COR CORDIS

Chartered Accountants

Joint and Several Administrators' Report to Creditors

PURSUANT TO SECTION 439A OF THE CORPORATIONS ACT 2001

D V KELLY PTY LIMITED
(ADMINISTRATORS APPOINTED)
ABN: 43 000 401 605

Dated: 20 February 2012

OZEM KASSEM AND DANIEL P JURATOWITCH
JOINT & SEVERAL ADMINISTRATORS

D V KELLY PTY LIMITED (ADMINISTRATORS APPOINTED)
ABN: 43 000 401 605 (the "Company")

REPORT PURSUANT TO SECTION 439A OF THE CORPORATIONS ACT 2001

EXECUTIVE SUMMARY

This executive summary provides an overview of the report and the various conclusions concerning the Company and its future. In order for a fully informed decision to be made regarding the future of the Company, each creditor should review the report in full, which provides further detailed commentary on the Company's business, property and affairs. The report also provides details of the Joint & Several Administrators' recommendations regarding the future of the Company and the basis for the conclusions provided in this executive summary.

Appointment

- Messrs Ozem Kassem and Daniel P Juratowitch of Cor Cordis Chartered Accountants were appointed Joint & Several Administrators ("the Administrators") of the Company on 23 January 2012, pursuant to a resolution of the Board of Directors of the Company in accordance with Section 436A of the Corporations Act 2011 ('the Act").

Company Background

- The Company was incorporated in the state of New South Wales on 29 June 1962. The current Directors of the Company are Mr Lawrence Kelly and Mrs Raima Kelly, whose appointments took effect from 29 June 1962, and Mr John Kelly, whose appointment took effect from 12 May 1970.

- The Company operated as a furniture & fixtures wholesaling business located at 24 Wendlebury Road, Chipping Norton NSW 2170. The Company's operations predominantly consist of importing 'flat packed' furniture from Asia, assembling this inventory at its Chipping Norton factory, and selling the product to its major customer, Harvey Norman. The Company also operates a small retail outlet located at Boot Hill, Corner Swettenham & Campbelltown Road, Minto NSW 2566.

- As at the date of the appointment of the Administrators, the Company employed fifteen (15) staff, comprising of nine (9) full-time staff (including the current Directors and related parties of the Directors) and six (6) part-time staff as well as one (1) contractor.

- Following their appointment, the Administrators continued to trade the business of the Company with a view to selling the business as a going concern. The Administrators subsequently made an assessment as to whether it would be commercially beneficial to continue trading the business and after taking into consideration a number of factors detailed later in this report and the costs involved in operating the business, the Administrators determined that the Company could no longer continue to trade in its current form. The Administrators continued to trade at a reduced capacity with a key focus on realising the Company's inventory and ultimately ceased trading as at 16 February 2012 after executing the sale of the Company's residual inventory and the unencumbered plant and equipment. Further details with respect to the trading of the business are detailed in the body of this report.

- On 15 December 2011, a Winding-Up Application was filed in the Federal Court of Australia (matter number NSD 2271 of 2011) against the Company by the Deputy Commissioner of Taxation ("DCT") in respect to outstanding statutory liabilities owing to the Australian Taxation Office ("ATO"). The matter was listed to be heard on 1 February 2012. At this hearing, the Administrators successfully sought an adjournment of the proceedings to Friday, 24 February 2012 in order for the Administrators to conduct their investigations into the affairs of the Company on the basis that the Administrators did not hold the second meeting of creditors prior to this date.

- The reasons for the Company's failure are detailed in the body of this report.

Estimated Return to Creditors

- It is unlikely that a dividend will be paid to any class of creditor unless a Liquidator is successful in the recovery of significant monies as a result of voidable transactions and/or insolvent trading claims and/or breaches of Director's Duties and/or recoveries as a result of legal proceedings that the Company was involved with prior to the Administrators' appointment. The Administrators note that a dividend to the Company's priority employee creditors and St. George Finance Limited in its capacity as a secured creditor of the Company could potentially be payable in the event that the Company is successful in a number of legal proceedings which are detailed in the body of this report.

- It should be noted that outstanding employee entitlements including wages, annual leave, long service leave, payment in lieu of notice and severance payments are further protected under the General Employee Entitlements and Redundancy Scheme ("GEERS") which is administered by the Department of Education, Employment and Workplace Relations in the event that the Company is placed in to liquidation. However, outstanding superannuation contributions are not protected under GEERS.

Meeting of Creditors

- At a forthcoming meeting of creditors convened for **Tuesday, 28 February 2012** pursuant to Section 439A of the Act, creditors will have the option to vote on the future of the Company by resolving to either:

  - Accept any proposal for a Deed of Company Arrangement ("DOCA"); or
  - Place the Company into liquidation (that is, to have the Company wound up); or
  - End the administration (in which case control of the Company will revert back to the Directors).

  Alternatively, the Act provides for the meeting of creditors to be adjourned for up to forty-five (45) business days if creditors so decide.

Recommendation of the Administrators

- It is the Administrators' recommendation **that the Company be wound up and that Messrs Ozem Kassem and Daniel P Juratowitch be appointed Liquidators of the Company**. In a liquidation scenario, recoveries pursuant to Part 5.7B of the Act are available to the Liquidators of the Company, if appropriate. Creditors are referred to the section titled 'Investigations' in this report which makes reference to any potential recoveries pursuant Part 5.7B of the Act as it relates to the Company.

Reasons for the Administrators' Recommendation

- The Administrators are of the view that a thorough investigation of the Company's affairs is warranted which is best achieved within the confines of liquidation. The reasons for this recommendation are set out later in this report, however, the primary reasons are as follows:

  - A DOCA proposal has not been received;
  - The business of the Company has ceased trading;
  - The Company is insolvent and the Act provides a legal framework for dealing with the Company's assets, determining the value of creditors claims and paying dividends to creditors;
  - The investigations into the Company's affairs may continue, including but not limited to, investigations into voidable transactions, director related transactions, insolvent trading and possible breaches of director duties; and
  - A Liquidator's realisation of the Company's assets can continue to proceed for the benefit of creditors.

INTRODUCTION

On 23 January 2012, Messrs Ozem Kassem and Daniel P Juratowitch were appointed the Joint & Several Administrators of the Company pursuant to a resolution of the Board of Directors of the Company in accordance with Section 436A of the Act.

The object of the voluntary administration regime as set out in Section 435A of the Act is to provide for the business, property and affairs of an insolvent company to be administered in a way that:

> *(a) maximises the chances of the company, or as much as possible of its business, continuing in existence; or*
>
> *(b) if it is not possible for the company or its business to continue in existence – results in a better return for the company's creditors and members than would result from an immediate winding up of the company.*

The purpose of the appointment of the Administrators is to allow for an independent insolvency practitioner to take control of and investigate the affairs of the Company. During the administration, claims against the Company by creditors are subject to a moratorium. In addition, the Administrators are required to provide creditors with information and recommendations to assist creditors to decide upon the Company's future.

Pursuant to Section 439A(4) of the Act, set out below, is a report detailing the Company's business, property, affairs and financial circumstances, together with a statement setting out the Administrators' opinions about whether it would be in the creditors' interests for:

1. The Company to execute a Deed of Company Arrangement ("DOCA"); or
2. The administration to end; or
3. The Company to be wound up; or
4. To adjourn the meeting.

This report has been prepared for the sole purpose of complying with the provisions of Section 439A(4) of the Act and the Code of Professional Practice issued by the Insolvency Practitioners Association of Australia ("IPA"), to provide creditors with sufficient information to enable them to make an informed decision about the future of the Company at a meeting to be held on **Tuesday, 28 February 2012, commencing at 10:00 AM**, or any adjournment thereof.

This report is not to be considered legal advice to creditors. Accordingly, creditors should consider seeking their own legal advice in relation to the matters contained within this report. Consequently, any other party should not rely upon this report for any purpose whatsoever.

This report is set out under the following headings:

- Administrators' Declaration of Independence
- Last Meeting of Creditors
- The Company and its Officers
- Background / History of the Company
- Reasons for Failure
- Administration Update
- Trading the Business
- Historical Trading Performance
- Financial Position / Report as to Affairs
- Investigations
- Summary of Receipts and Payments
- Dividend Prospects in Liquidation
- Summary of Available Alternatives, Administrators' Opinion and Recommendation
- Administrators' and Liquidators' Remuneration and Disbursements
- Meeting of Creditors
- Disclaimer

ADMINISTRATORS' DECLARATION OF INDEPENDENCE

Prior to their appointment, the Administrators had undertaken an assessment of the risks to their independence and the assessment identified no real or potential risks to their independence. The Administrators are not aware of any reasons that would prejudice or prohibit them from accepting the appointment.

Neither the Administrators nor the firm, Cor Cordis Chartered Accountants, have or have had within the proceeding twenty-four (24) months any relationships with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company or any person or entity that has a charge on the whole or substantially the whole of the Company's property. Neither the Administrators nor the firm, Cor Cordis Chartered Accountants, have undertaken any other engagements for the Company.

A declaration pursuant to Section 436DA of the Act was enclosed with the Administrators' circular to creditors dated 25 January 2012, which also gave notice of the first creditors' meeting of the Company pursuant to Section 436E of the Act.

In summary, the Administrators, their partners and staff have had no prior relationships with the Company's current or previous Directors. The Administrators have not received any indemnities for their remuneration and expenses in conducting this administration, other than any indemnities that may be available to them under the Act.

LAST MEETING OF CREDITORS

A meeting of the Company's creditors was convened in accordance with Section 436E of the Act and held on Friday, 3 February 2012 at Level 10, 76 - 80 Clarence Street Sydney NSW 2000. For the benefit of the creditors who could not attend the first meeting of creditors, the following resolution was passed:

"THAT no Committee of Creditors of D V Kelly Pty Limited (Administrators Appointed) be appointed"

The minutes of the first meeting have been lodged with the Australian Securities and Investments Commission ("ASIC"). A copy of these minutes is available for inspection at the offices of Cor Cordis during business hours.

THE COMPANY AND ITS OFFICERS

According to the records held at the ASIC:-

- The Company was incorporated in the state of New South Wales on 29 June 1962;
- The details of the Company's officeholders are as follows:

Name	Position	Appointment Date	Cease Date
Lawrence Robert Kelly	Director / Secretary	29/06/1962	N/A
Raima Joan Kelly	Director	29/06/1962	N/A
John Arthur Kelly	Director	12/05/1970	N/A

Furthermore, The Administrators note that their investigations into the Company's affairs have revealed the possibility that Messrs Jason Kelly and Craig Kelly, sons of Mr Lawrence Kelly and Mrs Raima Kelly, may also be a shadow/de-facto directors of the Company. Further discussions in this regard can be found in the 'Investigations' section of this report.

- The Company's share capital is comprised of one thousand two hundred and sixty (1260) ordinary shares with a paid up value of $2.00 each, the details of which are as follows:

Shareholder	Class of Shares	No. of Shares	Paid Up Value	Beneficially Held
Lawraima Pty Limited	Ordinary	600	$1,200	Yes
Raima Joan Kelly	Ordinary	15	$30	Yes
John Arthur Kelly	Ordinary	420	$840	Yes
Lawrence Robert Kelly	Ordinary	225	$450	Yes

- The Company's registered office and its principal place of business are as follows:

Registered Office 24 Wendlebury Road
Chipping Norton NSW 2170

Principal Place of Business 24 Wendlebury Road
Chipping Norton NSW 2170

- The Company has the following registered charges over its assets:

Chargeholder	Charge Number	Date Created	Date Registered	Type
St. George Finance Limited / Westpac Banking Corporation	1367061	29/09/2006	18/10/2006	Fixed & Floating
Network Consumer Finance Pty Limited	2218030	11/08/2011	12/08/2011	Fixed & Floating

The above mentioned fixed and floating charge held by St. George Finance Limited ("St. George") is held as security in respect to an overdraft/trade refinance facility and monies loaned to the Company, the details of which are discussed later in this report.

The above mentioned fixed and floating charge held by Network Consumer Finance Pty Limited ("NCF") is held as security in respect to monies advanced to the Company, the details of which are discussed later in this report.

- A personal name search on the Directors reveals that they are the current directors and/or shareholders of the following corporations in Australia:

Mr John Arthur Kelly

Company	Officeholding	Shareholder	Appointment Date	Status
N S W National Coursing Association Registrations Pty Limited	Former Director	No	14/04/1989	Deregistered
New South Wales National Coursing Association Limited	Former Director	No	14/04/1989	Registered
NSW National Coursing Association Services Pty Limited	Former Director	No	14/04/1989	Deregistered
Brabrooke Pty Limited	Director	Yes	15/08/1996	Registered
Valentino Home Fashion Pty Limited	Director	Yes	17/07/2002	In Liquidation

Mrs Raima Joan Kelly

Company	Officeholding	Shareholder	Appointment Date	Status
Lawraima Pty Limited	Former Director/ Secretary	Yes	18/06/1973	In Liquidation

Mr Lawrence Robert Kelly

Company	Officeholding	Shareholder	Appointment Date	Status
Valentino Home Fashion Pty Limited	Former Director	Yes	17/07/2002	In Liquidation
Lawraima Pty Limited	Former Director/ Secretary	Yes	18/06/1973	In Liquidation

The above indicates that the Directors of the Company are also directors of a number of other failed companies in Australia.

BACKGROUND / HISTORY OF THE COMPANY

As noted above, the Company was incorporated in the state of New South Wales on 29 June 1962 and operated as a 'family run' furniture & fixtures wholesaling business located at 24 Wendlebury Road, Chipping Norton NSW 2170. The Company's operations predominantly consist of importing 'flat packed' furniture from Asia, assembling this inventory at its Chipping Norton factory, and selling the product to its major customer, Harvey Norman. The Company also operates a small retail outlet located at Boot Hill, Corner Swettenham & Campbelltown Road, Minto NSW 2566.

As at the date of the appointment of the Administrators, the Company employed fifteen (15) staff, comprising of nine (9) full-time staff (including the current Directors and related parties of the Directors) and six (6) part-time staff as well as one (1) contractor.

On 15 December 2011, a Winding-Up Application was filed in the Federal Court of Australia (matter number NSD 2271 of 2011) against the Company by the Deputy Commissioner of Taxation ("DCT") in respect to outstanding statutory liabilities owing to the Australian Taxation Office ("ATO"). The matter was listed to be heard on 1 February 2012. At this hearing, the Administrators successfully sought an adjournment of the proceedings to Friday, 24 February 2012 in order for the Administrators to conduct their investigations into the affairs of the Company on the basis that the Administrators did not hold the second meeting of creditors prior to this date.

REASONS FOR FAILURE

The Administrators' investigations into the Company's affairs and their observations of the Company's operations have revealed that the Company's failure can be attributed to the following factors:

Poor Management of the Company's Affairs

The Company's former Managing Director, Mr Lawrence Kelly, suffered a severe stroke in 2009 which resulted in Mr Lawrence Kelly no longer undertaking an active role in the management of the business. As a result, Mr Jason Kelly, son of Mr Lawrence Kelly, assumed the 'General Manager' role in his father's absence. The Administrators' observations of the Company's operations appear to indicate the Company's business deteriorated significantly under the management of Mr Jason Kelly.

Poor Record Keeping / Financial Control

The Administrators' observations of the Company's business, its premises and operations have revealed that its accounting and operations systems and practices are out-dated and have been neglected for quite some time. Despite employing a dedicated bookkeeper to maintain the Company's accounts, the Company's MYOB accounting file was only used to the extent of processing invoices, payments and banking while the Company has failed to produce financial statements since the 2009 financial year. This meant that the Company's management were unable to accurately gauge the financial performance and position of the Company at any given time, which led to an inability to effectively manage the Company.

Excessive Inventory Levels

As noted above, the Company's record keeping, accounting and operations systems are out-dated and have been neglected for quite some time. This inability to accurately gauge the Company's financial position, particularly inventory levels, has resulted in the Company reaching a position where it was unable to produce a timely and accurate stock listing and therefore holding more inventory than required to service its limited customer base, which is largely comprised of Harvey Norman. Such inventory practices have resulted in significant holding costs being incurred by the Company, particularly the substantial rental expenses ($36,656 plus GST per month) associated with requiring a large factory to store inventory, of which the Administrators estimate the Company effectively utilises only thirty percent (30%), with the remaining factory space being occupied by excess and obsolete inventory.

Another inherent cost associated with high inventory levels is the 'opportunity cost' of the value of the excess inventory as the working capital which was effectively tied up in obsolete/out of demand products could have been converted to assist with cash flow and/or investment in more 'in demand'/saleable inventory.

Insufficient Cash Flow

The Company had been experiencing cash flow restraints, predominantly as a result of the poor management, inadequate record keeping and high inventory holding costs mentioned above. These cash flow restraints meant that the Company was not able to generate sufficient cash flow to meet its obligations to creditors as and when they fell due, as evidenced by the Company's significant rental arrears, bank overdraft account, outstanding employee entitlements and statutory liabilities owing to the ATO.

Furthermore, the Company was previously generating revenues of approximately $400,000 per month. These revenues reduced substantially over time with the Company only managing to generate monthly revenues of approximately $200,000 over the past twelve (12) months. These reduced volumes, together with the falling sale prices on the Company's inventory and the fixed nature of the Company's overheads, resulted in declining margins and reduced profitability.

Finally, the Administrators note that it appears that the catalyst for the appointment of the Administrators to the Company was the winding-up application filed by the DCT on 15 December 2011.

ADMINISTRATION UPDATE

Following their appointment, the Administrators held discussions with the Directors and management of the Company in order to assess whether it would be commercially beneficial to continue to trade the business of the Company with a view to selling the business as a going concern. As a result of these discussions, the Administrators decided to trade the business of the Company based on the following key assertions made by the Directors:

- The Company held in excess of approximately $1,000,000 in inventory as at the date of appointment of the Administrators;

- The Company generated monthly sales to Harvey Norman in the amount of approximately $200,000 per month; and

- A majority of the aforementioned inventory was the current range of stock being purchased by Harvey Norman.

However, it became apparent that the above assertions were incorrect and accordingly, the Administrators subsequently made a revised assessment as to whether it would be commercially beneficial to continue trading the business. After taking into consideration a number of factors and the costs involved in operating the business, the Administrators determined that the Company could no longer continue to trade in its current form. The factors which led to the Administrators' determination to trade at a reduced capacity and ultimately cease trading are as follows:

- The uncertainty of the Company's short term future trading performance, particularly given that the Company's management accounts were not reconciled at the time of the Administrators' appointment and that the Company did not have sufficient current orders or guarantees of future orders that would enable the business to trade and support itself going forward;

- The recent ordering pattern of the Company's major customer, Harvey Norman, was focused on a limited line of the Company's product range on offer. A large part of this stock was inventory held overseas which was yet to be paid for. Ultimately, the Company did not have the working capital to acquire the inventory and the Administrators were unable to come to an agreement with Harvey Norman or the overseas supplier which would allow the Administrators to obtain access to such stock or confirm orders with Harvey Norman;

- The revenue trend was in decline over the past twelve (12) months of trading and had become almost entirely reliant on sales to Harvey Norman;

- The rental expense for the Company's Chipping Norton premises is a substantial $36,656 (plus GST) per month. Furthermore, the Administrators estimate that the Company effectively utilises only thirty percent (30%) of the factory space, of which a large quantum is occupied by obsolete furniture inventory;

- The incumbent management did not appear to have the skills or desire to undertake the significant restructure of the business that would have been required in order to make it viable; and

- The Directors of the Company had advised that they could no longer personally support the trading of the Company, including any proposal of a DOCA.

Due to a culmination of the above detailed factors, the Administrators decided to retain a limited number of staff with a key focus on realising the Company's inventory. In this regard, the Administrators have undertaken the following initiatives in respect to the realisation of the Company's inventory:

Discussions with Harvey Norman

As mentioned earlier herein, Harvey Norman is the Company's primary customer and made up a substantial proportion of the Company's total sales. Harvey Norman is also the Company's major trade debtor and is indirectly a secured creditor of the Company through its subsidiary company, NCF. In this regard, the Administrators held commercial negotiations with Harvey Norman with a view to realising value across pre-appointment debtors, via the fulfilment of further orders to Harvey Norman and the possibility of Harvey Norman acquiring a bulk stock purchase, including stock held overseas. The overall results of these discussions were that Harvey Norman was only willing to agree to a limited position whereby the Company would complete a number of outstanding back orders while Harvey Norman would fulfil (subject to a full reconciliation) its obligations to pay its outstanding pre-appointment debtor amounts.

Onsite Sale

The Administrators held an onsite sale in the showroom located at the Company's Chipping Norton premises between 1 February 2012 and 4 February 2012. The onsite sale was organised and run by an external consultant engaged by the Administrators who had experience and contacts in the Company's industry. The Administrators also endeavoured to promote the sale through a number of advertising mediums, including the local newspaper (the 'Liverpool Leader'), the mX newspaper, online advertisements as well as word of mouth. However, the poor state of the current consumer market and the low level of demand for the type of furniture offered by the Company, even at drastically reduced prices, were evident in the relatively poor response to the sale.

Bulk Sale of Residual Stock / Plant and Equipment

During the course of their appointment, the Administrators made a number of 'bulk' sales to other businesses operating in the Company's industry.

The Administrators have also conducted discussions with a number of competitors / interested parties in respect to the sale of the residual stock, however, one of the key issues that has impacted the realisation of the stock, apart from quality, is that most interested parties want to realise the stock in a 'piece meal' fashion from the Company's premises over an extended period of time. Given the significant rental obligations of approximately $36,656 (plus GST) per month on the premises, this has proven to be a significant factor which has inhibited the Administrators' ability to obtain a viable deal.

The Administrators note that the expressions of interest for the purchase of the residual inventory have been in the region of $50,000 - $70,000 (plus GST). However, due to the fact that the potential purchaser would require access to the premises for approximately two (2) months, the associated rental and overhead expenses resulted in the Administrators determining that these offer would not be viable to accept.

In this regard, the Administrators subsequently entered into an Asset Sale Agreement with Mr Natale Antonio Finocchiaro, the landlord of the Company's leased premises, on 16 February 2012 ("the Sale Agreement"). The Sale Agreement provides for the sale of the Company's residual inventory and the unencumbered plant and equipment located at 24 Wendlebury Road, Chipping Norton NSW 2170 to Mr Finocchiaro. In summary, the salient terms of the Sale Agreement are as follows:

- Mr Finocchiaro agrees to buy from the Company the residual inventory and the unencumbered plant and equipment located at 24 Wendlebury Road, Chipping Norton NSW 2170 for $50,000.00 (plus GST), payable by way of the following instalments:
    - $27,500 (including GST) to be paid upon execution of the Sale Agreement;
    - $13,750 (including GST) to be paid within thirty (30) days after the date of execution of the Sale Agreement;
    - $13,750 (including GST) to be paid within sixty (60) days after the date of execution of the Sale Agreement.

- Mr Finocchiaro agrees to release the Administrators and the Company from any rental obligations incurred for the period 23 January 2012 to the date of the Sale Agreement, which totals $26,585.81 for the said period as consideration for the Company's unencumbered plant and equipment. Thus, the total value of the sale was effectively $74,168.98 (including GST).

As a result of the execution of the Sale Agreement, the Administrators ceased trading of the business of the Company as at 16 February 2012. The Administrators note that they received $27,500 upon execution of the Agreement from Mr Finocchiaro.

TRADING THE BUSINESS

As mentioned above, the Administrators continued to trade the business of the Company for the period 23 January 2012 to 16 February 2012. In this regard, the following is a trading summary which details the trading performance of the Company for the said period:

	Total ($) (inc GST)
Trading Revenue	
Cash Sales	48,726.42
Credit Sales	122,491.47
Total Trading Revenue	**171,217.89**
Trading Expenses	
Freight Outwards	(7.55)
Fuel & Oil	(294.58)
Hire & Leasing	(681.82)
Logistics	(1,457.00)
Merchant Facility Charges	(619.97)
Subcontractors	(8,568.17)
Sundry Expenses	(51.82)
Superannuation	(921.39)
Wages & Salaries	(10,237.76)
Waste Removal	(77.77)
Total Trading Expenses	**(22,917.83)**
Net Profit	**148,300.06**

The Administrators make the following observations in respect to the trading period:

- No purchases of inventory were made during the trading period;
- Credit sales include proceeds of $50,000 (plus GST) pursuant to the terms of the Sale Agreement;
- Pursuant to the terms of the Sale Agreement mentioned earlier, the Administrators' / Company's rental obligations incurred for the period 23 January 2012 to 16 February 2012, which totals $26,585.81, was offset as consideration for the Company's unencumbered plant and equipment. Accordingly, these rental expenses have not been included in the above table; and
- The Company recorded a net profit of $148,300.06 during the trade on period.

HISTORICAL TRADING PERFORMANCE

The Administrators have been provided with the Company's management accounts extracted from the MYOB computerised accounting software package maintained by the Company for the years ending 30 June 2010, 30 June 2011 and the period ending 23 January 2012 (being the date of appointment of Administrators). However, as mentioned earlier herein, the Company's MYOB accounting file was used only to the extent of processing invoices, payments and banking and has not been reconciled for a significant period of time. It is also noted that the Company has not produced financial statements since the 2009 financial year. Notwithstanding the above, the Company's management accounts can be summarised as follows:

Profit and Loss Period Ending	Management Accounts 30-Jun-2010 ($)	Management Accounts 30-Jun-2011 ($)	Management Accounts 23-Jan-2012 ($)
Income			
Sales	2,711,712	1,840,317	402,634
Returns and Alllowances	(1,448)	(830)	-
Freight Collected	-	598	(19)
Rent Collected	-	4,000	4,000
Miscellaneous/Other Income	81,000	(8,336)	-
Total Income	**2,791,265**	**1,835,750**	**406,615**
Cost of Sales	(1,036,339)	(661,262)	(102,771)
Gross Profit	**1,754,926**	**1,174,487**	**303,843**
Expenses			
Administration Expenses	(125,537)	(43,199)	(2,903)
Advertising Expenses	(12,791)	(2,351)	(29,573)
Operating Expenses	(600,121)	(312,994)	(43,270)
Travel Expenses	(5,941)	(3,583)	(1,689)
Employment Expenses	(645,854)	(303,294)	(2,451)
Life Insurance	(52,098)	(60,840)	-
Insurance	(88,824)	(61,733)	-
Total Expenses	**(1,531,167)**	**(787,993)**	**(79,885)**
Operating Profit / (Loss)	**223,759**	**386,495**	**223,958**
Other Expenses	(68,136)	(62,111)	-
Net Profit / (Loss)	**155,623**	**324,384**	**223,958**
Significant Expense Line Items			
Wages & Salaries	(583,296)	(262,791)	(845)
Rent	(514,725)	(270,222)	(21,450)
Insurance	(88,824)	(61,733)	-
	(1,186,845)	**(594,745)**	**(22,295)**
% of Total Expenses	77.51%	75.48%	27.91%

Balance Sheet As at	Management Accounts 30-Jun-2010 ($)	Management Accounts 30-Jun-2011 ($)	Management Accounts 23-Jan-2012 ($)
Current Assets			
Cheque Account	(575,761)	(741,273)	(246,916)
Investment Account	(3,398,589)	(3,398,589)	(3,398,589)
Trade Debtors	2,319	199,830	69,257
Merchandise Inventory	-	(2,860)	(50,313)
ABN Withholding Credits	-	-	(8,850)
Total Current Assets	**(3,972,031)**	**(3,942,892)**	**(3,635,411)**
Non-Current Assets			
Loan - Homewares Depot	10,000	10,065	10,065
Loan - VHF from DVK	29,771	29,846	29,846
Hire Purchase - Term Charges	(8,013)	(11,822)	(11,822)
Total Non-Current Assets	**31,758**	**28,089**	**28,089**
Total Assets	**(3,940,272)**	**(3,914,804)**	**(3,607,323)**
Current Liabilities			
Credit Cards	-	1,050	1,050
Trade Creditors	(131,792)	(2,516)	(53,130)
Total GST Liabilities	206,781	201,811	171,115
Customer Deposits	-	277	(1,935)
Other Current Liabilities	18,263	18,263	18,263
Leased Plant and Equipment	53,701	53,701	53,701
Total Current Liabilities	**146,954**	**272,587**	**189,064**
Non-Current Liabilities			
NZ GST	112	112	112
NZ GST Paid	1,004	1,004	1,004
Hire Purcahse - Finance Companies	55,028	82,161	82,161
St. George Bill - DE-3045219	6,137	6,137	6,137
St. George Bill - DE-3205966	89,387	233,535	233,535
Total Non-Current Liabilities	**151,666**	**322,948**	**322,948**
Total Laibilities	**298,620**	**595,535**	**512,012**
Net Assets / (Deficiency)	**(3,641,653)**	**(3,319,269)**	**(3,095,311)**

Having regard to fact that the Company's management accounts have not been kept up to date, the Administrators are of the opinion that the above accounts do not give a true perspective of the Company's financial position and cannot be relied upon based on the following:

- The Company has failed to accurately maintain and keep up to date its records in respect to inventory held, which is of particular concern given inventory is its major asset;
- The Company has failed to maintain the banking register. As disclosed in the above table, the cash at bank figure as at 23 January 2012 is $246,916 debit. However, as detailed later in this report, the Company's bank account had a debit balance of $716,678.89;
- The Company's management accounts do not appear to account for any plant and equipment held;
- The management accounts do not appear to account for several of the Company's major liabilities. In particular, the management accounts do not disclose the significant debt owing to the landlord on the

Company's leased premises nor do they disclose the significant amounts owing to NCF under its fixed and floating charge;

- The management accounts disclose an account named 'Investment Account' in the amount of $3,398,589. The Administrators' review of the Company's General Ledger reveals that this account relates to the amounts owing to St. George under its fixed and floating charge. However, based on the information received from St. George, the details of which are discussed later in this report, it appears that the management accounts significantly overstate this liability.

- The management accounts show that as at the date of the appointment of the Administrators, there is no liability owing for superannuation and other employee entitlements. In this regard, it appears that the Company did not process the payment of employee wages through the management accounts; and

- Based on the information received from the ATO, it appears that the Company has not maintained the management accounts to reflect the current liability owing to the ATO.

Accordingly, the Administrators are not in a position to comment on historical trading performance of the Company. However, the Administrators make the following observations in respect to the Company's management accounts:

- The management accounts as at 23 January 2012 reveal a related party loan account named 'Loan – Homewares Depot' in the amount of $10,065. The Administrators' review of the Company's General Ledger has revealed that these amounts represent loans made to Homewares Depot Pty Limited ("Homewares Depot"), a related entity which Mr Jason Kelly is a current director of. Further discussions with respect to the Homewares Depot loan account are detailed later in this report.

- The management accounts as at 23 January 2012 reveal a related party loan account named 'Loan – VHF from DVK' in the amount of $29,846. The Administrators' review of the Company's General Ledger has revealed that these amounts represent loans made to Valentino Home Fashion Pty Limited ("Valentino Home Fashion"), which is currently in liquidation and is a related entity of the Company by way of common directors (being Messrs John Kelly and Lawrence Kelly) as well as Mr Jason Kelly. Further discussions with respect to the Valentino Home Fashion loan account are detailed later in this report.

FINANCIAL POSITION / REPORT AS TO AFFAIRS

Pursuant to Section 438B(2) of the Act, the Director of the Company is required to provide the Administrators' with a statement about the Company's business, property, affairs and financial circumstances. Such a statement normally takes the form of a Report as to Affairs ("RATA").

As at the date of drafting this report, the Company's Directors are yet to provide a completed RATA to the Administrators. Accordingly, the following table is a summary of the assets and liabilities of the Company based upon the Administrators' discussion with the Directors and the records of the Company (Book Value) and the investigations conducted by the Administrators to date (Administrators Known Value).

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	Notes	Book Value ($)	Administrators' Known Value ($)
Assets			
Trade Debtors	1	68,162	71,586
Inventory	2	1,000,000	171,218
Unencumbered Plant and Equipment	3	100,000	25,450
Contingent Assets	4	Unknown	Unknown
Related Party Loans	5	Not Disclosed	39,911
Total Assets		**1,168,162**	**308,165**
Liabilities			
Secured Creditor - St. George	6	(2,000,000)	(1,969,885)
Secured Creditor - NCF	7	(135,000)	(134,659)
Total Secured Creditor Claims		**(2,135,000)**	**(2,104,544)**
Priority Employee Entitlements:	8		
Unpaid Wages		(29,498)	(29,498)
Superannuation		(21,710)	(105,906)
Annual Leave		(40,176)	(40,176)
Leave Loading		(7,001)	(7,001)
Long Service Leave		(42,212)	(42,212)
Payment In Lieu of Notice		(24,473)	(24,473)
Redundancy		(76,274)	(76,274)
Total Priority Employee Entitlements		**(241,344)**	**(325,540)**
Unsecured Creditors:	9		
ATO		(800,000)	(763,333)
Ordinary Unsecured Creditors		(101,240)	(636,057)
Excluded Employee Claims - Non Priority		(487,482)	(487,482)
Total Unsecured Creditor Claims		**(1,388,722)**	**(1,886,872)**
Total Liabilities		**(3,765,066)**	**(4,316,955)**
Estimated Shortfall		**(2,596,904)**	**(4,008,790)**
** Subject to the Costs of the Administration / Liquidation*			

The figures disclosed in the table above reflect the Company's position as at the date of the appointment of Administrators.

Note 1. Trade Debtors

The Company's management accounts reveal that the Company had outstanding trade debtors with a book value of $71,586.26 as at the date of the Administrators' appointment. The Administrators note that a majority of the Company's outstanding trade debtors represent amounts owing to the Company from Harvey Norman for products delivered. A summary of the ageing of the debtors is detailed below:

Aged Debtors as at 23/01/2012	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total
Amount ($)	25,443	8,191	13,700	24,252	71,586
Percentage (%)	35.54	11.44	19.14	33.88	100.00

Following their appointment, the Administrators issued letters of demand to all known trade debtors in order to pursue recovery of the amounts owing to the Company.

As at the date of drafting this report, the Administrators have successfully recovered a total of $30,854.45 in respect to the Company's pre-appointment trade debtors. The Administrators note that Harvey Norman have advised that there are potentially a number of credit claims to be made against the Company in respect to goods supplied which may see a reduction in the total debt owing to the Company. In this regard, the Administrators are currently working with Harvey Norman in respect to reconciling their outstanding accounts.

Note 2. Inventory

Based upon the advice of the Directors, the Company held inventory with a book value of approximately $1,000,000 as at the date of the Administrators' appointment.

As mentioned earlier in the report, as a result of the Company's management accounts not being kept up to date, the Administrators were unable to determine an accurate accounting of the current value of the Company's inventory. In this regard, the Administrators and their valuers/auctioneers, Dominion Group (NSW) Pty Limited ("Dominions"), have spent significant time in attempting to ascertain the quantity and value of the inventory held by the Company and determining and executing an appropriate realisation strategy. The Administrators' investigations in this regard are summarised as follows:

- The Company's inventory system is poor with a stock-take not being conducted by the Company for at least six (6) months.
- The stock-take undertaken by Dominions has revealed that the Company's inventory has a wholesale value of approximately $442,000, which translates to a cost value of approximately $200,000, and that such inventory had an estimated Forced Liquidation Value ("FLV") of approximately $45,000 (including GST) (subject to marketing and selling costs in the amount of approximately $15,000).
- In terms of quantity, approximately thirty percent (30%) of inventory on hand is un-saleable, incomplete and/or obsolete. For commercial reasons, the Administrators have not attempted to conduct a stock-take or value this inventory as it is likely to be abandoned or disposed of.
- The Administrators' discussions with Dominions have indicated that the relative low FLV placed on the inventory is due to the general surplus of furniture in the Company's industry and the quality and styling of the furniture held. Given the potential nominal realisation under a FLV scenario and the likely overheads that would be incurred in any sale process of duration, the Administrators were of the opinion that a bulk sale of inventory, in conjunction with an onsite sale needed to occur expeditiously.

As mentioned above, the Administrators are unable to ascertain the current value of the Company's inventory as a result of the Company's poor record keeping. In this regard, the Administrators have assessed the ERV of the inventory based on their total realisations of the Company's inventory during the trading period. A summary of the breakup of the ERV of the Company's inventory is detailed below:

	Amount ($) (inc GST)
Cash Sales	48,726
Credit Sales Collected to Date	13,023
Credit Sales to be Collected	54,469
Proceeds from Bulk Sale to Landlord	55,000
Total Trading Sales	**171,218**

As seen in the table above, the Administrators achieved total realisations in respect to the Company's inventory in the sum of $171,218 (including GST), which is significantly above the FLV of $45,000 (including GST) attributed to the inventory by Dominions.

Note 3. Unencumbered Plant and Equipment

As at the date of appointment of the Administrators, the Company was the registered proprietor of unencumbered plant and equipment comprising warehouse racking, general office furniture and a forklift. In this regard, the Administrators instructed an independent valuer, Dominions, to conduct a valuation on the Company's unencumbered plant and equipment at both a Fair Market Value In Continued Use ("FMV") and FLV, which has revealed that the Company's unencumbered plant and equipment had a FMV of $62,390 (including GST) and a FLV of $25,450 (including GST) respectively.

As mentioned earlier herein, the Company's unencumbered plant and equipment were subject to the Sale Agreement entered into between the Administrators and Mr Natale Antonio Finocchiaro, the landlord of the Company's leased premises, and were transferred as consideration for the outstanding rental obligations during the Administrators' trading period, which totalled $26,585.81.

Furthermore, the Roads and Maritime Services were requested to conduct searches on its database for any motor vehicles and/or trailers registered in the Company's name. The Roads and Maritime Services have responded advising that the Company did not hold any motor vehicles as at the date of appointment of the Administrators despite a number of vehicles being essential to the day to day operation of the business. However, the search reveals that during the three (3) week period prior to the appointment of the Administrators, the Company was the registered owner of five (5) motor vehicles which have since been disposed of to unknown parties. Further discussion in respect to the disposal of these motor vehicles can be found in the 'Investigations' section of this report.

Note 4. Contingent Assets – Legal Claims

The Directors have advised that the Company is currently a party to a number of legal actions against various parties, the details of which are summarised below:

a) Flooding of Leased Premises at World Square:

The Company previously operated a retail store leased at World Square Shopping Centre in Sydney which was flooded on three (3) separate occasions during 2007 to 2008 as a result of construction works conducted above the store. This caused substantial damage to the Company's stock and fixtures and resulted in losses for the Company. In this regard, the Company is currently seeking compensation in the Retail Tenancy Tribunal from the landlord on the shopping complex, claiming the maximum jurisdictional limit of $400,000.

b) Container Detention Penalties:

As a result of the Global Financial Crisis, the Company experienced delays with several overseas suppliers providing documents required for shipment to clear customs in Australia. These delays resulted in several containers being placed in storage and incurring container detention penalties which the Company was forced to pay for in order for the goods to be released.

In this regard, the Company initiated proceedings in the Consumer, Trader and Tenancy Tribunal ("CTTT") against China Shipping which were initially successful. However, China Shipping filed an appeal in the Supreme Court which ruled that the CTTT did not have jurisdiction to hear the dispute and accordingly, the Company was in the process of filing a claim in the Supreme Court or Federal Court as at the date of the Administrators' appointment. The Directors have advised that the total sum claimed is approximately $300,000.

c) Misleading Representation by New Zealand Competitor:

A New Zealand based competitor of the Company made representations to the Company's major New Zealand customer (Harvey Norman) which resulted in Harvey Norman in New Zealand cancelling their orders with the Company and returning all goods purchased. Accordingly, the Company commenced proceedings in the New Zealand District Court to repair the Company's goodwill, with the latest appeal to be heard in March 2012. The total amount of this claim is the jurisdictional limit of $400,000.

d) Leased Premises at Crossroads Homemaker Centre:

The Company has been in an ongoing dispute with AMP over previously leased premises located at Crossroads Homemaker Centre which dates back to 2005. The dispute is currently before the NSW Supreme Court, with the Company seeking damages in the amount of $2,500,000.

The Directors have advised that they are of the opinion that the Company has a reasonable prospect of success in all four (4) of the above mentioned cases. As at the date of drafting this report, the Administrators are currently in the process of obtaining the documentation to enable them to make a determination as to the Company's position in this regard.

However, as mentioned above, the proceedings initiated in the CTTT against China Shipping were initially successful but later appealed by China Shipping. Accordingly, it appears that the Company may have a reasonable prospect of success if the claim was to be filed in the Supreme Court or Federal Court by a Liquidator if appointed.

The Administrators note that a dividend to the Company's priority employee creditors and St. George could potentially be payable in the event that the Company is successful in the above mentioned legal proceedings.

Having regard to the above, as the Administrators are currently unfunded in this administration, they are seeking expressions of interest from the general body of creditors to provide funding for the Company's litigation. In the event that any creditor agrees to provide the requested funding and indemnity, and the Liquidators are successful in recovering the Company's legal claim(s), the 'funding creditors' would then be able to seek an order of the Court pursuant to Section 564 of the Act granting the 'funding creditors' priority over other unsecured creditor claims. Should creditors be interested in funding any of the above claims, then they are requested to contact the Administrators' office by close of business on Monday, 27 February 2012.

Note 5. Related Party Loans

a) Loan Account – Homewares Depot

As mentioned earlier herein, the Company's management accounts reveal a related party loan to Homewares Depot in the amount of $10,065 as at 23 January 2012. The Administrators' review of the Company's General Ledger has revealed that these amounts represent loans made to Homewares Depot.

In this regard, the Administrators have written to Homewares Depot requesting payment of the amounts owing to the Company. As at the date of drafting this report, the Administrators are yet to receive a response or payment.

Further recovery actions and investigations into the collectability of these amounts, as well as the capacity of Homewares Depot to repay the amounts owing to the Company will need to be undertaken by a Liquidator (if appointed).

b) Loan Account – Valentino Home Fashion

As noted earlier herein, the Company's management accounts also reveal a related party loan account to Valentino Home Fashion in the amount of $29,846 as at 23 January 2012. The Administrators' review of the Company's General Ledger has revealed that these amounts represent loans made to Valentino Home Fashion.

The ASIC's records disclose that an Official Liquidator was appointed to Valentino Home Fashion was on or around 10 February 2012, pursuant to a Winding-up Application made by the DCT. The Administrators also understand that Valentino Home Fashion did not hold any assets as at the date of appointment of the Official Liquidators and accordingly, the Administrators are of the opinion that it is unlikely any recoveries will be made in relation to this asset.

Note 6. Secured Creditor – St. George

As detailed earlier herein, the records held with the ASIC reveal that the assets of the Company are subject to a fixed and floating charge registered in favour of St. George in respect to an overdraft/trade refinance facility and monies loaned to the Company. Based upon the advice of the Directors, the total amount outstanding to St. George in respect to these facilities is approximately $2,000,000.

Following the appointment of the Administrators, nineteen (19) major bank institutions operating throughout Australia were notified of the appointment of the Administrators and were instructed to freeze any accounts in the Company's name. This included St. George where the Company maintained an overdraft account, the details of which are summarised as follows:

Account Name	BSB No.	Account No.	Balance ($)
D V Kelly Pty Limited	332-011	0000552584163	(716,679)

The Administrators have requested that St. George freeze the account as to any debits. This account is also subject to the fixed and floating charge held by St. George and accordingly, the debt owing to St. George under this overdraft has been included in the liability owing to St. George. As at the date of the drafting of this report, the majority of the other banks have advised that no accounts maintained by the Company have been located.

St. George has subsequently advised the Administrators that the Company's total liability in respect to the above comprises of the following:

Facility	Amount ($)
Bills Matured Account	1,166,346.74
Overdraft / Trade Refinance Facility	803,538.25
Total	**1,969,884.99**

The Administrators advise that St. George's fixed and floating charge has priority over the fixed and floating charge registered to NCF.

The Administrators also note that the St. George facility is also secured by way of registered mortgages over real properties owned by related parties as well as registered fixed and floating charges and cross guarantees over a number of related entities. Furthermore, the Directors of the Company and Mr John Kelly's wife, Mrs Susan Kelly, have also provided personal guarantees to St. George in respect to the above detailed outstanding amounts.

Note 7. Secured Creditor – NCF

As detailed earlier herein, the records held with the ASIC reveal that the assets of the Company are also subject to a fixed and floating charge registered in favour of NCF in respect to monies advanced to the Company on 10 October 2011. NCF has subsequently advised the Administrators that the Company's total liability under this facility totalled $134,658.55 as at the date of appointment of the Administrators.

As advised earlier, St. George's fixed and floating charge has priority over the fixed and floating charge registered to NCF.

Note 8. Priority Employee Entitlements

Pursuant to Section 556(1)(e) of the Act, in the event that the Company is placed in liquidation, any claims for outstanding employee entitlements (except excluded employee claims) are afforded a higher priority against the Company's assets. It should be noted that outstanding employee entitlements including wages, annual leave, long service leave, payment in lieu of notice ("PILN") and severance payments are further protected under the General Employee Entitlements and Redundancy Scheme ("GEERS") which is administered by the Department of Education, Employment and Workplace Relations in the event that the Company is placed in to liquidation.

However, outstanding superannuation contributions are not protected under GEERS. In the case of any future priority dividend distribution, the ATO is the relevant authority to prove for outstanding superannuation contributions that were not paid within the statutory time period, who will then distribute the priority dividend to the relevant employees. In addition, the ATO is entitled to claim interest and penalties associated with the outstanding superannuation contributions.

In the event that creditors resolve that the Company be placed into liquidation, Section 556 of the Act defines an 'Excluded Employee' as an employee of the Company who has been at any time during the period of twelve (12) months prior to the appointment acted in the capacity of a director / secretary of the Company and / or any employees who are a relative of a director / secretary. In this regard, Mr Lawrence Kelly, Mr John Kelly and Mrs Raima Kelly are considered Excluded Employees as Directors of the Company, as well as Mr Jason Kelly, Mr Philip Kelly and Mrs Susan Kelly, in their capacities as relatives of the Directors of the Company, are also considered Excluded Employees. Accordingly, they will only be entitled to claim priority employee entitlements to a limit of $3,500 each, being $2,000 for outstanding wages & superannuation and $1,500 for accrued annual leave, leave loading, long service leave, PILN and redundancy entitlements.

As mentioned earlier herein, the Company employed fifteen (15) staff as at the date of appointment of the Administrators, comprising of nine (9) full-time staff (including the current Directors and related parties of the Directors) and six (6) part-time staff. During the period of their appointment, the Administrators terminated the employment of all the Company's employees as part of their winding down of the Company's operations. The following table provides a summary of the Company's outstanding employee entitlements based upon the records of the Company and information known to the Administrators:

Entitlements	Priority ($)	Non-Priority - Excluded Employees ($)	Total ($)
Wages	29,498	131,035	160,533
Superannuation	105,906	18,890	124,795
Annual Leave	40,176	164,906	205,082
Leave Loading	7,001	28,859	35,859
Long Service Leave	42,212	25,738	67,950
PILN	24,473	25,716	50,189
Redundancy	76,274	92,339	168,612
Total	**325,540**	**487,482**	**813,021**

The Administrators note that due to the poor state of the Company's records, they are unable to accurately reconcile outstanding superannuation contributions owing to the Company's employees. However, the Proof of Debt lodged by the ATO reveals that the Company is liable to pay Superannuation Guarantee Charges ("SGC"), penalties and associated interest in respect to outstanding superannuation contributions in the amount of $84,195.87 for the period 1 April 2009 to 30 June 2010. The Administrators have estimated further unpaid superannuation contributions in addition to the Company's SGC debt to be approximately $40,599.57, resulting in an overall liability in respect to unpaid superannuation contributions of approximately $124,795.44. Again, the Administrators note that due to the poor state of the Company's records and the failure of the Company's management accounts to provide for outstanding employee entitlements, the Administrators are unable to determine the Company's true position in respect to outstanding superannuation contributions.

It should be noted that priority employee entitlements are paid in priority to the secured creditor claims of St. George and NCF from realisations of the assets subject to a floating charge. Accordingly, such assets would include the realisation of the Company's trading stock, trade debtors, and any recoveries of loan accounts.

Note 9. Unsecured Creditors

ATO Claim

The ATO has lodged a claim with the Administrators in the amount of $763,333.32 in relation to the Company's Running Balance Account ("RBA") deficits in respect to Business Activity Statement ("BAS") liabilities, income tax liabilities and interest charges incurred. In addition, the ATO has advised that the Company has failed to lodge the following:

- Activity Statements for the months ending July 2011, August 2011, October 2011, November 2011 and January 2012 and the quarters ending 30 September 2011, 31 December 2011 and 31 March 2012;
- Outstanding Income Tax Returns for the years ending 30 June 2008, 30 June 2009, 30 June 2010, 30 June 2011 and 30 June 2012; and
- PAYG Payment Summaries for the years ended 30 June 2003, 30 June 2004, 30 June 2005, 30 June 2010, 30 June 2011 and 30 June 2012.

Due to the inaccuracies of the management accounts of the Company, the Administrators are unable to estimate the Company's BAS and income tax liabilities in respect to the above outstanding lodgement periods.

Ordinary Unsecured Creditor Claims

The records of the Company disclose that as at the date of the appointment of Administrators, the Company had ordinary unsecured creditors totalling $636,056.97. Enclosed herewith is a detailed schedule of all known ordinary unsecured trade creditors of the Company. As at the date of drafting this report, four (4) Proofs of Debts totalling $8,339.94 have been lodged by the known ordinary unsecured creditors in the administration. However, a detailed review of the Proofs has not yet been undertaken and accordingly, the value of creditors claims that would be admitted to rank for a dividend may differ when the final adjudication process is undertaken.

A formal Proof of Debt form is attached to this report for those creditors who are yet to submit a claim and supporting documentation.

INVESTIGATIONS

Comments concerning the investigations into voidable transactions and other investigations required by the Act are set out below.

In accordance with the requirements of Corporations Regulations 5.3A.02, the Administrators have sought to establish whether there are any transactions in respect of which money, property or other benefits may be recoverable by a Liquidator, if appointed, to the Company under Part 5.7B of the Act.

1. Insolvent Trading

Section 588G of the Act provides that a director, including a shadow or de-facto director, of a company may be held personally liable for debts incurred at a time when the company was proven to be insolvent or became insolvent as a result of incurring a debt.

Pursuant to Section 588G of the Act, a director of a company has a duty to prevent the company from trading whilst insolvent. If a director is found guilty of such an offence, the director may be held liable for the debts incurred by the Company during the period it traded whilst insolvent.

It has been established that insolvency is primarily based on a cash flow test, although a balance sheet test may also be used to support the results of the cash flow test. Accordingly, to prove insolvency, it requires a consideration of the Company's circumstances in their entirety.

For the purpose of the investigations discussed in this section, the Administrators' preliminary investigations have revealed that the Company may have traded whilst insolvent from <u>at least 1 April 2009</u>. This is based on the following indicators:

i. <u>Inability to produce timely and accurate financial information to display the Company's trading performance and financial position, and make reliable forecasts.</u>

   As advised through-out this report, the Administrators' observations of the Company's business have revealed that its accounting and operations systems and practices are out-dated and have been neglected for quite some time. Furthermore, the Company has failed to produce financial statements since the 2009 financial year. Subject to further investigations and the provision of records, the Company may be deemed to have failed with Section 286 of the Act with respect to the requirement to keep adequate records. Section 588E(4) of the Act provides that a Company is presumed insolvent for the period which it failed to maintain adequate records.

ii. <u>Overdue Taxation Liabilities</u>

   As noted above, the ATO has lodged a claim with the Administrators in the amount of $763,333.32 in relation to the Company's RBA deficit debt in respect to BAS liabilities, income tax liabilities and interest charges incurred. In addition, the ATO has advised that the Company has failed to lodge numerous tax assessments and accordingly, its debt is subject to change. This culminated in the DCT filing a winding up application against the Company on 15 December 2011.

   The failure to lodge tax assessments on time and the failure to maintain its payment obligations can be an indicator that it was not able to meet all of its statutory obligations as and when they fell due. Often when a company is experiencing difficulty in meeting its obligations to trade creditors, it will neglect its taxation obligations to assist with cash flow.

iii. <u>Outstanding Superannuation Contributions</u>

   As noted above, the ATO Proof of Debt reveals that the Company is be liable to pay SGC in respect to outstanding superannuation contributions, penalties and interest charges in the amount of $84,195.87 for the period 1 April 2009 to 30 June 2010.

   Furthermore, the Administrators' review of the Company's employee records has revealed that the Company has outstanding superannuation contributions, including the above SGC liability, totalling $124,795.44.

   An employer is required to pay superannuation contributions to the relevant superannuation funds within twenty-eight (28) days of the quarter end. In this regard, it appears that the Company may have failed to make