

TO ALL KNOWN CREDITORS

24 September 2020

Ref: RHK/CGJK/TH/SA//D16.1
Email: stylesandwood@uk.ey.com

Dear Sirs

Extentia Group Limited (in Administration) (“the Company”)

High Court of Justice, The Business and Property Courts in Leeds, Insolvency and Companies List (ChD), CR2020-LDS-000229

I write, in accordance with Rule 18.3 of the Insolvency (England and Wales) Rules 2016, to provide creditors with a report on the progress of the Administration.

On 28 February 2020, the Company entered Administration with R H Kelly, S J Woodward and C G J King appointed to act as Joint Administrators (‘the Administrators’). The appointment was made by the Company’s directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986.

This report covers the period from 28 February 2020 to 27 August 2020 and should be read in conjunction with the Joint Administrators’ Statement of Proposals (‘the Proposals’) delivered to creditors on 23 April 2020.

Statutory information about the Company, the administration and the office holders is set out at Appendix 1.

As insolvency practitioners, the Joint Administrators are bound by the Insolvency Code of Ethics when carrying out all professional work relating to an insolvency appointment. A copy of the Statement of Insolvency Practice 1 is available from <https://www.icaew.com/-/media/corporate/files/technical/insolvency/regulations-and-standards/sips/england/sip-1-e-and-w-introduction-to-statements-of-insolvency-practice-oct-2015.ashx>.

Summary of progress since the statement of Proposals dated 23 April 2020

Approval of the Proposals

Following delivery of the Proposals to creditors on 23 April 2020, the Proposals were deemed approved on 6 May 2020.

Realisation of Assets

The Company was a non-trading holding company which provided central support to the wider Extentia Group.

Its only realisable assets are intercompany debtor balances due from other group companies which were outstanding at the date of appointment.

Intercompany debtor balances

The Company's main asset relates to intercompany debtor balances owed to it from various Group companies.

As set out in the Proposals, the Group undertook a reorganisation exercise to operationally distance and financially preserve the other trading companies in the wider Extentia Group from the S&W businesses; which were the primary cause of the Group's financial distress.

We are currently investigating the nature of the intercompany balances and their quantum. In summary, there is a gross balance of c.£8m (net c.£7.4m) due from companies in the Southern part of the Group which the Joint Administrators will pursue as a floating charge realisation which will benefit the preferential creditors, the secured creditors and the Prescribed Part (for the benefit of the unsecured creditors).

There is also an intercompany balance due from Styles & Wood Limited ("S&W") which is in Administration. Any recoveries from this balance will be dependent upon a prescribed part distribution in the Administration of S&W. The quantum and timing of any dividend from S&W remains uncertain as it is linked to the asset realisation process of that Administration which is remains ongoing.

Although an intercompany balance due to Extentia arose as part of the Group reorganisation, this is subject to fixed charge security (as were the investments which were subject to the reorganisation) and any recoveries will be captured by the secured creditors' fixed charge.

Settlement of the intercompany balances is the primary focus to ensure sufficient recoveries are generated to facilitate full payment of preferential creditor claims and a maximum Prescribed Part for the unsecured creditors.

Further work is required to agree repayment of this balance including formalising a settlement position with the relevant parties. Updates on progress will be provided in future progress reports.

Other assets

We are not aware of any other assets capable of generating realisable value. However, we will report to you in the event any such assets become available during the course of the Administration.

Receipts and payments account

There are no receipts and payments to report for the period covered by this report.

Investigations

We have undertaken investigations into the Company's affairs, in accordance with Statement of Insolvency Practice 2 (Investigations by Office Holders), and the Company Directors Disqualification Act 1986 with the required statutory returns made to the Insolvency Services. As part of our ongoing role we will continue to make investigations into the background and circumstances giving rise to the Administration. No third-party funding has been provided for any investigations.

Joint administrators' remuneration

The statutory provisions relating to remuneration are set out in Part 18 of the Insolvency (England and Wales) Rules 2016. Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the web site of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2017/administration-creditor-fee-guide-6-april-2017.ashx?la=en> or is available in hard copy upon written request to me.

In certain circumstances, creditors are entitled to request further information about our remuneration or expenses, or to apply to court if they consider the costs to be excessive (Rules 18.9 and 18.34 of the Insolvency (England and Wales) Rules 2016). Further information is provided in 'A Creditors' Guide to Administrators' Fees' referred to above.

The Proposals stated that in the event a creditors' meeting is not requisitioned and a creditors' committee is not formed, the Joint Administrators would seek to have their remuneration fixed by the secured and preferential creditors, in accordance with Rule 18.8(4) of the Insolvency (England and Wales) Rules 2016. The Joint Administrators will ask for their remuneration to be fixed on the basis of time properly given by them and their staff in dealing with matters arising in the administration.

We have recently written to the secured and preferential creditors of the Company to fix the basis of the Joint Administrators' remuneration.

To date, the Joint Administrators have incurred time costs in respect of the Company of £32,119.

An analysis of time spent is attached at Appendix 4 for each grade of staff for the various areas of work carried out to 27 August 2020. A description of work undertaken in relation to the time cost categories is also provided at Appendix 4.

Joint administrators' statement of expenses incurred

No expenses have been incurred by the Joint Administrators during the reporting period. A summary of estimated expenses is included at Appendix 3.

Outcome for creditors

We provide below, for information, an indication of the current position with regard to creditors' claims. The figures have been compiled by the Company's management and have not been subject to independent review or statutory audit.

These figures do not include any estimates for contingent claims that may arise from liabilities arising under Parent Company Guarantee claims.

Secured creditors

The Group's main secured lenders are HSBC UK Bank plc ("HSBC") and Toscafund GP Limited ("Tosca").

The Company had secured indebtedness of c.£48.6m at the date of appointment which related to cross guarantees provided in favour of HSBC and Tosca.

HSBC and Tosca both have fixed and floating charges over the assets of the Company. The order of priority is as follows:

- ▶ HSBC – c.£20.9m; then
- ▶ Tosca – c.£27.7m

It is anticipated that HSBC will receive a distribution as a result of recoveries from the intercompany debtor realisations. However, this will not result in full recovery of HSBC's exposure. No distributions to Tosca are envisaged.

Preferential creditors

We currently estimate preferential creditors of c.£7,300 in respect of claims for employees' holiday pay and pension contributions.

We currently estimate that preferential claims will be paid in full. However, the timing of this will be determined by the recoveries from the intercompany debtor balance. As there are no other realisable assets, payment of preferential creditor claims is subject to resolution of the intercompany position.

Non-preferential creditors

The directors' Statement of Affairs estimates that non-preferential creditors will amount to c.£45.7m. These are broken down as follows:

- ▶ Trade creditors and accruals - £0.4m;
- ▶ HMRC - £0.1m;

- ▶ Unsecured shareholder loans - £45.2m; and
- ▶ Employees unsecured claims – we note these have not been scheduled in the Company’s creditor section of the Statement of Affairs but we expect these to have a value attributed at a future point.

Creditor claims continue to be submitted and final claims in the Administration may be higher due to contingent claims and other non-preferential creditor amounts not included in the Statement of Affairs.

It is not anticipated that there will be sufficient realisations to enable a distribution to the non-preferential creditors other than by virtue of the Prescribed Part.

Prescribed Part

Due to the anticipated shortfall to the secured creditors, the only distribution that will be available to unsecured creditors is the Prescribed Part.

The Prescribed Part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Insolvency Act 1986. The Prescribed Part applies to floating charges created on or after 15 September 2003.

The level of forecast recoveries currently remains uncertain and will depend on the success of the asset realisation process, principally recovery of the intercompany balance due from the Southern Group companies.

Assuming the intercompany balance is fully recovered, our latest estimates indicate that:

- ▶ The value of the Company’s net property (i.e. after costs of realisation and preferential creditor distribution) will amount to in the region of c.£7.3m; and
- ▶ This is estimated to result in the value of the Prescribed Part being c.£600,000 (i.e. maximum Prescribed Part) (before the costs of dealing with the Prescribed Part).

Until there is a formalised settlement position associated with the intercompany balances, the above estimates could be subject to change.

If the intercompany balance is not recovered at all, the value of the Company’s net property is expected to be less than £10,000 in which case it will not be economical to distribute the prescribed part.

The Joint Administrators do not currently intend to make an application to the Court under section 176A(5) of the Insolvency Act 1986 for an order not to distribute the prescribed part.

Due to the quantum of amounts owed to unsecured creditors, we estimate that the dividend to non-preferential creditors under the Prescribed Part in the Administration will not exceed 1.5p in the pound in any event.

Remaining work

The Joint Administrators will continue to manage the affairs, business and property of the Company to achieve the purpose of the Administration. This will include, inter alia:

- ▶ Realising the assets of the Company, most notably the intercompany debtor positions;
- ▶ Dealing with corporation tax and VAT matters which includes filing statutory returns;
- ▶ Dealing with unsecured creditor enquiries;
- ▶ Distributing realisations to the secured and preferential creditors of the Company;
- ▶ Agreeing unsecured creditor claims and distributing the Prescribed Part;
- ▶ Ensuring all statutory reporting and compliance obligations are met; and
- ▶ Finalising the Administration, including payment of all Administration liabilities.

Next report

We will report to you again at the conclusion of the Administration or in six months' time, whichever is the sooner. Should you have any queries with any of the matters outlined in this report, please contact my colleague Sam Allen at the email address provided above.

Yours faithfully
For the Company



CGJ King
Joint Administrator

R H Kelly is licensed in the United Kingdom to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland. C G J King and S J Woodward are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The affairs, business and property of the Company are being managed by the Joint Administrators, R H Kelly, S J Woodward and C G J King, who act as agents of the Company only and without personal liability.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix 1

Information about the proceedings, the company and the office holders, as required by Rule 18.3(1) of the Insolvency (England and Wales) Rules 2016

Name of court:	High Court of Justice, The Business and Property Courts in Leeds, Insolvency and Companies List (ChD)
Court reference:	CR2020-LDS-000229
Registered name of the company:	Extentia Group Limited
Registered office address of the company	C/o Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR
Registered number:	09511322
Country of incorporation (for a company incorporated outside the United Kingdom):	N/A
Date of appointment of the joint administrators:	28 February 2020
Details of any changes of administrator:	None
Full names of the administrators:	Robert Hunter Kelly, Samuel James Woodward and Charles Graham John King
Office holder number(s):	8582 / 8985 / 12030
Administrators' address(es):	RH Kelly and CGJ King of Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR and SJ Woodward of Ernst & Young LLP, 2 St Peter's Square, Manchester, M2 3DF
Telephone number:	0113 236 4427
Name of alternative person to contact with enquiries about the case:	Sam Allen

Appendix 2

Extentia Group Limited (in Administration)

Joint Administrators' Summary of Receipts and Payments from 28 February 2020 to 27 August 2020

Statement of Affairs Estimated to Realise Values (£)		Total (£)
	Receipts	
9,435,000	Amounts due from Group Companies (fixed)	-
7,444,000	Amounts due from Group Companies (floating)	-
<u>16,879,000</u>		<u>-</u>
	Payments	
		<u>-</u>
	Net realisations	-
	<i>Funds in Hand</i>	
	Cash at Bank	
	Net VAT receivable/payable	
		<u>-</u>

Notes

1. Receipts and payments are stated net of VAT.

Extentia Group Limited (in Administration)

Summary of Joint Administrators' expenses incurred

£	Per estimate dated 23 April 2020 (£)	Paid in period 28.02.20 - 27.08.20 and cumulative total (£)	Outstanding (£)	Total (£)
Payments which are not disbursements				
Public notices	(190)	-	-	-
Legal Fees and Costs	(10,000)	-	-	-
Storage	(500)	-	-	-
Total	(10,690)	-	-	-
Category 1 disbursements (see note 2)				
Specific Penalty Bond	(420)	-	-	-
Travel costs (excluding mileage)	-	-	-	-
Total	(420)	-	-	-
Category 2 disbursements (see note 2)				
Mileage	-	-	-	-
Internal bulk copying, printing and postage	-	-	-	-
Total	(11,110)	-	-	-

Notes

- Statement of Insolvency Practice 9 (SIP 9) defines expenses as amounts properly payable from the insolvency estate which are not otherwise categorised as office holders' remuneration or distributions to creditors.
- SIP 9 defines disbursements as a type of expense which is met by, and reimbursed to, an office holder in connection with an insolvency appointment. Disbursements fall into two categories: Category 1 and Category 2.
 - Category 1 disbursements are payments to independent third parties where there is specific expenditure directly referable to the appointment
 - Category 2 disbursements are expenses which are directly referable to the appointment but not a payment to an independent third party. They may include shared and allocated costs.
- To date, certain expenses incurred by the Company have been paid by S&W and will be recharged at a future point. Examples include public notices, bonding and certain legal expenses.

Extentia Group Limited (in Administration)

Joint Administrators' time costs for the period from 28 February 2020 to 27 August 2020 and a comparison with the fee estimate dated 23 April 2020

	Per fee estimate dated 23 April 2020			Actual in this report period and total to 27 August 2020		
	Total hours	Time costs (£)	Average hourly rate (£)	Total hours	Time costs (£)	Average hourly rate (£)
Accounting & Administration	9.5	2,305	243	-	-	-
Bank & Statutory Reporting	48.5	13,070	269	43	13,329	313
Creditors	13.0	3,445	265	-	-	-
Debtors	13.0	4,055	312	7	2,218	341
Employee Matters	30.5	8,468	278	11	3,378	322
Immediate Tasks	2.0	770	385	2	770	385
Investigation & CDDA	30.5	7,930	260	15	4,798	314
Legal Issues	2.3	696	302	6	1,928	350
Other Assets	1.0	290	290	1	385	385
Other Matters	-	-	-	1	290	290
Prescribed Part	57.0	15,185	257	-	-	-
Statutory Duties	43.0	10,090	246	18	4,475	256
VAT & Taxation	7.0	1,700	243	2	550	275
Total	257.3	68,003	264	103.9	32,119	309

Summary of work

The Joint Administrators have incurred time costs (or will incur future time costs) in dealing with, inter alia, the following matters:

- ▶ **Accounting and Administration** – includes general administrative duties, such as cashiering, filing, as well as maintaining the Joint Administrators' accounting records.
- ▶ **Bank and Statutory Reporting** – includes statutory reporting to all classes of creditors. Reports include the Joint Administrators Proposals to creditors, separate reporting the secured lenders, six monthly progress reports and filings of documents at Companies House.
- ▶ **Creditors/Members** – relates to correspondence with creditors and members and answering specific creditor/member queries.
- ▶ **Debtors** - pursuing the outstanding debts due to the Company, most notably, intercompany debtor balances.
- ▶ **Employee matters** – there were 11 employees of the Company at the date of appointment and 17 who had recently transferred to other group companies. The time spent relates to dealing with former employees of the Company, including assistance with their preferential creditor claims and paying those claims. It also relates to dealing with retained employees, including processing payroll and dealing with employees that had transferred to other Group companies.
- ▶ **Investigations** – carrying out investigations required by Statement of Insolvency Practice No.2 and any matters which the Administrators are made aware of by creditors or other parties.
- ▶ **Legal Issues** – relates to general legal advice during the Administration including dealing with live legal matters at the date of Administration.
- ▶ **Other assets** – time spent ascertaining whether the Company has any other realisable assets.

- ▶ **Other matters** – relates to time spent on matters arising from the Administration.
- ▶ **Prescribed Part Matters** – time spent in adjudicating unsecured creditor claims and making payment of any distribution of a dividend. We would highlight that the time spent on this area of the Administration will be funded directly from the Prescribed Part as a cost of dealing with the Prescribed Part.
- ▶ **Statutory duties** – time spent in complying with statutory matters including making submission to The Insolvency Service under the provisions of the Company Directors Disqualification Act 1986, filing letters and forms advising the Joint Administrators' appointment.
- ▶ **VAT and taxation** - investigating the Company's VAT and corporation tax position up to the date of appointment, preparation and submission of VAT and corporation tax returns for the post appointment period.