



**CORPORATE
RESTRUCTURING**

Our ref: PDW/AMC/BJH/FZT/TOS/LGU010/970069

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TO THE SHAREHOLDERS

When telephoning please ask for:
Ben Henshilwood

email:
bhenshilwood@mcr.uk.com

Direct Line:
020 7535 1185

20 August 2010

Dear Sirs

Legion Group plc and Legion FM Limited (Both in Administration) ("the Companies")

I refer to my appointment as Joint Administrator of the Companies, together with my partners, Paul Clark and John Whitfield. Please find enclosed a notice of the appointment and the Statement of Insolvency Practice 16 ("SIP16") for your information.

As you are aware, the trading of the shares of Legion Group plc (In Administration) ("Group") were suspended from the Alternative Investment Market Exchange on 28 July 2010, owing to uncertainty regarding the financial viability of Group as a going concern and its pending sale. Subsequently, Joint Administrators were appointed on 6 August 2010, and the Companies' business and certain assets were sold to OCS Group UK Limited ("OCS").

Please note that returns to the Companies' creditors will be subject to quantification of the secured and non-preferential unsecured creditor claims. I confirm that the Companies' shareholders rank after the Companies' non-preferential unsecured creditors and will only receive a distribution if the non-preferential creditors are paid in full.

I confirm that there are insufficient realisable assets to enable a dividend to be made to non-preferential unsecured creditors in full, and accordingly there will be no dividend to shareholders.

Should you have any queries, please contact Ben Henshilwood of this office.

Yours sincerely
For and on behalf of
Legion Group plc
Legion FM Limited

Paul Williams
Joint Administrator

Enc.

The affairs, business and property of the Companies are being managed by the Joint Administrators, Paul Williams, Paul Clark and John Whitfield, who act as agents for the Companies and without personal liability. The Joint Administrators are licensed by the Insolvency Practitioners Association.

The Insolvency Act 1986

Notice of administrator's appointment

Name of Company Legion Group plc

Company number 03553625

In the High Court of Justice, Chancery division, Birmingham District Registry.

For court use only 8373 of 2010

We Paul David Williams and Paul John Clark
MCR
43-45 Portman Square
London
W1H 6LY

And

John Neville Whitfield
MCR
35 Newhall Street
Birmingham
B3 3PU

give notice that we were appointed as Joint Administrators of the above company on:

(b) Insert date

(b) 6 August 2010

Signed 

Dated 9/8/2010

Joint Administrators IP Nos. 9294, 8570 and 9131

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 searches of the public record.

MCR
43-45 Portman Square
London
W1H 6LY

Tel: 020 7487 7240

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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

Appendix 1

Legion Group plc & Legion FM Limited (Both In Administration) (together "the Companies")

Overview

The purpose of this document is to provide creditors with detailed information on the steps and considerations taken by MCR, the Administrators and/or the Directors of the Companies to value, market and sell the business and certain assets of the Companies in a relatively short time period.

1. Background information

The following information is provided by the Directors of the Companies. In so far as events pre-date MCR / the Joint Administrators engagement, MCR / the Joint Administrators are not able to confirm their accuracy.

The Companies primary activities were the provision of security services. The Legion brand was widely recognised in the industry and was considered to be one of the UK's longest established providers of security and parking services.

Operating from head offices in Hertfordshire and with regional offices in Manchester, Solihull, Preston, Eastleigh and South Wales, the Companies employed approximately 2,800 members of staff.

In March 2009, SectorGuard plc acquired Legion Group plc. In the preceding months prior to the acquisition and during the due diligence, the Directors of SectorGuard plc met with HM Revenue & Customs ("HMRC") to discuss a time to pay arrangement for the outstanding debt of Legion Group plc. Discussions took place regarding the quantum of the debt and the agreed liability which would be taken on by SectorGuard plc on the completion of the sale.

Following the acquisition, SectorGuard plc changed its name to Legion Group plc. The former Legion Group plc (Company number 03611290) changed its name to Legion FM Limited.

Shortly thereafter, an audit of Legion FM Limited resulted in the discovery of an increased tax liability relating to the period prior to its acquisition. The Joint Administrators are advised that the total liability to HMRC had increased from an initial figure of between £1.5 million and £2.3 million to a revised figure of £3.4 million. It is understood that despite the due diligence, the SectorGuard plc Directors were unaware of this increased liability prior to acquisition. This impacted on the working capital demands on the business.

In May 2010, following a short term cash flow requirement for the April 2010 payroll, an emergency loan from two private investors totalling £0.8 million was provided to the Companies to enable them to continue to trade.

Prior to this, the Companies had engaged PricewaterhouseCoopers to correspond with HMRC regarding the unascertained quantum of the debt and the provision of a new time to pay agreement. Unfortunately, the quantum of the debt due and any terms of a time to pay arrangement could not be agreed.

The Directors followed a strategy of an accelerated sale of the business and assets of the Companies to improve, where possible, the creditor position and obtain continuous employment for 2,800 members of staff. The Joint Administrators were advised that this strategy was conducted with the knowledge of HMRC, with whom regular contact was made.

The Companies' Directors commenced marketing the business and assets of the Companies in early May 2010 to certain competitors on a confidential basis. Marketing of the business and assets was accelerated by the appointment of an independent broker who produced and circulated an Information Memorandum to a targeted group of potentially interested parties. Both the Companies' bankers and HMRC were informed of the sales strategy. The sales process resulted in the receipt of three offers for the business and assets of the Companies.

Based on the three offers received, two offers were substantially higher than the other offer. The Directors provided this lower party with an opportunity to increase their offer, however, they chose to withdraw from the sale process.

In July 2010, the Directors advise us that the Companies paid HMRC c£1 million in respect of PAYE liabilities for the month of June 2010. We understand that this payment was made as part of ongoing discussions regarding the deferment of the debt and an ultimate sale of the business.

The Directors granted the two remaining interested parties the opportunity to undertake further due diligence in relation to the Companies and to hold discussions with certain key management staff.

The Directors advised that they later became aware that HMRC had, despite earlier indications that they would not do so, filed a winding-up petition against Legion FM Limited on 14 July 2010 for the sum of £2.7 million. HMRC indicated that they were not willing to withdraw the petition until the debt was paid in full.

The Companies received offers from the two interested parties with a view to completing a sale by management by 29 July 2010. Legion Group plc suspended trading of its shares on 28 July 2010 pending the completion of a sale.

HMRC filed a winding-up petition against Legion Group plc on 29 July 2010 effectively blocking any sale by management of business and assets of the Companies. It is understood that the Directors only became aware of the existence of the petition through a search of the Court register. The service of the winding-up petition was not effected on Legion Group plc until 12 August 2010, after the appointment of Administrators.

The Directors sought insolvency advice, as detailed below. After due consideration, the Directors resolved that the Companies were insolvent and resolved to appoint Administrators.

2. The source of the Administrators' initial introduction

MCR were initially introduced to the Companies Directors by Mat Bhagrath of Kapitalize LLP. It is understood that Mr Bhagrath was providing strategic and commercial advice to the Companies and the Directors, and also providing advice on the possible sale of the Companies. The Directors initially requested MCR to review the Companies' financial positions. This initial introduction by Mat Bhagrath was made on 12 May 2010 and was followed by a meeting with the Directors on 13 May 2010.

The Joint Administrators understand another firm was engaged to conduct an Independent Business Review on the Companies. Once this review was completed, the Directors once more requested advice from MCR and further meetings were held with the Directors on 9 July 2010 and 28 July 2010.

MCR were formally engaged by the Directors of the Companies on 3 August 2010.

3. The extent of the Administrators' involvement prior to appointment

MCR met with the Directors to provide them with initial advice following their review of the cash flow position in May 2010. MCR was advised that the Directors were exploring additional funding opportunities and were pursuing a restructuring strategy with a third party. No further

involvement occurred until 9 July 2010 when MCR was advised that the possibility of funding would not be forthcoming.

The Companies subsequently engaged MCR on 3 August 2010 to provide insolvency advice and assist with a sale of the business. Given the winding-up petitions presented by HMRC, the Companies were considered to be insolvent within the meaning of Section 123 of the Insolvency Act 1986, as they were unable to discharge their debts as and when they fell due.

MCR reviewed the offers that had been received by the Companies and liaised with the interested parties to ascertain whether a sale of the business and assets could be achieved through an insolvency process. Of those parties who had expressed previous written interest, only OCS Group UK Limited ("OCS") were willing to proceed with a sale through an insolvency process. A revised written offer was received for the business and assets from OCS and the steps taken by MCR/the Administrators to review and accept this offer are detailed below.

Due to the petitions presented by HMRC and the extremely short time scale available to conclude a sale, an appointment by the Directors was not considered expedient. The appointments over both Companies were made by the holders of qualifying floating charges, on 6 August 2010.

4. Details of any marketing activities conducted by the Company and/or the Administrator

As outlined above, prior to MCR's involvement the Directors of the Companies contacted in excess of 15 third parties directly or through their independent broker, with a view to them either seeking investment in the Companies or a sale of the business.

The Directors held advanced discussions with two potential purchasers.

The initial offer from OCS on 15 July 2010 totalled £7 million for the goodwill, additional consideration totalling 85% of the value of book debt ledger, and a value of the fixed assets to be agreed between the parties. The terms of this initial offer also included the transfer of the employees in connection of the business (subject to the Transfer of Undertakings (Protection of Employment) 2006 Regulations).

An offer was also received from the other interested party on 21 July 2010. The Directors continued to negotiate with this party as well as OCS with a view to securing the best possible outcome for creditors. However, this offer was subsequently withdrawn.

On 27 July 2010, following further due diligence, OCS revised its offer downward to £6 million for the goodwill and fixed assets plus consideration of 85% of the value of the book debt ledger. However, following the discovery of the winding-up petitions presented against Legion Group plc, OCS withdrew its offer dated 27 July 2010.

The Directors continued to engage with OCS with a view to seeking a positive resolution. On 1 August 2010, and having considered its position further, OCS submitted a further revised offer of £2.9 million for the goodwill and an amount to be agreed for the book debts and other assets.

On 3 August 2010, MCR were engaged to assist the Companies and the Directors. MCR approached the other interested party who reached advanced negotiations to ascertain their level of interest. However, as explained above, this party confirmed that it would withdraw from the sale process as it was unable to complete within the timescale required.

MCR reviewed the marketing activities conducted by the Companies and concluded that, on the basis of the circumstances prevailing at the time, that any subsequently appointed Administrators were unlikely to achieve a higher offer for the business, than that received from OCS. In particular the Directors and MCR considered the following:

