

3 April 2009

Our ref: MNC/AMR/EX01ADL/ADM502/2203
Your ref:

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31 Wellington Street
Leeds LS1 4DL
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TO ALL KNOWN CREDITORS

When telephoning please ask for:
Erica Walters

Direct Line:
0113 386 0819

Dear Sirs

Explorer House Limited - In Administration (the Company) Administrators' Progress Report

As you may be aware Alastair Beveridge, Nick Cropper, Simon Appell and I were appointed Joint Administrators of the Company on 12 September 2008 by the High Court, Chancery Division, Companies Court. From 1 January 2009 Alastair Beveridge, Simon Appell, Nick Cropper and I are now licensed by the Insolvency Practitioners Association (IPA).

Please find attached a formal notice and detailed report covering progress in the Administration during the six month period ended 11 March 2009.

Please note that it is a statutory requirement for the Joint Administrators to prepare and make available for all actual and potential creditors of the Company a Progress Report. However, for those passengers who have submitted claims for refunds to the Civil Aviation Authority under the ATOL scheme, to their credit card company or through an insurance company THIS IS FOR INFORMATION ONLY and DOES NOT affect your claim in any way.

Further update as at 3 April 2009

In order to minimise costs (printing and postage) to the creditors, the Joint Administrators applied to Court on 3 April 2009, to release them from their statutory obligations of sending to all known creditors (of which there is approximately 144,000) the following documents:

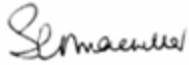
- Notices of the result of any meetings of creditors
- Progress reports to creditors
- Any notice of intention to declare and distribute a dividend
- Any notice of automatic end of Administration
- Any notice of moving from Administration to Creditors' Voluntary Liquidation
- Any notice of moving from Administration to Dissolution

Registrar Derrett of The High Court of Justice, Chancery Division, Companies Court granted the Joint Administrators' application and ordered that the Joint Administrators publish the relevant creditor information, instead of mailing hard copies to creditors.

Accordingly, for the purposes of this and future creditor communication, the Joint Administrators will publish all documents on the www.xladministration.com website and will provide a helpline for creditors to request information free of charge. The helpline number is 0800 068 8991.

Please also note that following the recent completion of a Management Buy-Out (MBO) by the partner group of Kroll's UK Corporate Advisory and Business Recovery practice from Kroll Inc, we will be operating under the Zolfo Cooper brand name going forward. Zolfo Cooper Europe will continue to be headquartered at 10 Fleet Place, London EC4M 7RB with our existing network of UK offices remaining in their current locations.

Yours faithfully
For and on behalf of
Explorer House Limited



S C E Mackellar
Joint Administrator

Enc

The affairs, business and property of the Company are being managed by the Joint Administrators. The Joint Administrators act as agents of the Company and without personal liability.

The Insolvency Act 1986

Administrator's progress report

Name of Company Explorer House Limited	Company number 05183147
In the High Court, Chancery Division, Companies Court	Court case number 7852 of 2008

We, Alastair Paul Beveridge, Simon Jonathan Appell, Mark Nicholas Cropper of Zolfo Cooper, 10 Fleet Place, London, EC4M 7RB and Stuart Charles Edward Mackellar of Zolfo Cooper, Wellington Plaza, 31 Wellington Street, Leeds, LS1 4DL

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

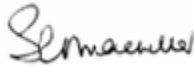
from

to

(b) 12 September 2008

(b) 11 March 2009

Signed



Joint Administrator

Dated: 3 April 2009

Contact Details:

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

Erica Walters Zolfo Cooper, Wellington Plaza, 31 Wellington Street, Leeds, LS1 4DL	
	Tel : 0113 386 0819
DX Number	DX Exchange

Companies
House receipt
date barcode

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff

3 April 2009

Joint Administrators' Progress Report

For the Period
12 September 2008 to 11 March 2009

Explorer House Limited -
In Administration



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1 Statutory Information

- 1.1 I was appointed Joint Administrator of Explorer House Limited (the **Company**) together with Alastair Paul Beveridge, Simon Jonathan Appell and Mark Nicholas Cropper on 12 September 2008 by the High Court of Justice. The application for the appointment of an Administrator was made by the Directors of the Company.
- 1.2 Please note that as of 1 January 2009, Alastair Paul Beveridge, Simon Jonathan Appell, Mark Nicholas Cropper and I are now licensed by the Insolvency Practitioners Association (IPA).
- 1.3 The Company formed part of the XL Leisure Group of companies (the **Group**).
- 1.4 The Company is one of 11 Companies (the **Companies**) within the Group which were placed into Administration by the Court at 1am on 12 September 2008. The additional 10 companies are as follows:
- XL Leisure Group plc (04513359) (the **Parent Company**)
 - Travel City Flights Limited (03676161)
 - Excel Aviation Limited (03720932)
 - Freedom Flights Limited (03761690)
 - The Really Great Holiday Company plc (02813710)
 - Medlife Hotels Limited (05311104)
 - Aspire Holidays Limited (03813759)
 - XL Airways UK Limited (02980023)
 - Freedom Flights (Aviation) Limited (03778561)
 - Kosmar Villa Holidays plc (01673531)
- 1.5 A copy of the Group structure is attached at Appendix A.
- 1.6 The other entities within the Group are either dormant or non-trading.
- 1.7 The Administration is being handled by Zolfo Cooper's Leeds office, situated at Wellington Plaza, 31 Wellington Street, Leeds, LS1 4DL.
- 1.8 The Administration is registered in the High Court of Justice, Chancery Division, Companies Court under reference number 7852 of 2008.

- 1.9 The main headquarters of the Company was Explorer House, Fleming Way, Crawley, West Sussex, RH10 9EA (**Explorer House**).
- 1.10 The registered office of the Company has been changed from Explorer House to c/o Zolfo Cooper, Wellington Plaza, 31 Wellington Street, LS1 4DL and its registered number is 05183147.
- 1.11 The functions of the Joint Administrators may be exercised by either or all, acting jointly or alone.
- 1.12 Please note that following the recent completion of a Management Buy-Out (**MBO**) by the partner group of Kroll's UK Corporate Advisory and Business Recovery practice from Kroll Inc, we will be operating under the Zolfo Cooper brand name going forward. Zolfo Cooper Europe will continue to be headquartered at 10 Fleet Place, London EC4M 7RB with our existing network of UK offices remaining in their current locations.

2 Progress of the Administration

Overall Administration Progress for the Companies

- 2.1 Since the date of my last report, I have continued to facilitate a controlled and orderly wind down of the operations of all of the Companies which entered Administration.
- 2.2 I have proceeded to realise the various assets held across the Companies which include agency and trade debtors totalling in excess of £15 million excluding intercompany debts, the brands, trademarks and intellectual property of the major trading entities, prepayments relating to airport charges, fuel and insurance, six freehold properties and aircraft stock.
- 2.3 A considerable amount of time has also been spent liaising and corresponding with the Companies' stakeholders and in particular in relation to the substantial telephone and written queries received from customers with regard to their pre-booked holidays which were unfortunately cancelled as a result of the Administrations. I have liaised extensively with the Civil Aviation Authority (**CAA**) and credit card providers to ensure that any information they have required relating to customer bookings has been provided swiftly, efficiently and accurately.
- 2.4 There has also been a large volume of correspondence received from former employees with regard to their redundancy and preferential claims, requests for access to training records and files and also with a view to obtaining references for their new employers.

- 2.5 As you are aware, the Companies' IT systems were complex and data was held across seven separate IT systems and packages, some of which were hosted by external providers. The operations of the Companies were heavily reliant on these systems, such as customer booking systems, finance systems and aircraft maintenance systems. As such, a managed shut down and decommissioning strategy of over 100 servers has had to be undertaken together with IT consultants and former third party service providers to the Companies. I can confirm that the shut down strategy is in its final stage.
- 2.6 An operation to box up the Companies' books and records which were held across various national locations has also been undertaken and a small number of former employees were initially retained on a consultancy basis to assist with this process. There are now in excess of 5,000 boxes of books and records held at a storage facility in Leeds.
- 2.7 In order to minimise costs (printing and postage) to the creditors, the Joint Administrators applied to Court on 3 April 2009, to be released from the statutory obligations of sending to all known creditors (of which there is approximately 144,000) the following documents;
- Notices of the result of any meetings of creditors
 - Progress reports to creditors
 - Any notice of intention to declare and distribute a dividend
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3 Assets still to be Realised

Administration Progress for the Company

- 3.1 The Company is a non trading entity, which owns the freehold property and provides the office accommodation for the headquarters of the Group at Explorer House. The Company did not have any employees.

- 3.2 Attached at Appendix B is my Receipts and Payments Account for the period from 12 September 2008 to 11 March 2009.

Straumur funding

- 3.3 As you are aware upon appointment the Company entered into a funding agreement with Straumur-Burdarás Investment Bank hf. (**Straumur**) which allowed the Company access to loan funding to ensure a controlled wind down of the operations could be affected whilst the assets of the Company were realised. Although no funds are been required to date, if any are subsequently received, these sums are to be repaid from asset realisations from the Company's estate prior to any distribution to the creditors of the Company, subject to there being sufficient realisations available.

Freehold property

- 3.4 Explorer House is subject to a mortgage with the National Westminster Bank plc (**Natwest**). Prior to my appointment, the net book value of Explorer House was approximately £7.9 million.
- 3.5 GVA Grimley (**GVA**) was instructed to market Explorer House and this was undertaken in conjunction with Mitre Court, a freehold property owned by XL Airways UK Limited which is also in Administration, and subject to a mortgage with Natwest.
- 3.6 Following a period of intense marketing of Explorer House and Mitre Court (the **Properties**) which involved sales packs and information being distributed to potential investors both in the UK and overseas, tentative enquires were received. GVA followed up all these enquiries and subsequently arranged a number of inspections of the Properties by interested parties.
- 3.7 Six formal offers have been received to date, all relating to a joint purchase of the Properties. The values of the offers range substantially and are unfortunately significantly below GVA's initial valuation, due to the recent downturn in the UK commercial property market.
- 3.8 I am currently in discussions with GVA and Natwest with regard to the offers which have been received, and whether these will pursued further given the substantial shortfall expected to be suffered by Natwest based on the current level of offers.
- 3.9 As you are aware, Grant Thornton (**GT**) leases part of Explorer House with the annual rent set at £239,700. To date £91,539 plus VAT has been received into the Administration account in respect of rent due, and I can confirm that another payment is expected to be received shortly.

Fixtures and fittings

- 3.10 The Company has various fixtures and fittings located within Explorer House which are being marketed as part of its sale. A proportion of the proceeds from a sale of Explorer House may therefore be attributable to fixture and fittings; however, until a sale is completed I am unable to estimate the potential level of realisations.
- 3.11 In accordance with Statement of Insolvency Practice No 13 (SIP13), I would advise you that no assets were sold to a Director of the Company.

4 Joint Administrators' Remuneration

- 4.1 Creditors approved that the basis of the Joint Administrators' remuneration be fixed by reference to the time properly spent by them and their staff in managing the Administration.
- 4.2 The Joint Administrators' time costs at 11 March 2009 are £43,193. This represents 174 hours at an average rate of £249 per hour. Attached as Appendix C is a Time Analysis which provides details of the activity costs incurred by staff grade during this period. To date £29,808 plus disbursements of £1,600 have been drawn on account.
- 4.3 Attached as Appendix D is additional information in relation to our policy on staffing, the use of sub-contractors, disbursements and details of our current charge-out rates by staff grade.

Administration and Planning

The time recorded here reflects the statutory duties of the Joint Administrators including initial notification to creditors and the preparation of creditor reports. In addition, it covers the time spent formulating the strategy of the Administration, internal meetings and case related travel time.

Investigations

This section relates to time spent investigating the conduct and actions of the Company's Directors prior to appointment.

Realisation of Assets - Fixed Charge

This refers to time spent dealing with the sale of the Company's fixed charge assets which includes instructing agents, obtaining initial valuations and conducting negotiations with interested parties.

Realisation of Assets - Debtors

The work involved within this area covers the time spent collecting the rent from GT.

Realisation of Assets - Floating Charge

This refers to time spent dealing with the sale of the Company's floating charge assets which includes instructing agents, obtaining initial valuations and negotiations with interested parties.

Trading

The time recorded here includes the ongoing day to day management and wind down of the Company, along with preparation of cash flow forecasts and maintaining funding requirements. This reflects the time spent reconciling and finalising the accounts and ledgers to the date of the appointment and ensuring that a potential sale of the Company's assets would not be jeopardised.

Creditors

This area reflects the time incurred dealing with the trade creditors of the Company, including telephone calls and emails.

5 Estimated Outcome for Creditors

- 5.1 The Company granted Natwest a mortgage over Explorer House on 5 November 2004 and as at 12 September 2008 the indebtedness was believed to be approximately £6,439,000. An additional second ranking mortgage over Explorer House was granted to Straumur on 31 July 2008.
- 5.2 Further fixed and floating charges were granted by the Company to Straumur, together with a third ranking mortgage against Explorer House on 18 August 2008.
- 5.3 Straumur's fixed charge is supported by a cross guarantee provided by all of the Companies with the exception of Kosmar Villa Holidays plc.
- 5.4 It is believed that there may be sufficient funds to enable a fixed charged distribution to Natwest but this will be dependent upon whether a sale of Explorer House can be achieved, and the quantum of this.
- 5.5 In the event that Natwest's indebtedness is settled in full and there is a fixed charge surplus, this will be available to Straumur under its second ranking fixed charge. However,

given the value of offers which have been received to date as detailed in Section 3.7 it is anticipated that there will be insufficient funds to enable a fixed charge distribution to Straumur due to the expected shortfall to Natwest.

- 5.6 Based on current information the preferential claims against the Company relating to employees' arrears of wages and holiday are £nil.
- 5.7 As previously reported, the Company granted the floating charge to Straumur within 12 months of the commencement of the Administration and since no new monies were advanced to the Company following the registration of Straumur's charge, it is believed that the floating element of the charge is invalid in accordance with Section 245 of the Insolvency Act 1986 (the Act).
- 5.8 As per the Directors' Statement of Affairs the amount owed to the unsecured creditors is estimated at £122,419,505.
- 5.9 As Straumur's floating charge post-dates the introduction of the Enterprise Act 2002 on 15 September 2003, ordinarily there would be a requirement to set aside an "Unsecured Creditors' Fund". In these circumstances, the Joint Administrators would have an obligation to ring fence a proportion of the floating charge realisations for unsecured creditors under S176A (2) of the Act. These funds are called the Prescribed Part. However, as detailed above in Section 5.7 Straumur's floating charge is deemed invalid and therefore the Prescribed Part does not apply.
- 5.10 Based upon the current estimated financial position it is believed that the net realisations within the Administration will be insufficient to enable a distribution to the unsecured creditors.

6 Ending the Administration

- 6.1 Based on present information, the Joint Administrators believe that there will be insufficient net realisations to enable a dividend to be paid to the Company's unsecured creditors. In this scenario, a notice will be filed together with a final progress report at Court and with the Registrar of Companies for the dissolution of the Company. Copies of these documents will be published on the www.xladministration.com website. The appointment will end following the registration of the notice by the Registrar of Companies.
- 6.2 Alternatively, if having realised the assets of the Company, the Joint Administrators subsequently establish that a dividend may be payable to the unsecured creditors of the

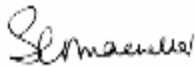
Company, a notice will be filed with the Registrar of Companies in order that the Administration will cease and the Company will move automatically into Creditors Voluntary Liquidation (CVL) in order to make the distribution. The Joint Administrators will also become the Joint Liquidators of the CVL.

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

7 Next Report

- 7.1 The Joint Administrators are required to provide a progress report within one month of the end of the next six months of the Administration or earlier if the Administration has been finalised. All future reports will be available on the www.xladministration.com website.

For and on behalf of
Explorer House Limited

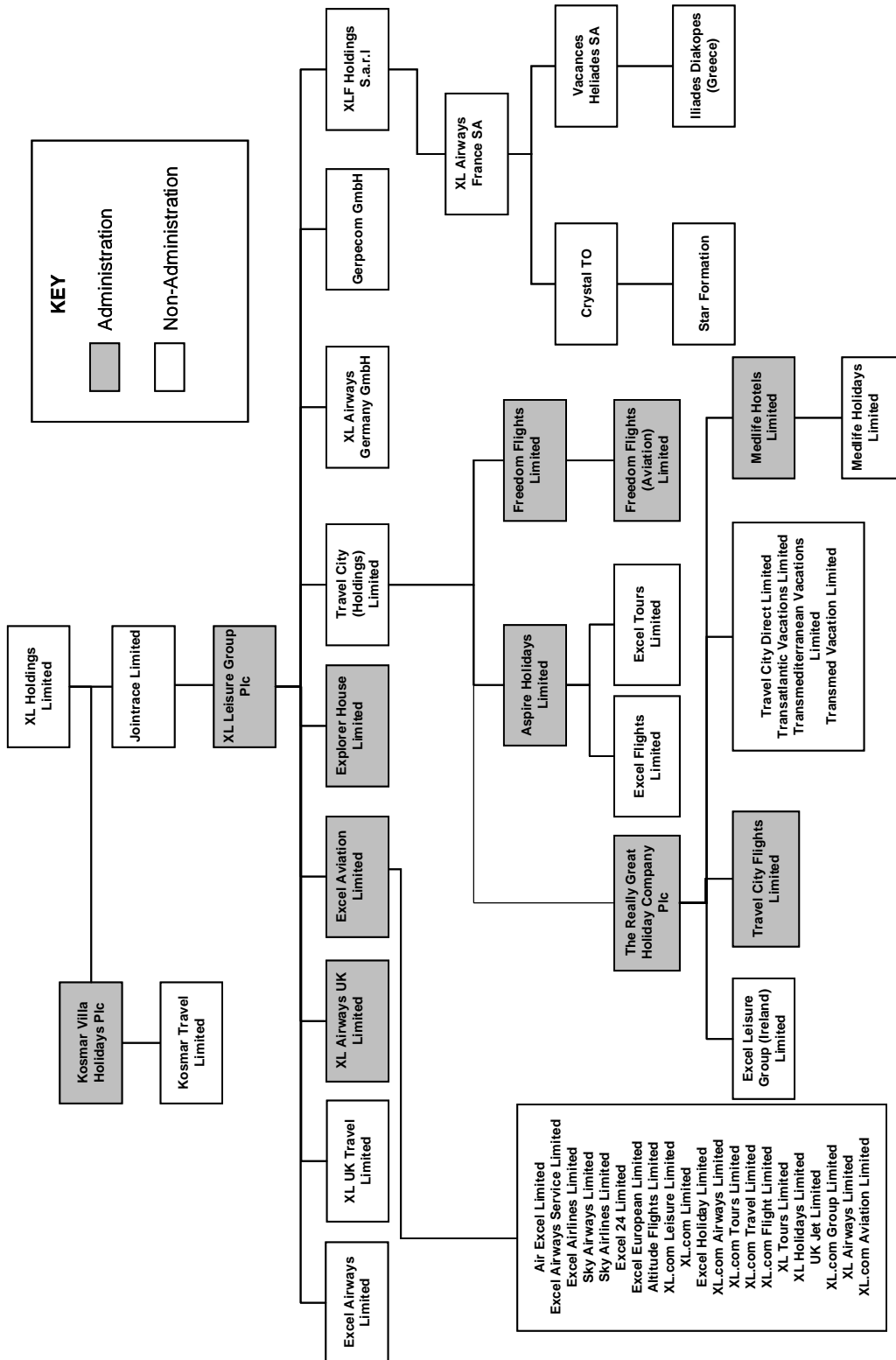


S C E Mackellar
Joint Administrator

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Group Structure

Appendix A



Receipts and Payments Account for the Period from 12 September
2008 to 11 March 2009

Appendix B

Statement of Affairs £		Fixed Charge £	Floating Charge £	Total £
	RECEIPTS			
	Rent Received		91,538.96	91,538.96
	Bank Interest Gross		287.41	287.41
4,900,000.00	Sale of Explorer House	NIL		NIL
2,520.00	Fixtures and Fittings		NIL	NIL
		0.00	91,826.37	91,826.37
	PAYMENTS			
(6,439,445.00)	Due to Natwest	NIL		
	Preparation of S. of A.		5,000.00	5,000.00
	Administrators Fees		29,807.50	29,807.50
	Administrators Expenses		1,600.00	1,600.00
	Re-Direction of Mail		99.60	99.60
	Statutory Advertising		3,810.88	3,810.88
	Other Property Expenses		777.00	777.00
	Sundry Expenses		411.79	411.79
(122,419,505.00)	Unsecured Creditors		NIL	NIL
		0.00	41,506.77	41,506.77
(123,956,430.00)	Balances in Hand	0.00	50,319.60	50,319.60
	REPRESENTED BY			
	Floating Interest Bearing			58,906.17
	VAT Payable			(8,586.57)
				50,319.60

Time Analysis for the Period from 12 September 2008 to 11 March 2009

Appendix C

	Employee Grade (Hours)				Hours To Date	Total Cost (£s)	Average Rate p/h
	Partner / Director	Senior Associate	Associate / Analyst	Junior Analyst / Support			
ADMINISTRATION AND PLANNING							
Strategy and Control	1.50	1.10	35.80	0.30	38.70	10,843.50	280
Bank and Creditor Reporting	0.70	1.70	27.20	3.80	33.40	8,224.50	246
Creditors Committee	0.00	0.00	1.00	0.00	1.00	290.00	290
Statutory Duties	0.40	0.20	1.90	1.60	4.10	945.00	230
Job Administration	0.00	1.60	5.80	12.00	19.40	3,538.50	182
Cash Accounting and Time Records	0.30	1.50	3.10	13.60	18.50	3,631.00	196
Case Related Travel Time	0.00	0.00	0.40	0.00	0.40	96.00	240
Internal Documentation and IT	0.00	0.00	0.50	0.00	0.50	145.00	290
ADMINISTRATION & PLANNING Total	2.90	6.10	75.70	31.30	116.00	27,713.50	239
INVESTIGATIONS							
D Reports	0.10	0.00	0.10	1.20	1.40	245.00	175
Other Investigations	0.00	0.00	0.00	0.10	0.10	14.00	140
INVESTIGATIONS Total	0.10	0.00	0.10	1.30	1.50	259.00	173
REALISATION OF ASSETS - FIXED CHARGE							
Initial Actions and Valuations	0.50	14.30	1.60	0.00	16.40	5,361.50	327
Sale of Assets	0.00	0.00	0.10	0.00	0.10	26.50	265
Insurance	0.00	2.10	2.00	0.00	4.10	1,242.50	303
Litigation	0.00	0.00	0.50	0.00	0.50	145.00	290
Internal Documentation	0.00	0.30	0.60	0.00	0.90	266.50	296
REALISATION OF ASSETS - FIXED CHARGE Total	0.50	16.70	4.80	0.00	22.00	7,042.00	320
REALISATION OF ASSETS - DEBTORS							
Debt Collection	0.00	0.40	2.00	0.00	2.40	690.00	288
REALISATION OF ASSETS - DEBTORS Total	0.00	0.40	2.00	0.00	2.40	690.00	288
REALISATION OF ASSETS - FLOATING CHARGE							
Initial Actions and Valuations	0.00	3.40	3.20	0.00	6.60	2,021.50	306
Sale of Assets	0.00	0.00	0.50	0.00	0.50	145.00	290
Insurance	0.00	0.00	1.00	0.00	1.00	270.00	270
Hire Purchase/Leased Assets	0.00	0.80	1.00	0.00	1.80	550.00	306
Internal Documentation	0.00	0.00	0.30	0.00	0.30	81.00	270
REALISATION OF ASSETS - FLOATING CHARGE Total	0.00	4.20	6.00	0.00	10.20	3,067.50	301
TRADING							
Initial Actions	0.50	0.00	0.70	0.00	1.20	453.00	378
Cash Accounting	0.10	0.00	3.00	0.00	3.10	769.50	248
Ongoing Trading Activities	0.10	0.10	0.00	4.80	5.00	744.50	149
Internal and External Documentation	0.00	0.00	0.00	0.10	0.10	12.50	125
TRADING Total	0.70	0.10	3.70	4.90	9.40	1,979.50	211
CREDITORS							
Creditor Dealings	0.30	0.00	4.00	6.10	10.40	2,010.00	193
Internal Documentation	0.00	0.00	0.40	0.10	0.50	125.00	250
Employees	0.20	0.00	0.50	0.70	1.40	306.50	219
CREDITORS Total	0.50	0.00	4.90	6.90	12.30	2,441.50	198
Total	4.70	27.50	97.20	44.40	173.80	43,193.00	249

Additional Information in Relation to Administrators' Fees Pursuant to Statement of Insolvency Practice 9

Appendix D

1 Policy

Detailed below is Zolfo Cooper's policy in relation to:

- staff allocation and the use of sub-contractors;
- professional advisors; and
- disbursements.

1.1 *Staff Allocation and the use of Sub-contractors*

Our general approach to resourcing our assignments is to allocate staff with the skills and experience to meet the specific requirements of the case.

The constitution of the case team will usually consist of a Partner, Senior Associate, Associate and Analyst. 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. On larger, more complex cases, several staff at all grades may be allocated to meet the demands of the case. Our charge out rate schedule below provides details of all grades of staff and their experience level.

With regard to support staff, we would advise that time spent by cashiers in relation to specific tasks on an assignment is charged. Only if there is a large block of time incurred by a member of the secretarial team, eg, report compilation and distribution, do we seek to charge and recover our time in this regard.

We have not utilised the services of any sub-contractors in this case.

1.2 Professional Advisors

On this assignment we have used the professional advisors listed below. We have also indicated alongside, the basis of our fee arrangement with them, which is subject to review on a regular basis.

Name of Professional Advisor	Basis of Fee Arrangement
Freshfields Bruckhaus Deringer LLP (legal advice)	Hourly rate and disbursements
Willis Limited (insurance)	Risk based premium
Edward Symmons (valuation and disposal advice)	Hourly rate and disbursements
BDO Stoy Hayward LLP (tax advice)	Hourly rate and disbursements
Twice2much Ltd (duplicate payments review)	Percentage of realisations
Jones Day (security review & legal advice)	Hourly rate and disbursements
PAYCO (ERA claims)	Hourly rate and disbursements
Hill and Knowlton (PR advice)	Hourly rate and disbursements

Our choice was based on our perception of their experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of our fee arrangement with them.

1.3 Disbursements

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.

Category 2 disbursements do require prior approval by creditors before they are paid and whilst it is unlikely that any Category 2 disbursements will be incurred on the case, appropriate approval will be sought before any such expenses are paid.

2 Charge-out Rates

A schedule of Zolfo Cooper charge-out rates for this assignment effective from 1 January 2009 is detailed below.

	(Per hour) £
Partner/Director:	
Partner 1*	550
Partner 2*	495
Director	430
Senior Associate:	
Senior Associate 1*	390
Senior Associate 2*	350
Associate/Analyst:	
Associate	290
Analyst*	265
Junior Analyst and Support Staff:	
Junior Analyst*	140
Senior Treasury Associate	210
Treasury Associate	140
Treasury Analyst	90
Support	90
*Key	
Partner 1 - Partners with 3 or more years experience at partner level	
Partner 2 - Partners with less than 3 years experience at partner level	
Senior Associate 1 - Staff who have been Senior Associates for over 2 years	
Senior Associate 2 - Staff who have been Senior Associates for less than 2 years	
Analyst - Staff who have been Analysts for more than 1 year	
Junior Analyst - First year Analysts	