



McGrathNicol

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Southern Engineering Services Pty Ltd ACN 000 091 716
S.E.S. Pumpcare International Pty Ltd ACN 126 015 236
Southern Engineering (Saltire) Services Pty Ltd ACN 160 389 515
(All In Liquidation) (collectively "the Companies")

Circular to Creditors

21 December 2016

I refer to my appointment with Barry Kogan as Voluntary Administrator of the Companies on 18 August 2014 and subsequently as Liquidator on 22 September 2014. I also refer to my previous annual report dated 14 December 2015.

Pursuant to Section 508 of the *Corporations Act 2001*, the Liquidators are required to convene an Annual Meeting of Creditors or lodge an annual report on the progress of the liquidation with the Australian Securities & Investments Commission ("ASIC") when a voluntary winding up continues beyond 12 months.

The Liquidators have determined to prepare a report rather than convene an Annual Meeting of Creditors at this time, but may convene a meeting (or meetings) of creditors of the Companies at a later date. A copy of this Report has also been lodged with ASIC and is available at www.mcgrathnicol.com.

Alternatively, should creditors require a copy of the report or have any queries in relation to the above, please contact Paul Daryaei of my staff on (02) 9338 2648 or pdaryaei@mcgrathnicol.com.

Yours faithfully

Southern Engineering Services Pty Ltd (In Liquidation)
S.E.S. Pumpcare International Pty Ltd (In Liquidation)
Southern Engineering (Saltire) Services Pty Ltd (In Liquidation)

Shaun Fraser
Joint and Several Liquidator

Enclosure:

Annual Report to Creditors

D14-161220-SOUTENG03-s508-AnnualReport 2016 FINAL-PD

In association
with



Liability limited by a scheme
approved under Professional
Standards Legislation

Advisory
Forensic
Transactions
Restructuring
Insolvency



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21 December 2016

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Dear Creditors

By Post and Email

Annual Report to Creditors

Southern Engineering Services Pty Ltd ACN 000 091 716 ("SES")

S.E.S. Pumpcare International Pty Ltd ACN 126 015 236 ("Pumpcare")

Southern Engineering (Saltire) Services Pty Ltd ACN 160 389 515 ("Saltire")

(All In Liquidation) (collectively "the Companies")

I refer to my appointment with Barry Kogan as Voluntary Administrator of the Companies on 18 August 2014 and subsequently as Liquidator on 22 September 2014.

This annual report to creditors covers the following matters which have occurred since my last annual report dated 14 December 2015 to creditors:

- Asset sales
- WIP and debtor collections
- Preference claims
- General administrative matters
- Receipts and payments and outline of estimated return to creditors
- Next steps in the liquidation
- Outline of liquidation fees

1 Asset sales

The bulk of the Companies' assets have now been sold. We have recently assisted a third-party in recovering an amount from the Company's pre-appointment insurer relating to equipment that was stolen from SES' premises. This amount was collected on behalf of the third-party and transferred in early 2016.

Other recoveries made by the Company in the period 1 November 2015 to 30 November 2016 include the following:

- Sale of remaining plant and equipment;
- Recovery of insurance claim for stolen plant and equipment from Port Kembla and Kurri Kurri sites; and
- Sale of two remaining motor vehicles.

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2 WIP and debtor collections

As at the date of my previous report, circa 85% of pre-appointment SES debtors had been collected. Work has been undertaken since then to determine the recoverability of the remaining outstanding balance.

The largest outstanding debtor remaining is Bluescope, which has a debtor book value of circa \$750k. It has paid circa \$100k of that debt to date. Bluescope has disputed the bulk of the residual balance and we are continuing work to resolve this issue.

3 Preference claims

We have investigated the affairs of the Companies to assess other possible recoveries that may be available for creditors' benefit in the liquidation.

As noted in our previous annual report, we have concluded that SES was insolvent for at least two years prior to the commencement of the winding up. As a result, we consider it likely that certain creditors may have received preferential payments during a period where SES was insolvent.

Section 588FA of the Corporations Act sets out circumstances where a liquidator can recover preferential payments as voidable transactions. Voidable transaction recoveries increase the pool of funds available to priority unsecured creditors (e.g. employees and Fair Entitlements Guarantee Scheme).

3.1 Preference payment claims

Pursuant to the *Corporations Act 2001 (Cth)* ("the Act"), a liquidator may treat payments made to suppliers within the 6 months prior to the company entering external administration as voidable, if the result of the payment is to provide a return to the creditor that exceeds the return the creditor would receive in a liquidation.

We have continued our process in respect of potential preference payment claims, which includes:

- completing a detailed forensic review of the Companies' books and records to identify creditors that received payments that satisfy the relevant criteria for a preference payment. As we continue to progress this review, it is likely that we will identify certain preferences as unrecoverable;
- conducting analysis on the Companies' accounts to form an opinion on solvency, which is necessary in order to support the demands for preference payments;
- completing a detailed review of all claim amounts to confirm accuracy of the demands; and
- determining the recoverability of all preference payments on a case by case basis.

As a result of the above investigations, the Liquidators initially identified potential preference claims exceeding \$4 million. We have commenced recovery action in relation to these amounts:

Southern Engineering Services Pty Ltd (In Liquidation)

Key potential voidable preference payments

A\$'000

Creditor	Value of claim (\$)
Australian Taxation Office	3,065
American Express	1,620
Other creditors (87 total)*	Withheld

**We have withheld this information due to the ongoing and sensitive nature of this matter.*



Since my last report dated 14 December 2015, the Liquidators have:

- issued letters to a further 50 creditors of SES in relation to preference claims;
- requested information from the Australian Taxation Office ("ATO") pursuant to the *Freedom of Information Act 1982 (Cth)* in order to finalise the demand to be served on the ATO. We will shortly lodge with the ATO a claim in respect of the ATO preference;
- responded to queries in relation to the demands issued and compiled a detailed listing of the responses received to date; and
- liaised with our lawyers in order to form an opinion as to the next steps required to progress the claims.

The possible recoveries from voidable transactions are significant and may impact the ultimate outcome of the liquidation, and provide funds for distribution to priority creditors.

We will continue to consider claims on a case by case basis assessing the commerciality of pursuing each claim, bearing in mind the value of the potential recoveries and costs of further pursuit / litigation. We may commence litigation in respect of certain claims, subject to responses received from counterparties.

3.2 Allegations against former employee of SES

As noted previously, allegations of fraudulent conduct have been made against a former employee of SES and potentially suppliers or customers who may have been complicit in the fraud. We have conducted initial investigations into the allegations, and reported this matter to ASIC and the NSW Police.

3.3 Claim for insolvent trading and related matters

As noted above, our review of books and records indicates that the Companies may have been trading while insolvent since at least June 2013.

Accordingly, claims for insolvent trading against the directors may be available in the liquidation. As noted above in relation to preference payments, we will consider the commerciality of pursuing such claims and will liaise with the Committee further in this regard.

Claims in this regard may include claims against the directors for uncommercial transactions, related party transactions and insolvent trading. A key consideration in determining whether to proceed with such claims will be the financial capacity of the directors to pay any amounts claimed.

We have lodged a Liquidators report with ASIC, pursuant to section 533 of the *Corporations Act 2001* ("the Act"). ASIC has requested further information with respect to our preliminary findings. Our discussions with ASIC is ongoing at this stage and all information relating to these matters currently remains confidential. Creditors will be updated where information becomes available.

4 General administrative matters

A number of other general administrative matters have been attended to during the course of the liquidation, including:

4.1 Incorrect payments to pre-appointment bank account

A number of parties have incorrectly transferred funds to Pumpcare's pre-appointment bank account. We are continuing to liaise with these parties and ANZ to arrange the refund of these amounts.



4.2 Issued Subpoena

A subpoena was lodged in the New South Wales Supreme Court on 15 September 2016 by Southern Environmental Services Pty Ltd ("SENV"), a related entity of SES. The subpoena sought information relating to Drum Manipulators that were leased by SENV to SES prior to our appointment.

A copy of all relevant files located were recalled and forwarded to SENV's legal representative in order to comply with the subpoena in October 2016.

5 Receipts and payments and estimated returns to creditors

5.1 Receipts and payments

Set out at Annexure A are summaries of the receipts and payments for SES and Pumpcare for the period 1 November 2015 to 31 November 2016. There have been no receipts and payments in Saltire as we have been unfunded in this administration in (all Saltire assets were financed by NAB and funds realised paid directly to NAB).

5.2 Estimated return to creditors – SES

We are continuing to review and refine the estimated return to creditors of SES and intend to provide further information to creditors and/or the committee of creditors in the coming period.

Our current assessment is that it appears that there will be insufficient funds in the liquidation for a distribution to be made to ordinary unsecured creditors of SES. Our assessment may change in the event the Liquidator succeeds in pursuing the potential claims discussed in section 3 above.

Voidable transaction recoveries by the Liquidator are available to cover the general costs of the liquidation and claims of unsecured creditors. These funds are not generally subject to the claim of the secured creditor.

5.3 Estimated return to creditors – Pumpcare

We are continuing to review and refine the estimated return to creditors of Pumpcare and intend to provide further information to creditors in the coming period.

Our current assessment is that it appears that there will be insufficient funds in the liquidation for a distribution to be made to ordinary unsecured creditors of Pumpcare.

Priority creditors of Pumpcare (i.e. employees) have been paid out in full from asset realisations. An amount of circa \$215k was paid out to discharge priority employee entitlements outstanding at appointment.

5.4 Estimated return to creditors – Saltire

Assets of Saltire were secured and financed by NAB. There are no surplus of funds in this entity for a distribution to be made to unsecured creditors of Pumpcare, including the Liquidators' costs and expenses.

6 Next steps in the liquidation

As noted in section 6 below, the majority of liquidation tasks are now complete. The following table provides a brief outline and timeline of key areas of focus in the liquidation going forward.



Area	Key steps	Estimated completion date
Fixed / floating asset sales	<ul style="list-style-type: none">Final auction of the residual Company assets.Investigate potential tax refunds.	30 June 2017
Debtor collections	<ul style="list-style-type: none">Finalise disputed claims.	30 June 2017
Insolvent trading and voidable transaction recovery pursuit	<ul style="list-style-type: none">Finalise plan for Liquidator examinations.Respond to creditor responses to claims.	31 March 2017 (this date may be extended subject to creditor responses to claims and litigation required)
Attend to administrative requirements and finalisation matters	<ul style="list-style-type: none">Ongoing lodgements with ASIC and ATOAttend to statutory lodgementsLiaise with committee as requiredFinalise liquidation	30 June 2017

7 Outline of liquidation fees

7.1 Fees for the period 7 October 2014 to 9 December 2016

At the committee of inspection meeting on 7 March 2016, fees of \$880,473.40 were approved by creditors for the period 7 October 2014 to 6 November 2015 for the liquidation of SES. Future remuneration was also approved from 9 November 2016 of \$300,000. Of this amount, \$213,062.20 has been drawn to date.

We have currently incurred fees outstanding in relation to the Pumpcare external administration of circa \$100k for the period 8 October 2014 to 9 December 2016. We intend to convene a meeting of creditors of Pumpcare to seek approval in the new year for fees incurred.

If you have any queries in relation to this matter, please contact Mr Paul Daryaei of my staff on (02) 9338 2648.

Yours faithfully

Southern Engineering Services Pty Ltd (In Liquidation)
S.E.S. Pumpcare International Pty Ltd (In Liquidation)
Southern Engineering (Saltire) Services Pty Ltd (In Liquidation)

Shaun Fraser
Joint and Several Liquidator

Enclosures:

Appendix A – Summaries of receipts and payments – 1 November 2015 to 30 November 2016



Annexure A – Summaries of receipts and payments – 1 November 2015 to 30 November 2016

Southern Engineering Services Pty Ltd (In Liquidation)

Summary of receipts and payments - 1 November 2015 to 30 November 2016

	Amount (\$)
Opening Balance	2,214,837
Receipts	
Funds received from FEG	27,452
GST Received	3,420
Interest Income	21,803
Plant and Equipment realisation	125,159
Legal Recoveries	62,116
Pre-appointment debtor receipts	179,454
Pre-appointment trading	8,031
Insurance Recovery - Stolen Plant and Equipment	68,517
Total Receipts	495,951
Payments	
Agent's Fees	(4,438)
Document Storage	(13)
Fees: Appointee Fees	(1,215,011)
GST Paid	(6,340)
Insurance	(322)
IT Services	(15,013)
Legal Fees and Disbursements	(14,728)
PAYG	(4,856)
Employee Entitlements	(27,452)
Printing and Stationery	(4,427)
Various refunds	(29,457)
Payment to owner of Stolen Plant and Equipment	(68,517)
Repayment of funds received in error	(30,528)
Sale Expenses	(119,257)
Search Fees	(22)
Total Payments	(1,540,380)
Net receipts and payments for the period 1 November 2015 to 30 November 2016	(1,044,429)
Closing Balance	1,170,408



S.E.S. Pumpcare International Pty Ltd (In Liquidation)

Summary of receipts and payments - 1 November 2015 to 30 November 2016

	Amount (\$)
Opening Balance	130,875
Receipts	
GST Received	167
Interest Income	196
Refunds	1,830
Total Receipts	2,193
Payments	
GST Paid	(166)
Total Payments	(166)
Net receipts and payments for the period 1 November 2015 to 30 November 2016	2,027
Closing Balance	132,902