

## The Insolvency Act 1986

## Notice of Receiver's report

Pursuant to section 67(1) of the Insolvency Act 1986

**S67(1)**

Insert names of persons to whom notice is to be given under section 67(1)

To (a) the Registrar of Companies

For official use

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Company number

SC071477

Name of company

Insert name of company

Florence Clothiers (Scotland)

Limited

Insert name(s) and address(es) of receivers

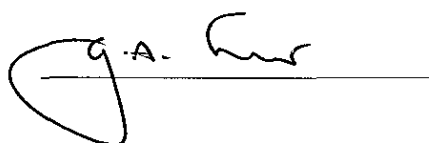
We, Blair Carnegie Nimmo

Gerard Anthony Friar

of KPMG Corporate Recovery  
24 Blythswood Square  
Glasgow G2 4QS  
United Kingdom

receivers of the company attach a copy of our report to creditors and a summary of the statement of affairs of the company.

Signed



Dated 28 April 2003

Presentor's name, address and reference (if any)

KPMG Corporate Recovery  
24 Blythswood Square  
Glasgow  
G2 4QS  
United Kingdom

For official use		
		
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COMPANIES HOUSE		01/05/03



**Florence Clothiers (Scotland) Limited  
Sports Connection Limited  
(Both in receivership)**

**Joint Receivers report to creditors  
pursuant to Section 67 of the  
Insolvency Act 1986**

**28 April 2003**

**KPMG Corporate Recovery**

*This report contains 6 pages*

*Appendices contain 6 pages*

## **1 Introduction**

### **1.1 Appointments**

In accordance with Section 67 of the Insolvency Act 1986 we, Blair C Nimmo and Gerard A Friar of KPMG, set out below our report to the creditors of Florence Clothiers (Scotland) Limited ("Florence") and Sports Connection Limited ("SC"). We were appointed Joint Receivers of both companies on 30 January 2003.

The appointment to Florence was under the terms of a floating charge in favour of National Westminster Bank PLC dated 27 May 1982 and registered on 15 June 1982.

The appointment to SC was under the terms of a floating charge in favour of National Westminster Bank PLC dated 27 October 1997 and registered on 29 October 1997.

### **1.2 Report to creditors**

A copy of this report will be presented before a meeting of the companies creditors to be held at 24 Blythswood Square, Glasgow, G2 4QS on Monday 28 April 2003 at 11:00am.

## **2 Background information**

### **2.1 Principal activities and group structure**

Florence was incorporated on 16 May 1980. Its principal activity was the sale of branded sports footwear and clothing targeted mainly at the leisure market. At the time of our appointment, Florence, which traded as "Sports Connection", operated from 43 shops situated in various parts of the United Kingdom with the majority being based in Scotland.

SC, which was incorporated on 12 February 1997, was the holding company which bought out one of the original shareholders in Florence. SC owns the entire share capital of Florence and also held the Sports Connection trade mark. SC did not trade as all trading was undertaken by Florence.

### **2.2 Financial information**

Summarised in Appendix 1 are Florence's audited accounts for the year to 27 August 2000 and the year to 26 August 2001. Also included are summary management accounts for the year to 31 August 2002 and management accounts for the four month period to 31 December 2002.

Summarised in Appendix 2 are SC's audited accounts for the year to 27 August 2000 and the year to 26 August 2001.

## **2.3 Statutory information**

Summarised in appendices 3 and 4 is the relevant statutory information for Florence and SC respectively.

## **3 Events leading up to the joint receivers appointments**

### **3.1 History**

The business was formed in the 1950's and originally traded as Army & Navy Stores selling army surplus gear, rugged outdoor wear and camping equipment. The Sports Connection trading style was established in 1986. It focused on sports leisurewear, primarily for 8-18 year olds, as the Army & Navy format was phased out. The establishment of the Sports Connection style facilitated a rapid growth of the business, particularly in the mid to late 1990's.

By the time of our appointments, the business had its headquarters at Hillington, Glasgow and traded from a total of 43 "high street" retail outlets in Scotland, northern England and Northern Ireland.

### **3.2 Recent developments**

After several years of rapid growth, particularly in the mid to late 1990's, the business struggled to compete in a changing and increasingly competitive retail environment. Turnover growth was being fuelled by new store openings, however, individual store sales began to decline and margins suffered as competitors increased their presence in Scotland and started to undercut sales prices.

In January 1998, the business moved its head office and warehouse to newly built leased premises in Hillington, Glasgow which were designed to support a business operating up to 100 stores. This capacity level was never achieved.

From early 2000, Sports Connection introduced a series of discounting promotions in an effort to increase sales. Although successfully generating additional sales, these generally proved to be at the expense of margin and profit. Following a period of continuing disappointing trading, a management review was instructed which, in December 2001, recommended major changes in the way the business operated. Amongst other things, the directors concluded that operating as a discount retailer was not sustainable in the longer term and that their overall strategy should focus on reverting to being a full price retailer selling wider ranges of major brand product, rationalising secondary branded product and introducing some more fashion type brands.

Following a disappointing Christmas period in 2001, the business was left with excess stocks which proved increasingly difficult to sell. A significant continuing overstocking problem led to the warehouse being closed to new stock deliveries for the month of September 2002 as attempts were made to clear stocks and generate cash.

Although a number of new management appointments had been made during 2002, by the latter part of the year the business was experiencing cash flow difficulties as available credit from certain suppliers was either reduced or withdrawn.

therefore set a revised closing date of 12 February 2003. Three offers were received at that stage following which we selected Original Shoe Company Limited ("OSC") as preferred bidder. After protracted discussions, we successfully secured a sale of part of the business (23 stores) and certain assets to OSC on 25 February 2003.

For reasons of commercial confidence, the purchase price cannot be disclosed at this time.

#### 4.3 Realisation of the other assets

We have sold the remaining equipment, office furniture and fittings located at Hillington and the closed stores and have ensured that the cash and credit card takings in transit at the date of our appointment were secured and traced into the receivership bank account.

The companies own a number of web site domain names which at this time remain unsold. Although there is likely to be limited demand for these, efforts will be made to attract interested parties.

### 5 Amounts payable to the floating chargeholders

#### 5.1 National Westminster Bank PLC

National Westminster Bank PLC holds standard securities and floating charges over the assets of Florence and SC.

The Bank's indebtedness as at the date of receivership, which is covered by cross guarantees between the two companies, amounted to £9,364,000 and is split as follows:-

**Figure 1: Bank debt**

	<b>Florence £000</b>	<b>SC £000</b>	<b>Total £000</b>
Current account	2,800	-	2,800
Term loan	-	6,564	6,564
	<hr/>	<hr/>	<hr/>
	2,800	6,564	9,364
	<hr/>	<hr/>	<hr/>

*Source: The Bank's formal claim*

It should be noted that interest continues to accrue on the Bank's debt.

## 5.2 Other floating chargeholders

3i Group plc and Paul B Stern hold second ranking bond and floating charges over the assets of both Florence and SC. These securities rank *pari passu* and *pro rata*.

At the date of receivership Paul B Stern's indebtedness in respect of loans made to SC<sup>1</sup> totalled c.£225,000 whilst 3i's indebtedness due by SC totalled c.£175,000.

## 6 Amounts payable to preferential creditors

SC, being a non-trading entity, is believed to have no preferential creditors.

Amounts due to the preferential creditors of Florence have been estimated by the joint receivers as follows:-

**Figure 2: Preferential creditors - Florence**

	£000
Inland Revenue – PAYE/NIC	124
HM Customs & Excise – VAT	424
Employees - arrears of wages	359
- holiday pay	150
Pension	9
	<hr/>
	1,066
	<hr/>

*Source: Florence's books and records*

Since our appointment, part of the employees preferential claims have been extinguished through ongoing trading and a further element has transferred to OSC under the sale agreement.

We are in the process of preparing final returns for submission to the relevant government departments based upon information contained in Florence's books and records.

## **7 Statement of affairs and amounts available to unsecured creditors**

### **7.1 Florence**

Attached at Appendix 5 is a summary of the directors formal statement of affairs in respect of Florence.

The directors' statement of affairs assumes full repayment to the preferential creditors and funds of c.£132,000 being available for the first ranking floating chargeholder. We would comment on the directors statement of affairs as follows:-

- there are substantial retention of title claims over stock, many of which will require to be settled. This will significantly reduce the recovery from stock;
- no provision has been made for the costs of realisation or the costs of receivership;
- inadequate provision has been made for the Bank's indebtedness under the cross guarantee arrangements also involving SC.

In summary, we consider there is likely to be a dividend to the preferential creditors, however, there is unlikely to be any recovery to the Bank under its floating charge. Accordingly, there is also unlikely to be any recovery to any other floating chargeholders. Unfortunately, there is no prospect of any return to the unsecured creditors.

### **7.2 SC**

Attached at Appendix 6 is a summary of the directors' estimated statement of affairs in respect of SC.

The directors have estimated that there will be no asset realisations in SC and accordingly there will be no return to any class of creditor. We would comment as follows:-

- inadequate provision has been made for the Bank's indebtedness under the cross guarantee arrangements also involving Florence;
- no provision has been made for the costs of receivership.

In summary, there is no prospect of any recovery to the unsecured creditors in SC.

## Appendix 1

### Florence Clothiers (Scotland) Limited (in receivership)

#### Summary financial information

	4 months to 31 Dec 02 Management £000	Year ended 31 Aug 02 Management £000	Year ended 26 Aug 01 Audited £000	Year ended 27 Aug 00 Audited £000
<b>Profit and loss account</b>				
Turnover	15,323	39,800	38,400	35,243
Gross profit	4,892	15,589	16,521	14,513
Operating profit/(loss)	(1,616)	(1,257)	1,501	570
Finance costs	(205)	(522)	(462)	(466)
Tax	-	-	(382)	(34)
Net profit/(loss)	(1,821)	(1,779)	657	70
<b>Balance sheet</b>				
Tangible fixed assets	2,804	2,962	3,569	3,471
Current assets	12,451	14,408	11,724	10,293
Current liabilities	(11,013)	(10,852)	(7,098)	(6,343)
Long term liabilities	(4,525)	(4,980)	(4,878)	(4,761)
Net assets/(liabilities)	(283)	1,538	3,317	2,660
<b>Financed by:</b>				
Share capital	44	44	44	44
Share premium account	1,582	1,582	1,582	1,582
Capital redemption reserve	35	35	35	35
Profit and loss account	(1,944)	(123)	1,656	999
	(283)	1,538	3,317	2,660

Source: Florence audited and management accounts and discussions with the directors.



## Appendix 2

### Sports Connection Limited (in receivership)

#### Balance sheet

	Year ended 26 Aug 01 audited £000	Year ended 27 Aug 00 audited £000
Tangible fixed assets	-	-
Goodwill and deferred assets	32,425	32,425
	<hr/>	<hr/>
	32,425	32,425
	<hr/>	<hr/>
Current assets	4,572	4,572
Current liabilities	(13,632)	(5,605)
	<hr/>	<hr/>
Net current assets/(current liabilities)	(9,060)	(1,033)
Long term liabilities	(3,721)	(11,675)
	<hr/>	<hr/>
	19,644	19,717
	<hr/>	<hr/>
<i>Financed by:</i>		
Share capital	40	40
Preference shares	-	-
Share premium account	20,469	20,469
Profit and loss account	(865)	(792)
	<hr/>	<hr/>
	19,644	19,717
	<hr/>	<hr/>

### Appendix 3

#### Florence Clothiers (Scotland) Limited (in receivership)

##### Statutory information

Company number: SC071477.

Date of incorporation: 16 May 1980.

Registered office: KPMG, 24 Blythswood Square, Glasgow (formerly 1 Jubilee Court, Montrose Avenue, Hillington Industrial Estate, Glasgow, G52 4LB).

Nature of business: Retailers of leisure clothing and footwear.

##### Directors from 1 January 2002:

Director	Appointed	Resigned
Paul Benjamin Stern	7 December 1988	-
Kenneth Kyle McCarthy	27 June 2000	-
John Gibson Clarke	25 April 2002	-
Alexander Gardner Ross	1998	25 January 2002

Company secretary: Mervin Maurice Lovat, appointed on 27 January 1999.

Shareholders: Sports Connection Limited hold the shares as set out below:

	£000
35,000 ordinary shares of £1 each	35
4,700 "A" ordinary shares of £1 each	5
405,000 "A" ordinary shares of 1p each	4
	<hr/>
	44
	<hr/>

Auditors: PricewaterhouseCoopers.

Source: Companies House

## Appendix 4

### Sports Connection Limited (in receivership)

#### Statutory information

Company number: SC172250.

Date of incorporation: 12 February 1997.

Registered office: KPMG, 24 Blythswood Square, Glasgow, (formerly 1 Jubilee Court, Montrose Avenue, Hillington Industrial Estate, Glasgow, G52 4LB).

Nature of business: Clothing retailers

Directors from 1 January 2002:

Director	Appointed	Resigned
Paul Benjamin Stern	15 October 1997	-
Kenneth Kyle McCarthy	27 June 2000	-
John Gibson Clarke	25 April 2002	-
Simon Bentley	26 September 2002	-
Peter John Kirkham Sheffield	24 February 1999	25 April 2002
Arthur Alexander Watt	9 November 1998	8 March 2002
Alexander Gardner Ross	27 October 1997	25 January 2002

Company secretary: Mervin Maurice Lovat, appointed on 27 January 1999

Shareholders: The shareholders as at 30 January 2003 are set out below:

	Ordinary shares of £1	Ordinary A shares of £1	Ordinary B shares of £1	Preference shares of £1
Paul Stern	23,290	-	-	-
3i Group plc	-	16,965	-	4,500,000
West Register (Investments) Ltd	-	-	17,252	-
	<hr/>	<hr/>	<hr/>	<hr/>
	23,290	16,965	17,252	4,500,000
	<hr/>	<hr/>	<hr/>	<hr/>

Auditors: PricewaterhouseCoopers

Source: Companies House

## Appendix 5

### Florence Clothiers (Scotland) Limited (in receivership)

#### Summary of the directors' estimated statement of affairs as at 30 January 2003

	Book value £000	Estimated to realise £000	£000
<b>Assets specifically secured</b>			
Freehold property	35	35	
Less: Due to National Westminster Bank	(2,823)	(2,823)	
Shortfall taken to floating charge	(2,788)	(2,788)	-
<b>Assets subject to floating charge</b>			
Leasehold property	328	10	
Plant and motor vehicles	383	50	
Furniture and fittings	1,996	90	
Debtors	39	35	
Stock	3,217	900	
Investments	9	-	
Cash in hand	20	18	
Loans and advances	1,459	3	
Available for preferential creditors	7,451		1,106
<b>Preferential creditors</b>			
Inland Revenue – PAYE/NIC		(136)	
HM Customs and Excise – VAT		(342)	
Employee claims - Arrears of pay		(337)	
- Holiday pay		(150)	
- Pension costs		(9)	
			(974)
Surplus as regards preferential creditors	c/f		132

	Book value £000	Estimated to realise £000	£000
Surplus as regards preferential creditors	B/f		132
<b>Floating charge creditor</b>			
National Westminster Bank			(2,788)
(Deficiency) as regards floating charge creditor			<hr/> (2,656)
<b>Unsecured creditors</b>			
Trade creditors		(5,645)	
Employee claims		(100)	
		<hr/>	<hr/> (5,745)
(Deficiency) as regards unsecured creditors			<hr/> (8,401)
<b>Share capital</b>			
Issued and called up share capital			<hr/> (44)
(Deficiency) as regards members			<hr/> (8,445) <hr/>

**Note:**

The statement of affairs does not reflect the cross guarantees held by the floating chargeholders over the assets of SC.