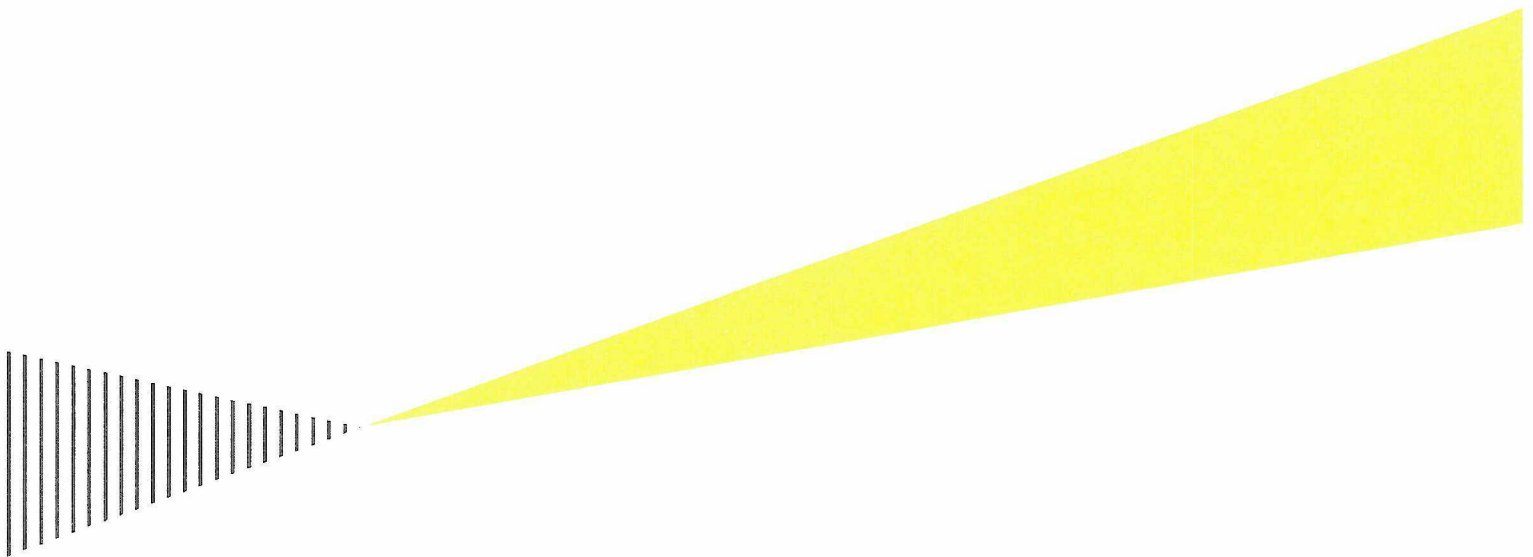


# Micro-Metalsmiths Limited - in Creditors' Voluntary Liquidation (formerly in Administration)

Progress Report to Creditors pursuant to Section 104A of the  
Insolvency Act 1986 and Rule 18.7 of the Insolvency Rules 2016

10 December 2018

Ernst & Young LLP



Building a better  
working world

## Abbreviations

The following abbreviations are used in this report:

Barclays	Barclays Bank plc
the Company or Metalsmiths	Micro-Metalsmiths Limited
ES Group	Edward Symmons LLP
Gasfrac	Gasfrac Energy Services Limited
GVA	GVA Grimley Ltd
Lloyds	Lloyds Banking Group
LSH	Lambert Smith Hampton Group Limited
Microwave	MM Microwave Limited
Phynova	Phynova Group Limited
Pinsents	Pinsent Masons LLP
PPF	Pension Protection Fund
the Purchaser or Sylatech	Sylatech Limited
RPS	Redundancy Payments Service
SIP	Statement of Insolvency Practice
The Act	The Insolvency Act 1986
The Joint Liquidators	R H Kelly & C G J King
The Rules	The Insolvency Rules 2016
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006

## Contents

1. Introduction .....	1
2. Progress of the Liquidation .....	2
3. Receipts and payments.....	3
4. Outcome for creditors .....	4
5. Liquidators' remuneration and disbursements .....	5
6. Reporting.....	7
Appendix A Joint Liquidators' abstract of receipts and payments from 21 October 2015 to 20 October 2018 .....	8
Appendix B Summary of Joint Liquidators' time-costs from 21 October 2015 to 20 October 2018 .....	9
Appendix C Statement of Joint Liquidators' charging policy on remuneration and disbursements.....	10
Appendix D Summary of Statutory Information.....	11

# 1. Introduction

R H Kelly and C G J King were appointed Joint Liquidators of the Company on 21 October 2015 following the end of the Administration. Our appointment was made by the creditors pursuant to Paragraph 83 of Schedule B1 to the Insolvency Act 1986 and Rule 2.117 of the Insolvency Rules 1986, in accordance with the Joint Administrators' Proposals dated 25 June 2014.

This report on the progress of the Liquidation is in accordance with Section 104A of the Insolvency Act 1986 and Rule 18.7 of the Insolvency Rules 2016.

This report covers the period from 21 October 2017 to 20 October 2018 and should be read in conjunction with: the Joint Administrators' Proposals dated 25 June 2014; the Joint Administrators' previous progress reports dated 28 November 2014, 8 April 2015, 27 October 2015; and the Joint Liquidators' previous annual report dated 13 December 2016 and 19 December 2017.

In accordance with the provisions of the Insolvency Rules 2016 we are required to provide certain information about the Company and the Liquidators. This information is attached at Appendix D.

## 2. Progress of the Liquidation

### 2.1 Realisations during the period of this report

#### 2.1.1 Bank Interest

There has been bank interest received in the last year totalling £292.

### 2.2 Assets to be realised

The majority of the Company's assets were realised during the administration. The following asset remains to be realised.

#### 2.2.1 Minority Interest in Phynova

Phynova is a private limited life sciences business based in the UK. The Company owns c.7% of Phynova's ordinary share capital that had not been realised at the date of liquidation.

The business is still in relatively early stages of commercial readiness with modest revenue, although in the last year sales have shown significant growth (2.2 times the prior year). Product development and placement has also progressed during the past year, including:

- A formal global distribution and collaboration agreement with DSM Nutritional Products AG in relation to 'Reducose', a mulberry leaf extract product designed to help with diabetes - sales are anticipated in 2019; and
- A potential licensing deal for Phynova's Joint and Muscle Relief Tablets.

Despite the above, Phynova remains loss making and has continued to rely on further shareholder equity to fund product development and ongoing trading losses. This has limited our ability to realise the Company's shareholding.

We understand that the management of Phynova plan to float on the AIM market by way of an Initial Public Offering ('IPO') and have selected advisors and accountants in this regard. Floatation should make the Company's shareholding more tradable and should allow us to obtain fair value for them.

There have been significant delays in the planned flotation which was most recently anticipated in the summer of 2018 following a pre-IPO rights issue which commenced in September 2017 with the aim of raising £5m. We understand that management have been unable to secure the full £5m funding and therefore the funding round is still yet to close. Management advise that they are currently meeting with potential investors to secure the residual funding requirement.

We continue to monitor the position and maintain discussions with Phynova's management. Currently, the Joint Liquidators consider that the most appropriate strategy remains to wait for the IPO which would allow for a sale of these shares at a value that would to significantly improve the return creditors from the liquidation.

Once we realise the Phynova shares we will be in a position to conclude the liquidation.

#### 2.2.2 Overage from Kirkbymoorside property

There was a potential upside from a subsequent sale of the Kirkbymoorside property. The time period for the overage expired on 27 November 2017 and as such there no longer remains a potential realisation.

### 3. Receipts and payments

A receipts and payments account for the period from 21 October 2015 to 20 October 2018 is attached at Appendix A. This does not reflect estimated future realisations or costs.

## **4. Outcome for creditors**

### **4.1 Secured Creditors**

#### **4.1.1 Barclays Bank plc**

At 21 October 2015, Barclays have received a total distribution of c£0.9m under their fixed charges on the properties leaving a shortfall of c£0.05m. Barclays have claimed as an unsecured creditor for this balance.

#### **4.1.2 Lloyds Banking Group**

Lloyds provided a confidential invoice discounting facility to the Company prior to our appointment and held fixed charge security over the debts.

As previously reported, the Company's liability to Lloyds has been extinguished.

### **4.2 Preferential Creditors**

As part of the sale of the business, all of Metalsmiths' employees and their associated liabilities transferred to the Purchaser under the TUPE regulations.

There are no preferential claims in the Liquidation.

### **4.3 Non-preferential Creditors**

Non-preferential unsecured creditor claims received to date total £10,088,177. There are further claims listed on the directors' Statement of affairs totalling £35,000 for which no claim has been submitted.

As reported previously, on 13 December 2016 an interim distribution of 3p in the £ was declared and subsequently paid on 10 February 2017. The total amount distributed was £297,987.

The Joint Liquidators anticipate paying a further final dividend on conclusion of the liquidation. The quantum and timing of this dividend will be dependent on the realisations, if any, from the Phynova investment.

### **4.4 The Prescribed Part**

No lender has a floating charge over the Company's assets. As a consequence, any uncharged assets after costs of the Liquidation will be available to the unsecured creditors. The Prescribed Part pursuant to section 176A of the Insolvency Act 1986 will therefore not apply.

## 5. Liquidators' remuneration and disbursements

### 5.1 Basis of the Joint Liquidators' remuneration

The Joint Liquidators' remuneration was approved by a resolution of the creditors of the Company on 6 April 2016, based on the sum of three separate elements as detailed below.

#### 5.1.1 Time cost fee

The Joint Liquidators' remuneration for statutory work, agreeing creditors' claims and distributing assets to creditors is based on the time properly spent by them and their staff at the rates set out in Appendix C subject to a 20% discount and a limit of £60,000.

#### 5.1.2 Realisation fee on Phynova shares

The Joint Liquidators' remuneration for realising the Company's shareholding in Phynova Limited be set at the following percentage of the amount realised:

- 10% of realisations up to £50,000; plus
- 15% of realisations between £50,001 and £100,000; plus
- 20% of realisations between £100,001 and £150,000; plus
- 40% of realisations of £150,001 and above.

#### 5.1.3 Realisation fee on Kirkbymoorside Property overage

The Liquidators' remuneration for realising income relating to the overage clause that was agreed by the former administrators when the Company's property at Kirkbymoorside was sold to Sylatech Limited be set at the following percentage of the amount realised:

- 10% of realisations up to £50,000; plus
- 15% of realisations between £50,001 and £100,000; plus
- 20% of realisations of £100,001 and above.

### 5.2 Update on Joint Liquidators' remuneration

During the period covered by this report, we have incurred time costs of £18,796 of which £Nil has been drawn.

Our time costs during the period covered by this report relate principally to the following matters:

- ▶ Monitoring the potential realisation from the minority shareholding in Phynova;
- ▶ Corporation tax and VAT returns; and
- ▶ Dealing with statutory reporting and compliance obligations.

Total time costs incurred in the liquidation to 20 October 2018 are £85,640 and, to date, the Joint Liquidators have drawn fees of £40,000.



Set out at Appendix B is an analysis of the time spent and charge out rates for each grade of staff for the various areas of work carried out as required by the Statement of Insolvency Practice No.9. A statement of the Joint Liquidators' policy on charging remuneration is included at Appendix C.

### 5.3 Disbursements

The creditors of the Company also approved the Joint Liquidators drawing of Category 2 disbursements.

The estimate of the Category 1 and 2 disbursements for the liquidation is £1,000.00 (plus VAT). To date, no Category 1 or 2 disbursements have been incurred. The Joint Liquidators' expenses are not expected to exceed the amount provided for.

Appendix C provides a statement of the Joint Liquidators' policy for charging Category 1 and 2 disbursements and an analysis of the Category 1 and 2 disbursements incurred and paid to date.

### 5.4 Payment to other professionals

The Joint Liquidators have engaged the following professional firms to assist them. They were chosen on the basis of their experience in similar assignments.

Name of firm	Nature of service	How contracted to be paid
Pinsent Masons	Legal advice in relation to realising the Company's minority interests and overage.	Time cost basis

The fees paid to each of these professionals to date are included in the receipts and payments account at Appendix A.

### 5.5 Creditors' right to request further information about, and challenge, remuneration and expenses

The statutory provisions relating to remuneration are set out in Chapter 4 of 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 Liquidators' 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/en/technical/insolvency/creditors-guides> or is available in hard copy upon written request to the Joint Liquidators.

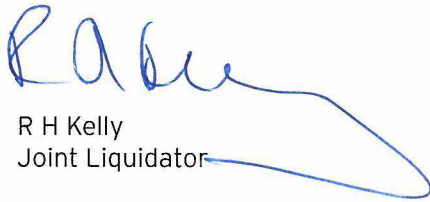
In certain circumstances, creditors are entitled to request further information about our remuneration or expenses, or to apply to court if they consider the costs to be excessive (Rules 18.9 and 18.34 of the Insolvency (England and Wales) Rules 2016). Further information is provided in 'A Creditors'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

## 6. Reporting

The next report will be delivered within two months from the next anniversary date being 20 October 2019, or at the conclusion of the Liquidation, whichever is sooner.

Should you wish to discuss any aspect of this report, please do not hesitate to contact John Louden on 0113 298 2315.

Yours faithfully  
for the Company



R H Kelly  
Joint Liquidator

Robert Hunter Kelly is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants of Scotland and Charles Graham John King is licensed in the United Kingdom to act as an insolvency practitioner 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 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](http://www.ey.com/uk/officeholderprivacy).

## Appendix A      Joint Liquidators' abstract of receipts and payments from 21 October 2015 to 20 October 2018

Micro-Metalsmiths Limited - In Creditors' Voluntary Liquidation  
Abstract of Receipts and Payments From 21 October 2015 to 20 October 2018

Statement of Affairs -

Estimated to realise values	To 20 October 2017	From 21 October 2017 to 20 October 2018	Cumulative Total
£	£	£	£
<b>RECEIPTS</b>			
n/a Administration surplus	504,632	-	504,632
n/a Rental income	20,314	-	20,314
n/a Deferred consideration	7,500	-	7,500
Property refund	3,646	-	3,646
Bank interest	735	292	1,026
<b>Total Receipts</b>	<b>536,826</b>	<b>292</b>	<b>537,118</b>
<b>PAYMENTS</b>			
Liquidators Fees	(40,000)	-	(40,000)
Corporation tax	(15,180)	(64)	(15,244)
Legal fees	(2,550)	-	(2,550)
Public Notices	(169)	-	(169)
Bank charges	(1)	(0)	(1)
Distribution to unsecured creditors	(297,987)	-	(297,987)
<b>Total Payments</b>	<b>(355,887)</b>	<b>(64)</b>	<b>(355,951)</b>
Cash at Bank	180,939	227	181,167
<b>Balances in Hand</b>	<b>180,939</b>	<b>227</b>	<b>181,167</b>

Notes:

1. Balances are stated net of VAT
2. The above does not reflect estimated future realisations or costs.

## Appendix B Summary of Joint Liquidators' time-costs from 21 October 2015 to 20 October 2018

Micro Metalsmiths Limited - in Creditors' Voluntary Liquidation  
 Summary of Joint Liquidators' time-costs for the period from 21 October 2017 to 20 October 2018 (and cumulative to date)

	Partner	Assistant Director	Manager	Executive	Assistants and Support	Total hours for the period	Total time cost for the period (£)	Average hourly rate for the period (£)	Cumulative time cost to date (£)
Accounting and administration	-	1.4	0.1	10.6	-	12.1	4,131	341	26,621
Bank and statutory reporting	1.0	1.9	-	4.0	1.5	8.4	3,418	407	10,341
Creditors	-	-	-	1.0	6.3	7.3	1,318	181	14,635
Investigations	-	-	-	-	-	-	-	-	557
Legal issues	-	-	-	-	-	-	-	-	238
Other assets	2.0	3.0	-	-	-	5.0	3,175	635	7,413
Property	-	-	-	-	-	-	-	-	660
Statutory duties	-	-	-	-	-	-	-	-	3,250
VAT and Taxation	-	3.0	-	6.2	14.5	23.7	6,754	285	21,928
<b>Total hours for the period</b>	<b>3.0</b>	<b>9.3</b>	<b>0.1</b>	<b>21.8</b>	<b>22.3</b>	<b>56.5</b>			
<b>Time costs for the period (£)</b>	<b>2,305</b>	<b>5,461</b>	<b>54</b>	<b>7,671</b>	<b>3,306</b>		<b>18,796</b>		
<b>Average hourly rate for the period (£)</b>	<b>768</b>	<b>587</b>	<b>535</b>	<b>352</b>	<b>148</b>			<b>333</b>	
<b>Cumulative time cost to date (£)</b>	<b>8,345</b>	<b>19,378</b>	<b>3,304</b>	<b>42,948</b>	<b>11,666</b>				<b>85,640</b>

Note: time is recorded in six minute intervals

## Appendix C Statement of Joint Liquidators' charging policy on remuneration and disbursements

### Office Holders' Charging Policy for Fees

The Joint Liquidators have engaged a manager and other staff to work on the cases. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by accounting and treasury executives dealing with the company's bank accounts and statutory compliance diaries. Work carried out by all staff is subject to the overall supervision of the Liquidators.

All time spent by staff working directly on case-related matters is charged to a separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rates for each category of staff over the period are shown in the table below, as are the current hourly rates used. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report. Time is recorded in units of six minutes.

#### Hourly rates

Grade Description	From 1 July	From 1 July	From 1 July	From 1 July	From 1 July	From 1
	2013	2014	2015	2016	2017	March 2018
	£	£	£	£	£	£
Partner	600	630	660	710	745	780
Executive Director	570	600	630	660	695	730
Director	430	450	475	500	595	625
Assistant Director	425	450	475	500	525	550
Senior Executive	335	350	370	390	410	430
Executive	240	250	265	280	295	325
Analyst	135 - 195	140 - 205	145 - 215	150 - 225	160 - 235	170 - 245
Accounting and Treasury Staff	120	125	130	135	140	145

### Office Holders' Charging Policy for Disbursements

Statement of Insolvency Practice No. 9 ("SIP 9") published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

Category 1 disbursements comprise payments made by the office holders' firm, which comprise specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent's assets without approval from the Committee. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment.

Category 2 disbursements comprise payments made by the office holders' firm which include elements of shared or overhead costs. Such disbursements are subject to approval from the creditors as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn.

## Appendix D Summary of Statutory Information

### Information about the Company and the Joint Liquidators

Company Name:	Micro- Metalsmiths Limited
Registered Office Address:	c/o Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR
Registered Number:	00786649
Date of appointment of the Joint Liquidators	21 October 2015
Details of any changes of liquidator	None
Full names of the Liquidators	Robert Hunter Kelly and Charles Graham John King
Office holder numbers	8582 and 8985
Liquidators' address	Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR
Telephone number	0113 298 2315
Name of alternative person to contact with enquiries about the case	John Louden