



Initial Remuneration Notice

Sound Diagnostics Pty Ltd (Administrators Appointed) (Controllers Appointed) ACN 116 377 201 (Sound Diagnostics)

The purpose of the Initial Remuneration Notice is to provide you with information about how we propose our remuneration for undertaking the Administration will be set.

1 Remuneration methods

There are four basic methods that can be used to calculate the remuneration charged by an insolvency practitioner in an Administration. They are:

- A. Time based/hourly rates:** This is the most common method. The total fee charged is based on the hourly rate charged for each person who carried out the work, multiplied by the number of hours spent by each person on each of the tasks performed.
- B. Fixed Fee:** The total fee charged is normally quoted at the commencement of the Administration and is the total cost for the Administration.
- C. Percentage:** The total fee charged is based on a percentage of a particular variable, such as the gross proceeds of asset realisations.
- D. Contingency:** The fee is structured to be contingent on a particular outcome being achieved.

2 Method chosen

Given the nature of this external administration, we propose that our remuneration be calculated on a time basis which will be recorded and charged in six minute increments. Details of the hourly rates for different levels of staff are included below. The complexity and demands of the external administration will determine the staff to be utilised for this appointment

We have chosen the time based method because:

- This method is considered to be most suitable for this appointment as it ensures creditors are only charged for work that is performed in the Administration, which can be difficult to accurately estimate at the date of appointment.
- Even later than the date of appointment, it can be difficult to estimate the time that may be required in advance of the substantive work being undertaken. The time based method in this case again ensures that creditors are only charged for work that is actually performed in the Administration.
- We are required to perform a number of tasks which do not relate to the realisation of assets, for example responding to creditor enquiries, reporting to ASIC and distributing funds in accordance with the provisions of the *Corporations Act*.
- We have a time recording system that can produce a detailed analysis of time spent on each type of task by each individual staff member utilised in the Administration.
- Time based remuneration calculates fees upon a basis of time spent at the level appropriate to the work performed.



3 **Explanation of Hourly Rates**

The rates for our remuneration calculation are set out in the following table, together with a general guide showing the qualifications and experience of staff engaged in the Administration and the role they take in the Administration. The hourly rates charged encompass the total cost of providing professional services and should not be compared to an hourly wage.

Title	Description	Hourly rate (excl GST)
Appointee/Partner	Registered liquidator, Chartered Accountant or equivalent and generally degree qualified with more than twelve years of experience. Leads assignments with full accountability for strategy and execution.	\$595
Director 1	Generally Chartered Accountant or comparable qualification and degree qualified with more than ten years of experience, including four years of Director or equivalent experience. Autonomously leads complex insolvency appointments reporting to Appointee/Partner.	\$550
Director	Generally Chartered Accountant or comparable relevant qualification and degree qualified with more than nine years of experience. Autonomously leads insolvency appointments reporting to Appointee/Partner.	\$525
Senior Manager	Generally Chartered Accountant or comparable relevant qualification and degree qualified with more than seven years of experience. Self-sufficiently conducts small to medium insolvency appointments and leads major workstreams in larger matters.	\$475
Manager	Generally Chartered Accountant or comparable relevant qualification and degree qualified with more than five years of experience. Self-sufficiently conducts small insolvency appointments and takes a supervisory role on workstreams in larger matters.	\$450
Assistant Manager	Generally Chartered Accountant or comparable relevant qualification and degree qualified with more than three years of experience. Autonomously manages workstream activity within appointments.	\$410
Senior Accountant	Generally degree qualified and undertaking Chartered Accountant's qualification or comparable relevant qualification with more than 16 months of experience. Completes tasks within workstreams and appointments under supervision.	\$380
Accountant	Generally degree qualified and undertaking or about to undertake Chartered Accountant's qualification or comparable relevant qualification with less than one year of experience. Assists with tasks within workstreams and appointments under supervision.	\$305



Title	Description	Hourly rate (excl GST)
Undergraduate/Cadet	Undertaking relevant degree. Assists with tasks within workstreams and appointments under supervision.	\$180
Practice Services Director	National Practice Service leaders, generally degree qualified with more than ten years of experience and reporting directly to partners. Technical experts in their specific areas and have team management responsibilities.	\$550
Senior Treasury staff	Appropriately experienced and undertakes senior Treasury activities such as oversight of the processing of payment of receipts and banking administration. May be responsible for day to day management of projects or operations and may have supervisory responsibility for junior staff.	\$380
Senior Client Administration and Treasury	Appropriately experienced and undertakes senior level administrative support activities or Treasury activities. May be responsible for day to day management of projects or operations and may have supervisory responsibility for junior staff.	\$305
Administration	Appropriately experienced and undertakes support activities such as meeting coordination and preparation of materials where it is efficient and appropriate to do so.	\$180

McGrathNicol reviews its hourly rates on either 31 December or 30 June. Creditors will be advised of any change to the hourly rates for this external administration.

4 **Estimated remuneration**

We estimate that this Voluntary Administration will cost approximately \$100,000 to \$150,000 to complete, subject to the following variables, which may have a significant effect on this estimate and that we are unable to determine at this early stage:

- for trading administrations, the unpredictable level of work required to trade the business and take control of all staffing and operational matters as required by the Corporations Act;
- the level of statutory and regulatory notifications required, which is driven by specific industry requirements that are more arduous in a medical services business;
- the number and value of claims that may be received in the external administration and work that may be required to adjudicate on those claims for voting purposes;
- as legal claims were on foot pre appointment, the timeframe to resolution becomes very significantly impacted by the conduct of the defendant and their willingness to resolve the claim by a negotiated settlement, as well as Court timeframes, both of which are difficult to predict;
- additional work applicable to understanding and applying new laws and regulation related to the Covid-19 pandemic;
- uncertainty around the timing and manner of potential offers to purchase the business as a going concern; and
- the requirement to consider any Deed of Company Arrangement which may be proposed.



Prior to our appointment, we provided a qualified estimate of the cost of the external administration to the director. The estimate above is broadly consistent with the estimate provided to the director prior to our appointment. To the extent it is higher than the initial estimate, this is because of the costs that have been incurred within the work stream where a more definitive cost estimate could not be provided during those initial discussions and also due to having a more complete understanding of the work required to oversee trading activities and deal with creditors of the business at this time.

5 Disbursements

Disbursements are divided into two types:

- **External disbursements** – these are recovered at cost. Examples are travel, accommodation, postage, advertising, couriers and search fees.
- **Internal disbursements** – these disbursements are charged at a rate which recoups both fixed and variable costs and may include an element of profit or advantage to the External Administrator or a related party of the External Administrator. Examples are printing and data storage. The recovery of these costs must be on a reasonable commercial basis. Details of the basis of recovery of each of these costs is discussed below.

We are not required to seek creditor approval for disbursements paid to third parties where I am recovering at cost what was incurred on behalf of the administration, but must account to creditors. We must be satisfied that these disbursements are appropriate, justified and reasonable.

We are required to obtain creditor's consent for the payment of a disbursement where we, or a related entity of ours, may directly or indirectly obtain a profit. In these circumstances, creditors will be asked to approve our disbursements prior to these disbursements being paid from the Administration.

Details of the basis of recovering disbursements in this external administration are provided below.

For clarity, it is noted that any time costs of any employee of McGrathNicol or any associated entity will be reported as part of our remuneration, for which approval may be sought.

Basis of disbursement claim

<i>Disbursement type</i>	<i>Rate (GST exclusive)</i>
External disbursements	
Postage	At cost
Stationery and other incidental disbursements	At cost
Conference call phone charges	At cost
Searches	At cost
Advertising	At cost
Courier	At cost
Staff per diem travel allowance*	\$89.00 per day**



<i>Disbursement type</i>	<i>Rate (GST exclusive)</i>
Staff vehicle use	\$0.68 per km**
ASIC user pays levy	At cost
Internal disbursements (that may have an element of profit or advantage)	
Data processing – data loading & processing fee	\$20-\$60 per gigabyte (GB)***, minimum \$3,000 for matters less than 50GB.
Data hosting – monthly hosting fee	\$10 per GB, per month. Minimum \$1,000 for small matters. Large matters are priced on application.
Printing – black and white	\$0.09 per page
Printing – Colour	\$0.28 per page

* Tiered pricing model depending on volume of data to be hosted

** Payable when partners or staff are required for business purposes to stay away from their usual place of residence overnight

*** These rates are deemed reasonable by the Australian Taxation Office

Further explanation of data hosting disbursements

In the conduct of this Administration, we may use McGrathNicol's Forensic Technology team to extract, aggregate, electronically process and/or host electronic data, which could be used for the:

- trade or sale of the business or assets; and/or
- investigations regarding transactions or potential recoveries available to creditors.

If data hosting is required and we choose not to use the services of McGrathNicol's Forensic Technology team, we will otherwise have to purchase those services from an alternative provider and/or use another method to achieve the same end, which will not be as efficient as using these available internal services.

We note that the data hosting rates above are no more than our standard commercial pricing available for the same services when they are provided to external parties.

28 May 2020