

The Insolvency Act 1986

Administrator's progress report

Pursuant to Rule 2.38 of the Insolvency (Scotland) Rules 1986

Name of Company

Dawson International PLC

Company number

SC54505

(a) Insert full name(s)
and address(es) of
administrator(s)

I / We (a) Blair Carnegie Nimmo and Gary Steven Fraser
c/o KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG

administrator(s) of the above company attach a progress report for the period

(b) Insert dates

from

(b) 15 February 2013

to

(b) 14 August 2013

Signed

Joint Administrator

Dated 19/9/13

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

	Tel
DX Number	DX Exchange

When you have completed and signed this form please send it to the Registrar of Companies at:
Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF
DX 235 Edinburgh / LP 4 Edinburgh-2



S2HKQVVM

SCT

24/09/2013

#605

COMPANIES HOUSE

TUESDAY



Dawson International PLC
(in administration)

Joint Administrators' progress report to creditors
pursuant to Rule 2.38 of the Insolvency (Scotland)

Rules 1986

14 August 2013

KPMG LLP
10 September 2013



*Dawson International PLC (in administration)
Joint Administrators' progress report to creditors pursuant to
Rule 2.38 of the Insolvency (Scotland) Rules 1986
14 August 2013
KPMG LLP*

Notice: About this Report

This Report has been prepared by Blair Carnegie Nimmo and Gary Steven Fraser, the Joint Administrators of Dawson International PLC solely to comply with their statutory duty to report to creditors under the Insolvency (Scotland) Rules 1986 on the progress of the administration, and for no other purpose. It is not suitable to be relied upon by any other person, or for any other purpose, or in any other context.

This Report has not been prepared in contemplation of it being used, and is not suitable to be used, to inform any investment decision in relation to the debt of or any financial interest in Dawson International PLC.

Any estimated outcomes for creditors included in this Report are illustrative only and cannot be relied upon as guidance as to the actual outcomes for creditors.

Any person that chooses to rely on this Report for any purpose or in any context other than under the Insolvency Rules 1986 does so at its own risk. To the fullest extent permitted by law, the Joint Administrators do not assume any responsibility and will not accept any liability in respect of this Report to any such person.

Blair Carnegie Nimmo and Gary Steven Fraser are authorised to act as insolvency practitioners by the Institute of Chartered Accountants of Scotland. The Joint Administrators act as agents for Dawson International PLC and contract without personal liability.

The appointments of the Joint Administrators are personal to them and, to the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability to any person in respect of this Report or the conduct of the administration.



Glossary	3
1 Introduction	4
2 Progress of the administration	4
3 Amounts payable to secured creditors, preferential creditors and the floating charge holder	7
4 Prescribed part of the company's net property pursuant to Section 176A of the Insolvency Act 1986	7
5 Dividend prospects for creditors	7
6 Creditors' meeting	8
7 Joint Administrators' remuneration	8
8 Extension to the period of appointment	9
9 Other matters	9

Appendices

1	Statutory and other information
2	Summary of receipts and payments
3	Joint Administrators' time cost analysis



Glossary

Act	The Insolvency Act 1986 (as amended)
Court	Court of Session
DCLLC	Dawson Cashmere LLC
DIHL	Dawson International Holdings (UK) Limited
DIKI	Dawson International Investments (Kinross) Inc
DIPLC	Dawson International PLC
DITL	Dawson International Trading Limited
GECF	GE Capital Commercial Finance Limited
GMAC	GMAC Commercial Finance PLC
Group	Dawson International Group comprising Dawson International PLC and its subsidiaries
JDAG	Joseph Dawson AG
Joint Administrators	Blair Carnegie Nimmo and Gary Steven Fraser of KPMG LLP
PPF	Pension Protection Fund
Rules	The Insolvency (Scotland) Rules 1986 (as amended)
Staff Scheme	Dawson International Staff Retirement Benefit Plan
SIP 9	Statement of Insolvency Practice 9 (Scotland) ("Payments to Insolvency Office Holders and their Associates")
SSL	Sport in Scotland Limited
tPR	The Pensions Regulator
TUPE	Transfer of Undertakings (Protection of Employment) Regulations
Vantona	Vantona Limited
Works Scheme	Dawson International Retirement Benefit Scheme



1 Introduction

As previously reported, Blair Carnegie Nimmo and Gary Steven Fraser, both of KPMG LLP, were appointed Joint Administrators of Dawson International PLC on 15 August 2012.

Notification of the appointment was lodged at the Court of Session in Edinburgh on the same day as the appointment was made.

In accordance with Paragraph 100(2) of Schedule B1 of the Act the functions of the Joint Administrators may be exercised by either or both of the Joint Administrators.

Further to the Joint Administrators' report and proposals dated 14 July 2013, and in accordance with Rule 2.38 of the Rules, we set out below our second six monthly progress report for DIPLC. This report provides an update on the progress of the administration since our appointment and covers the period from 15 February 2013 to 14 August 2013.

Additional statutory information is set out in Appendix 1.

2 Progress of the administration

2.1 Receipts and payments account

An analysis of receipts and payments for the period 15 February 2013 to 14 August 2013 is attached at Appendix 2. This shows funds in hand totalling £3,538,999.

2.2 Sale of business

At the date of administration the Group comprised two businesses based in the UK and US, and a small central administrative function.

The UK business comprised Barrie, which was a trading division of DITL. Barrie manufactured high quality cashmere garments, which were sold to customers worldwide.

The US business comprises DCLLC trading as Dawson Forte, which is a cashmere business based in Boston, Massachusetts. Dawson Forte sources cashmere garments from Chinese manufacturers and supplies them to US retailers.

Barrie

As previously reported, the sale of the business and assets of Barrie to Sport in Scotland Ltd was completed on 16 October 2012. The total consideration was approximately £4.5 million as shown at Figure 1 below.



Figure 1: Apportionment of consideration

Asset	DIHL £000	DITL £000
Freehold property	395	-
Trademarks	90	-
Plant & Equipment	-	404
Goodwill	-	400
Stock	-	974
Pre-administration debtors	-	713
Post-administration debtors	-	1,538
Total	485	4,030

Source: Joint Administrators records

DIHL is a wholly owned subsidiary of DIPLC and DITL is a wholly owned subsidiary of DIHL. Due to the shortfalls to creditors in DIHL and DITL there will be no recovery by DIPLC in respect of its investment in DIHL or its indirect investment in DITL. However, the Directors' Statements of Affairs for DIPLC and DITL show an inter-company loan of approximately £4.1 million due by DITL to DIPLC. DIPLC will therefore rank as an unsecured creditor in the administration of DITL and receive a dividend. The level of dividend available to unsecured creditors in DITL is unclear at present.

Dawson Forte

DIKI, a wholly owned subsidiary of DIPLC, is the holding company for the Group's US operations, which includes DCLLC which owns the Dawson Forte business. DCLLC is not in administration and continues to trade under the control of its management team in the US. DCLLC has separate banking facilities with Bank of America and continues to retain the support of its employees, customers and suppliers.

Since our appointment the US management team has undertaken further work to investigate certain legacy US pensions and environmental liabilities within DIKI and to consider the strategy for dealing with the Dawson Forte business. The US management team has formally engaged KPMG US to assist them in running a sale process for DCLLC. The alternative of selling DIPLC's entire US sub-group is considered unattractive due to the uncertainties that exist around the level of legacy pension and environmental liabilities within DIKI.

The proceeds from a sale of DCLLC would first of all flow to DIKI. It is possible that DIKI would then be subject to a formal insolvency process in the US, with its assets being distributed to its creditors. DIKI's creditors include an inter-company balance of approximately \$1.5 million due to DIPLC.

The potential value of DIPLC's indirect investment in Dawson Forte is unclear at present and will depend upon a number of factors including, *inter-alia*:

- the underlying value of the Dawson Forte business;

- achieving a successful sale of the Dawson Forte business and assets (or DIIKI's shareholding in DCLLC);
- the costs of the sales process, including legal and professional fees;
- the quantum of the legacy US pension and environmental liabilities within DIIKI and any other liabilities, which could be significant;
- DIPLC's ability to rank as an unsecured creditor in an insolvency of DIIKI in respect of the inter-company debt;
- any taxation issues.

We will continue to monitor the sale process and liaise with KPMG USA in order to ensure value is received by DIPLC.

2.3 Realisation of other assets

Investment – King Deer

DIPLC has an investment in a cashmere producer in Mongolia. The investment was originally acquired for strategic reasons to secure a supply of cashmere fibre for the Group's former yarn spinning division. The investment comprises an equity holding in King Deer which was purchased in January 2013 for £2.9 million but which has been fully provided in DIPLC's accounts. We have engaged our colleagues in KPMG China to assist us with this matter and provide local support and oversight in China and they are currently in discussions with King Deer's management about realising the investment. The value of DIPLC's investment and the timescales to realise it are uncertain.

Investment – Joseph Dawson AG

DIPLC had a dormant subsidiary in Switzerland, Joseph Dawson AG. Following our appointment we discovered a bank account in the name of JDAG with a balance of approximately £46,000. In conjunction with JDAG's directors we took steps to place JDAG in liquidation so that the funds can be distributed to DIPLC. JDAG's liquidator has advised that the liquidation is now substantially complete and that the funds net of the costs of the liquidation process in Switzerland can shortly be distributed to DIPLC. It is estimated that DIPLC will recover approximately £24,000.

VAT Flemings claim

Following the release of the House of Lords judgement in *Fleming/Conde Nast* in 2008, HMRC implemented a transitional period of accounting to which taxpayers were invited to submit retrospective claims for overpaid output VAT and under claimed input VAT. DIPLC has claimed for under claimed input VAT in respect of pension administration costs for the tax period between 1973 and 1982 which DIPLC is entitled to in its capacity as employer. HMRC rejected the claim and the claim is now subject to litigation in the First Tier Tax Tribunal. The value of the claim for the pre 1982 period is approximately £270,000 (£88,062 plus statutory interest). KPMG Indirect Tax were engaged by DIPLC prior to the administration and continue to deal with this matter.

KPMG Indirect Tax are currently preparing a letter to HMRC to challenge HMRC's refusal of DIPLC's claim. They are also preparing a witness statement as supporting evidence in relation to the arguments that they are relying on in the letter. The letter and witness statement are in the final stages of preparation but the content needs to be confirmed by previous DIPLC employees before they can be submitted to HMRC.

3 Amounts payable to secured creditors, preferential creditors and the floating charge holder

3.1 Preferential creditors

DIPLC's preferential creditors have been estimated as follows:

Figure 1: Preferential creditors

	£000
Employees – arrears of salary/wages	-
Employees – accrued holiday pay	-
Employees – pension	1
	<hr/>
	1
	<hr/>

Source: Company records and Administrators' estimates

DIPLC's preferential creditors will be paid in full.

Arrears of wages and salaries totalling £67,000 were paid during the initial stages of the administration in order to retain the support of employees.

3.2 Floating charge

No floating charges have been granted. DIPLC had provided a cross-guarantee to GECF for the invoice discounting agreement GECF had in place with DITL. The facility was in credit at the date of administration and GECF has no claim against DIPLC.

4 Prescribed part of the company's net property pursuant to Section 176A of the Insolvency Act 1986

Where a company has granted a floating charge after 15 September 2003, Section 176A of the Act provides that a percentage share of realisations from net floating charge assets is set aside for unsecured creditors, subject to certain exceptions.

As no floating charge has been granted section 176A of the Act is not applicable.

5 Dividend prospects for creditors

A dividend will be paid to creditors.

The dividend amount will depend upon the remaining asset realisations (principally the inter-company balance with DIKI, DIPLC's investment in King Deer and any recoveries in respect of the VAT Flemings claim), together with the overall quantum of creditors' claims.

As previously reported, the Group operated two defined benefit pension schemes, the Staff Scheme and the Works Scheme. The scheme actuaries served contributions notices on DIPLC and DITL for £129 million, the full buy out deficit. The Schemes are currently in an assessment period following which it is likely that the schemes will transfer to the PPF. The quantum of the PPF's claim in the administration is likely to be significant and will therefore dilute the overall level of dividend available to unsecured creditors.

It should be noted that the total unsecured creditors' claims, including the PPF claim, will exceed the level of total asset realisations in DIPLC and therefore there is no prospect of a return to DIPLC's shareholders.

6 Creditors' meeting

In accordance with paragraph 51 of schedule B1 to the Act, a meeting of creditors was held at 11.00pm on 22 October 2012 at KPMG, Saltire Court, Castle Terrace, Edinburgh, EH1 2EG.

At the meeting the Joint Administrators' proposals were amended and approved.

7 Joint Administrators' remuneration

To date, the Joint Administrators have drawn remuneration to account totalling £125,000 in respect of the period from 15 August 2012 to 14 February 2013 as approved by DIPLC's creditors.

In the period from 15 February 2013 to 14 August 2013, further time costs of £44,889 have been incurred by the Joint Administrators.

The Joint Administrators' Proposals, as set out in our report to creditors dated 4 October 2012, pursuant to Paragraph 49 of Schedule B1 of the Act were presented to, amended and approved at the first meeting of creditors held on 22 October 2012.

Part of this approval was that the Joint Administrators' remuneration would be based upon time costs properly incurred at KPMG LLP charge our rates determined in accordance with Rule 2.39 of the Rules and that the Joint Administrators would be authorised to draw fees on account from the assets of DIPLC together with disbursements.

A full analysis of these costs, prepared in accordance with the provisions of SIP 9, is attached at Appendix 3. The key areas in which the Joint Administrators' costs have been necessarily incurred include the following:

- Liaising with King Deer's management and KPMG Advisory (China) Limited in relation to DIPLC's investment in King Deer.
- Liaising with the US directors of DIIKI and DCLLC and KPMG US to realise value from DIPLC's investment in Dawson Forte and/or inter-company balances.
- Liaising with KPMG Indirect Tax to progress the VAT Flemings' claim that DIPLC had instigated prior to the administration.



- Corresponding with the liquidator of DIPLC's subsidiary, Joseph Dawson AG ("JDAG") in Switzerland regarding the repatriation of surplus cash balances to DIPLC.
- Dealing with creditor and shareholder queries.
- Reporting to creditors.
- Attending to all statutory and administrative duties that are associated with this type of insolvency, including preparation of submission of VAT returns to HMRC.

8 Extension to the period of appointment

Ordinarily, our appointment as Joint Administrators would automatically cease at the end of the period of one year beginning with the date on which it took effect pursuant to Paragraph 76(1) of Schedule B1 to the Insolvency Act 1986.

Due to the outstanding issues in the administration, we applied to the Court for a 12 month extension.

DIPLC's creditors were informed of our intention apply to Court to seek an extension to our period of appointment in our previous progress report dated 26 March 2013, and no objections were received.

The Court has ordered that the Joint Administrators' term of office is extended by 12 months until 14 August 2014.

It is likely that DIPLC will be dissolved following the conclusion of the administration.

9 Other matters

A number of issues still require to be dealt with in the Administration. These include, *inter alia*:

- Working with KPMG Advisory (China) Limited to realise value from DIPLC's investment in King Deer;
- Working with the US directors and management team of DIUKI and DCLLC and KPMG US to realise value from the Group's US operations and/or recover balances due from DIPLC's US subsidiaries;
- Liaising with KPMG Indirect Tax to progress the VAT Flemings' claim;
- Liaising with the liquidator of JDAG to recover any surplus funds due to DIPLC;
- Agreeing inter-company accounts and submitting DIPLC's claim in the administration of DITL;
- Preparing and submitting VAT and Corporation Tax returns to HMRC;
- Adjudicating on creditors' claims, including the PPF's claims, and paying a dividend to creditors;
- Attending to all other statutory and administrative matters.



*Dawson International PLC (in administration)
Joint Administrators' progress report to creditors pursuant to
Rule 2.38 of the Insolvency (Scotland) Rules 1986
14 August 2013
KPMG LLP*

We will endeavour to finalise the outstanding matters in the Administration as quickly as possible.

Blair Nimmo
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Gary Fraser
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

10 September 2013



Appendix 1

Statutory and other information

EC Regulation

This administration is a main proceeding under the EC Regulation on Insolvency Proceedings. Article 3 of the EC Regulation defines main proceedings and DIPLC is registered in Scotland, has its main centre of interest in Scotland and does not fall within one of the excepted categories. Consequently, the administration is governed by the Act and not any other European Union Member State's insolvency law.

Relevant court

Notice of the appointment by directors was lodged at the Court of Session on 15 August 2012.

Incorporation

DIPLC was incorporated on 15 November 1973.

Company number

DIPLC's company number is SC054505

Registered office and trading address

DIPLC's registered office at the date of administration was situated at:

Burnfoot Industrial Estate
Hawick
TD9 8RJ

As part of the administration process, the registered office has been changed to:

c/o KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

DIPLC traded from premises at:

Burnfoot Industrial Estate
Hawick
TD9 8RJ

The premises were owned by DIHL.



DIPLC's previous registered office was:

Lochleven Mills
Kinross
KY13 8GL

Directors

The directors at the date of our appointment were:

James Kemp Carrie	Appointed 8 August 2011 Resigned 19 October 2012
David Gordon Cooper	Appointed 1 January 2002
David John Bolton	Appointed 29 July 2008

Other directors during the three years prior to the date of our appointment were:

Andrew Dwayne Bartmess	Appointed 15 February 2006 Resigned 30 September 2010
Giovanni Corino Ghione	Appointed 1 February 2010 Resigned 2 August 2011
Jan Gustaf Lennart Holmstrom	Appointed 29 July 2008 Resigned 20 July 2012

Company secretary

DIPLC's secretary at the date of our appointment was David Gordon Cooper.

Share capital

DIPLC's authorised share capital is:

2,526,207,225 Ordinary Shares of 1p each

101,505,975 deferred shares of 49p each

50,000,000 preference shares of £1 each

75,000,000 preference shares of \$1 each

DIPLC's issued and called up share capital is:

225,158,542 Ordinary Share 1p each.

101,505,975 deferred shares of 49p each.



Dawson International PLC (in administration)
Joint Administrators' progress report to creditors pursuant to
Rule 2.38 of the Insolvency (Scotland) Rules 1986
14 August 2013
KPMG LLP

Auditors

DIPLC's auditors were:

Deloitte LLP, 2 Hardman Street, Manchester, M60 2AT



Dawson International PLC (in administration)
Joint Administrators' progress report to creditors pursuant to
Rule 2.38 of the Insolvency (Scotland) Rules 1986
14 August 2013
KPMG LLP

Appendix 2

Summary of receipts and payments

Dawson International PLC
(In Administration)

Administrators' Abstract Of Receipts And Payments

	Statement of affairs £	From 15/02/2013 To 14/08/2013 £	From 15/08/2012 To 14/08/2013 £
RECEIPTS			
Future contract realisations	94,000.00	0.00	93,750.00
Investment - King Deer	1,000,000.00	0.00	0.00
Inter-co - Dawson International Trading	125,000.00	0.00	0.00
Cash at bank	3,679,000.00	0.00	3,678,809.24
Bank interest, gross		29,429.98	33,895.64
Sundry refunds		1,911.08	4,088.88
Suspense		15,797.16	33,737.77
Statutory compliance		0.00	208.95
Floating ch. VAT rec'able		28,111.66	31,926.97
Floating ch. VAT payable		0.00	221.25
Floating ch. VAT control		4.00	16,099.29
		<u>75,253.88</u>	<u>3,892,737.99</u>
PAYMENTS			
Direct labour		0.00	66,941.95
IT expenses		0.00	13.97
Travel and staff expenses		2,996.00	4,062.57
Sundry expenses		0.00	362.77
Environmental Expenses		987.70	987.70
Suspense		15,754.06	33,737.77
RNS fees		0.00	150.00
Books and Records costs		2,880.00	2,880.00
Administrators' fees		125,000.00	125,000.00
Agents'/Valuers' fees		8,613.50	15,461.50
Agents'/Valuers' fees (2)		32.00	91.50
Legal fees		2,500.00	13,456.88
Legal fees (2)		0.00	316.00
Telephone/Telex/Fax		76.30	76.30
Statutory advertising		15.00	1,122.59
Other property expenses		0.00	15.00
Bank charges		0.00	25.00
Statutory compliance		0.00	208.95
Employees' wage arrears	(3,200.00)	0.00	3,200.00
Employees' holiday pay	(25,000.00)	0.00	0.00
Conts. to pension schemes	(40,000.00)	0.00	0.00
Employees		0.00	8,971.45
King Deer	(311,000.00)	0.00	0.00
Pension scheme	(11,300,000.00)	0.00	0.00
Joseph Dawson AG	(1,058,000.00)	0.00	0.00
Inter-co Dawson International Holdings	(18,000.00)	0.00	0.00
Floating ch. VAT rec'able		28,413.17	32,228.47
Floating ch. VAT payable		0.00	221.25
Floating ch. VAT control		43,952.63	44,206.95

Dawson International PLC
(In Administration)

Administrators' Abstract Of Receipts And Payments

	Statement of affairs £	From 15/02/2013 To 14/08/2013 £	From 15/08/2012 To 14/08/2013 £
		231,220.36	353,738.57
BALANCE - 14 August 2013		<u>(155,966.48)</u>	<u>3,538,999.42</u>
MADE UP AS FOLLOWS			
Floating charge current		3,202,011.78	3,538,999.42
Fixed term deposit		(3,356,560.01)	0.00
DITL intercompany		(3,057.93)	0.00
DIHL intercompany		1,639.68	0.00
		<u>(155,966.48)</u>	<u>3,538,999.42</u>



Dawson International PLC (in administration)
Joint Administrators' progress report to creditors pursuant to
Rule 2.38 of the Insolvency (Scotland) Rules 1986
14 August 2013
KPMG LLP

Appendix 3

Joint Administrators' time costs analysis

Dawson International PLC (in administration)
Joint administrators remuneration

15/02/2013 to 14/03/2013

	Partner / Director	Manager	Administrator	Support	Total hours	Time cost	Average hourly rate
Trading							
Pre-appointment tax & VAT refunds		1.00			1.00	£450.00	£450.00
Cashiering							
General (Cashiering)			4.20	1.00	5.20	£989.50	£190.29
Reconciliations (& IPS accounting reviews)			3.30		3.30	£825.00	£250.00
Employees							
Correspondence			1.30		1.30	£325.00	£250.00
Pension funds	0.10				0.10	£48.50	£485.00
Pensions reviews			0.10		0.10	£18.50	£185.00
Tax							
Post appointment VAT		3.70	12.50		16.20	£4,566.00	£281.85
Trading							
Purchases and trading costs			0.90		0.90	£166.50	£185.00
Administration & planning							
General							
Books and records		10.60	7.70		18.30	£5,765.50	£315.05
Fees and WIP			0.20		0.20	£50.00	£250.00
Statutory and compliance							
Appointment and related formalities		2.00	8.20		10.20	£2,560.00	£250.98
Checklist & reviews			1.20		1.20	£300.00	£250.00
Strategy documents		0.60			0.60	£270.00	£450.00
Creditors							
Creditors and claims							
General correspondence			28.80	1.10	29.90	£7,034.00	£235.25
Statutory reports	8.20	5.20	11.60	2.50	27.50	£9,853.50	£358.31
Investigation							
Directors							
D form drafting and submission	0.80		1.60		2.40	£788.00	£328.33
Investigations							
Mail redirection			1.00		1.00	£185.00	£185.00
Realisation of assets							
Asset Realisation							
Cash and investments	3.50	7.75	25.10		36.35	£10,559.00	£290.48
Open cover insurance		0.30			0.30	£135.00	£450.00
Total in period					156.05	£44,889.00	£287.66