%.

7.4 Further details on Liquidators' fees are given in the "Creditors' Guide to Liquidators' fees" and the document outlining my firm's policy which can be found on the website www.farepak.co.uk.

8 ANNUAL MEETING

8.1 Insolvency legislation requires that a Liquidator summon a general meeting of the Company and a meeting of the creditors within three months of the anniversary of appointment, i.e. by 4 January 2010.

8.2 I was concerned that creditors, in particular Agents and Customers, who had already suffered a loss might have to take time off work and spend money on travelling to a meeting and that the costs of hiring a venue large enough to hold the number of creditors would be significant. On 5 September 2008, the Court ordered that such meetings should not be held.

I will continue to update the website www.farepak.co.uk with any relevant information.

Yours faithfully
For and on behalf of
Farepak Food & Gifts Limited



Martha H Thompson
Joint Liquidator
Authorised by the Institute of Chartered Accountants in Ireland

Enc

Farepak Food & Gifts Limited
- In Creditors' Voluntary Liquidation -
Summary of the Joint Liquidators' Receipts and Payments
For the period from 4 October 2007 to 3 October 2009

	£
RECEIPTS	
Administration Surplus transferred to Liquidation	3,784,589
Third Party Monies Received	1,979,789
VAT Refunds	275,746
Bank Interest	250,819
Sundry Receipts	3,475
VAT on Receipts	543
	6,294,961
	6,294,961
PAYMENTS	
Forensic Accounting Fees	1,078,836
Legal Fees & Disbursements	548,092
Customer Claims Management	370,544
Joint Liquidators' Fees	271,866
Trust Monies to Customers	243,240
Corporation Tax	54,662
Management of Media Enquiries	34,014
Postage Costs	24,244
Legal Fees for Trust Application	22,406
Joint Liquidators' Disbursements	12,316
Taxation Fees	9,050
Statutory Advertising	2,182
Liquidation Committee Expenses	1,127
Sundry Expenses	818
Agent's Fees & Disbursements	498
Tax on Bank Interest	422
Specific Bond	350
Bank Charges	187
VAT on Payments	390,100
	3,064,954
Distribution to Preferential Creditors of 100p in the £	5,989
Balance In Hand	3,224,018
	6,294,961

BDO LLP
Kings Wharf
20-30 Kings Road
Reading
Berkshire
RG1 3EX

Martha H Thompson & Dermot Power
Joint Liquidators
14 October 2009