



Dalcassian Consulting Pty Ltd (Administrators Appointed)

ACN 115 029 055

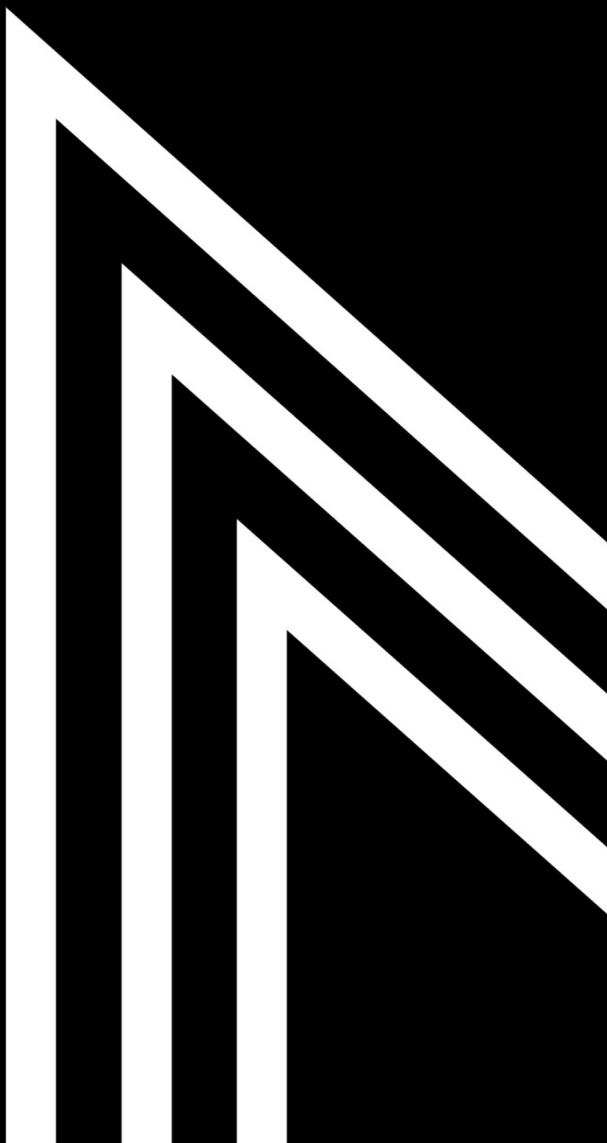
(Dalcassian)

Administrators' report to creditors

28 May 2020



McGrathNicol

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Definitions and abbreviations

In this Report, unless otherwise provided, please refer to the following definitions and abbreviations:

Term	Definition
ACN	Australian Company Number
Act	Corporations Act 2001
Administrators	Rob Kirman and Rob Brauer of McGrathNicol the voluntary administrators of Dalcassian
Agency Agreement	Agency Agreement between Dalcassian and Zircom Business Marketing Pty Ltd
ARITA	Australian Restructuring, Insolvency & Turnaround Association
ARITA Code	ARITA Code of Professional Practice
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AWST	Australian Western Standard Time
Bankwest	Commonwealth Bank of Australia Ltd trading as Bankwest
BAS	Business Activity Statement
BSA	Business Sale Agreement executed with Fields on 8 May 2020
CA	Confidentiality Agreement
COI	Committee of Inspection
Completion	Settlement of the Business and Assets Sale Agreement with Fields on 12 May 2020
Deed Administrators	Rob Kirman and Rob Brauer (if a DOCA is executed)
Director	Lisa Kennedy in her capacity as sole director of Dalcassian
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
DOCA Proposal	DOCA proposed by the Proponent on 26 May 2020
EOI	Expression of Interest
ERV	Estimated Realisable Value
FEG	Fair Entitlements Guarantee
Fields	Fields Accounting Pty Ltd
First Meeting	First Meetings of Creditors, held on 12 May 2020 pursuant to section 436E of the Act
Former Director	The late James Kennedy
FSV	Forced sale value
FYXX	Financial year ended 30 June 20XX
FY20YTD	The period 1 July 2019 to 30 April 2020
GST	Goods and Service Tax
Landlord	Ross Hughes Property
Liquidators	Rob Kirman and Rob Brauer (if creditors resolve to wind up Dalcassian at the Second Meeting and appoint the Administrators)
NBO	Non Binding Offer
NBV	Net Book Value

Term	Definition
PAYG	Pay as You Go Withholding
POD	Proof of Debt
PPSR	Personal Property and Securities Register
Premises	Leased facility at Suite C2, 1, the Esplanade Mount Pleasant, WA 6153
Proponent	The proponent of the DOCA Proposal, being Mrs Lisa Kennedy
Relation Back Period	Six months from the appointment of the Administrators, being 30 October 2019
Report	This report, prepared in accordance with Section 439A of the Act
ROCAP	Report on Company Affairs and Property
Second Meeting	Second Meeting of Creditors to be held on 5 June 2020 pursuant to section s439A of the Act
WA	Western Australia
WIP	Work in Progress
YTD	Year to date
Zircom	Zircom Business Marketing Pty Ltd

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1 Executive Summary

1.1 Appointment

On 30 April 2020, the Director appointed Rob Kirman and Rob Brauer as Voluntary Administrators of Dalcassian, pursuant to section 436A of the Act.

Immediately following the appointment, the Administrators entered into control and possession of the assets and undertakings of Dalcassian.

1.2 Object of Administration

Voluntary Administrators are empowered by the Act to assume control of insolvent companies (or those likely to become insolvent), superseding the power of the directors and officers, to manage the company's affairs and deal with their assets in the interest of creditors and members (if applicable).

The intention of voluntary administration is to maximise the prospects of an insolvent company continuing in existence or, if that is not possible, to achieve a better return to creditors and members (if relevant) than would be achieved in a liquidation.

During voluntary administration there is a moratorium in respect of most pre-administration creditor claims, and the administrators are required to investigate the company's affairs and report to the creditors on the possible outcomes. Ultimately, the outcome of administration is determined by the creditors of the insolvent company at a second meeting of creditors.

1.3 Purpose of report

Pursuant to section 439A of the Act, the Administrators must convene the Second Meeting and provide:

- a report about the business, property, affairs and financial circumstances of Dalcassian (i.e. this Report); and
- a statement setting out the Administrators' opinion, supported by their reasons (included in this Report), about each of the following matters:
 - whether it would be in creditors' interest for the administration to end;
 - whether it would be in creditors' interest to execute a DOCA and, if a DOCA is proposed, a statement setting out details of the proposed DOCA; and
 - whether it would be in creditors' interest for Dalcassian to be wound up.

Creditors are able to vote on the options above at the Second Meeting, which will determine the future of Dalcassian. A DOCA may only be voted on if a proposal is submitted to the Administrators. Alternatively, the Second Meeting may be adjourned for up to 45 business days, or extended by the Court.

The purpose of this Report is to inform creditors about the Administrators' investigations into Dalcassian's business, property, affairs and financial circumstances so that they may make an informed decision regarding the future of Dalcassian at the Second Meeting.

1.4 First Meeting

Section 436E of the Act requires the Administrators to conduct the First Meeting within eight business days of their appointment. The only business capable of being conducted by creditors at the First Meeting is to appoint alternative administrators (if relevant) and/or form a COI.

The First Meeting was held on 12 May 2020. No nominations for alternative Administrators were received and the creditors elected not to form a COI.

The minutes of the First Meeting were lodged with ASIC and creditors may obtain a copy from ASIC or by contacting this office.

1.5 Convening period

Section 439A of the Act requires the Administrators to convene a second meeting of creditors within 20 business days (or 25 business days in certain circumstances) of being appointed. This is referred to as the "convening period". The second meeting of creditors is to be held within 5 business days before or after the end of the convening period.

The BSA completed on 12 May 2020 and the DOCA Proposal was received on 26 May 2020. Accordingly, an extension to the convening period was not considered necessary.

1.6 Second Meeting

The purpose of the Second Meeting is for creditors to:

- resolve the future of Dalcassian. The options available include whether Dalcassian should:
 - be returned to the control of the Director; or
 - enter into a DOCA; or
 - enter into liquidation.
- consider and, if thought fit, approve the remuneration of the Administrators; and
- if Dalcassian accepts a DOCA proposal:
 - consider and, if thought fit, approve the prospective remuneration of the Deed Administrators.
- if Dalcassian is wound up:
 - consider and, if thought fit, approve the prospective remuneration of the Liquidators;
 - consider the appointment of a COI;
 - consider authorising the Liquidators to destroy the books and records of Dalcassian earlier than the standard statutory period, should consent from ASIC be obtained;
 - consider authorising the Liquidators to compromise debts of Dalcassian under Section 477(2A) of the Act; and
 - consider authorising the Liquidators to enter into agreements that may take longer than three months to complete under Section 477(2B) of the Act.

The Second Meeting for Dalcassian has been convened for 5 June 2020. Important information regarding the Second Meeting is set out below.

Particulars of Second Meeting

Date	Friday 5 June 2020
Time	10:00am
Technical place of Meeting	Level 19, 2 The Esplanade, Perth WA 6000
Method of attendance	Via teleconference
Deadline for return of meeting documents	4pm, Thursday, 4 June 2020
Electronic facilities available	Yes
Meeting enquiries	Phoebe Donaldson - (08) 6363 7619

A Form 529A 'Notice of Second Meeting of Creditors' is attached to this report, together with Form 535 'Formal Proof of Claim' and Form 532 'Appointment of Proxy'.

Creditors wishing to attend and participate in voting at the Second Meeting are required to complete and return Form 535 and Form 532 to this office no later than 4.00pm (AWST) on 4 June 2020. Creditors who have already lodged a proof of debt do not need to complete a new proof but will be required to complete and return a Form 532.

Whilst the technical meeting location will be at the offices of McGrathNicol Perth, Level 19, 2 The Esplanade, Perth WA 6000, the Second Meeting will be held via teleconference and/or webcast only and creditors will not be able to attend in person, given the recent government guidance regarding Covid-19 and social distancing measures. Creditors wishing to attend should contact this office on (08) 6363 7600 to obtain particulars (noting that a completed Form 535 and Form 532 will be required for creditors attending via telephone).

A person, or the proxy or attorney of a person who participates in the meeting by telephone, must pay any costs incurred by them in participating and is not entitled to be reimbursed for those costs from the assets of Dalcassian.

1.7 Committee of Inspection

In the event that creditors resolve that Dalcassian be wound up, creditors may resolve to form a COI. A COI be useful to provide the Liquidators with a sounding board as to likely creditor views, and in approving any matters which may be authorised by a COI. At the Second Meeting, creditors will be invited to consider whether a COI should be formed, and if so, to nominate and appoint the members.

If a DOCA proposal is accepted, a COI cannot be formed.

1.8 Trading

As a tax accountancy practice, Dalcassian required an appropriately qualified tax accountant who was authorised to approve tax advice before it could be issued to clients. The Former Director was the only qualified tax accountant employed at Dalcassian, and on his passing, Dalcassian was unable to complete work.

On appointment, the Administrators immediately investigated options to engage a caretaker to enable Dalcassian to continue to service its clients during the Administrators' appointment. After detailed consideration (outlined in section 6.1), the Administrators determined not to engage a caretaker, and instead focused on achieving a sale of the business (refer section 6.2) on an expedited basis. Although no trading costs were incurred, the Administrators incurred costs of circa \$12k associated with maintaining the Premises, information technology support and other costs to enable the sale of Dalcassian.

1.9 Sale and recapitalisation

After the passing of the Former Director, but before the Administrators' appointment, Dalcassian entered into an agency agreement with Zircom (a business broker) to facilitate a sale of Dalcassian's business. Zircom commenced the process of preparing an information memorandum and introducing interested parties.

Before the terms of any sale could be negotiated, the Former Employee resigned on 28 April 2020. Without the assistance of the Former Employee to manage the transfer of clients on the sale of the business, the Director determined a sale could not be achieved, and appointed the Administrators.

Immediately on appointment, the Administrators commenced negotiations with (i) the Former Employee, and (ii) parties who expressed an interest in acquiring Dalcassian, and commenced an expedited sale process to mitigate the risk of clients leaving Dalcassian and to preserve the value in its business.

The sale process is outlined in detail at section 6.2.

In short, CA's were issued to five parties, and completed by four. Three offers were received, being for \$320k (Bidder Four), \$170k (Bidder One / Fields) and \$100k (Bidder Two).

Bidder Two's offer was materially less than the other two offers submitted. Bidder Four's offer included a condition that the Former Employee accept their offer of employment, and remain employed for a period of 12 months. The Former Employee advised the Administrators that they would not accept an offer from Bidder Four.

Accordingly, the Administrators presented a counter offer of \$195k to Bidder One (Fields). Fields rejected the Administrators' counter offer and presented a best and final offer of \$180k. On 8 May 2020, the Administrators entered into an unconditional BSA with Fields, with completion occurring on 12 May 2020.

1.10 Deed of Company Arrangement

Once the BSA had completed, the Administrators prepared a detailed estimated return to creditors, and held meetings with the Director to outline the Company's position and explore options for a DOCA.

The Director (**Proponent**) proposed a DOCA on 26 May 2020, which provides for payment of all priority and unsecured creditor claims in full (**DOCA Proposal**). This is outlined in detail at section 6.3.

1.11 Investigations undertaken

The Administrators have undertaken preliminary investigations into the affairs Dalcassian, with a view to understanding any possible recoveries that may be available for creditors' benefit if Dalcassian were to be placed into liquidation.

Actions taken by the Administrators include:

- issued a ROCAP and questionnaire to the Director of Dalcassian and considered the response;
- reviewed Dalcassian's MYOB accounting file;
- reviewed the books and records of Dalcassian provided to date, including statutory documents and correspondence;
- held discussions with the Director and various other parties regarding the affairs of Dalcassian; and
- conducted searches of publicly available information such as ASIC, the PPSR, DoT and the ATO.

The Administrators' preliminary investigations indicate that Dalcassian may have been insolvent from 17 April 2020 (being the date the Former Director passed away) up to the Administrators' appointment (13 days). This was the period Dalcassian was unable to complete client work, and could not generate income to pay ongoing liabilities.

Notwithstanding this, given the short time between the estimated date of insolvency and appointment of the Administrators (13 days), we do not consider a material claim is likely to be available to creditors in this regard.

Further investigation of these claims would need to be undertaken by a liquidator, should one be appointed.

1.12 Recommendation

At the Second Meeting of creditors to be held on 5 June 2020, creditors will be asked to make a decision by passing a resolution in respect of options available to them.

In this Report, the Administrators have recommended that creditors of Dalcassian accept the DOCA Proposal that has been put forward, noting it facilitates full repayment in a timely manner to all creditors.

2 Administrators' prior involvement

2.1 Initial assessment

The Administrators undertook a proper assessment of the risks to their independence prior to accepting the appointment as Administrators of Dalcassian in accordance with the law and applicable standards. This assessment identified no real or potential threats to their independence. The Administrators were not aware of any reasons that would prevent them from acting as Administrators.

In accordance with section 436D of the Act and the ARITA Code, a DIRRI reflecting the above was provided with the Administrators' first communication to creditors, being notice of the First Meeting.

The DIRRI disclosed the Administrators' independence, that there were no personal or professional relationships with Dalcassian or related parties and no indemnities received in relation to the appointment.

The DIRRI was tabled at the First Meeting and is attached at Appendix A.

2.2 Ongoing assessment

The Administrators continue to monitor and assess their independence in respect of Dalcassian as matters develop and further information becomes available.

At the date of this Report, no additional information or circumstances altering the Administrators' opinion regarding their independence has arisen and, as such, there is no change to the information provided in the DIRRI.

The Administrators remain of the view that our prior professional relationships as outlined in the DIRRI do not create or give rise to any real or perceived conflicts of interest.

3 Background

3.1 History

Dalcassian was incorporated by Mr James Kennedy (the Former Director), in June 2008 and operated as a boutique tax accounting practice from the Premises for the last circa 12 years.

Dalcassian completed tax returns, financial statements, fringe benefit tax returns and provided tax advice for small to medium private and public entities focusing on mining and exploration, as well as providing tax advice to a range of individuals.

Dalcassian has a history of profitable trading and during the circa three year period between July 2017 and April 2020, Dalcassian generated circa \$0.5 million EBITDA from \$1.6 million in revenue.

The Former Director passed away on 17 April 2020 and shortly afterwards, Zircom were engaged to assist with running a sale process to sell the assets and intellectual property of Dalcassian. Due to the resignation of the Former Employee, the Director considered a going concern sale for Dalcassian could not be achieved and noting Dalcassian had no appropriately qualified employee to enable it to finalise tax advice, the Director formed the view that Dalcassian was either insolvent, or likely to become insolvent, and appointed the Administrators on 30 April 2020.

3.2 Company details

The key particulars of Dalcassian are as follows:

Company Details	
Full name	Dalcassian Consulting Pty Ltd
ACN	115 029 055
ABN	29 115 029 055
Former company names	C.I. Tax Pty Ltd and CITAX Pty Ltd
Incorporation date	30-Jun-08
Registered office	135 Lockhart St, Como, WA 6152
Principal place of business	Suite C2, 1 The Esplanade, Mount Pleasant, WA 6153
Share Capital	\$100 fully paid

Source: ASIC Company search

3.3 Office holders

The office holders of Dalcassian since incorporation are as follows:

Current and former office holders				
Office holder	Position held	Status	Appointment date	Cease date
Lisa Kennedy	Director / Secretary	Current	28-Apr-20	n/a
James Kennedy	Director / Secretary	Former	29-Jun-05	17-Apr-20

Source: ASIC Company search

We note:

- Mr Kennedy ceased to be director and secretary as at the date of his death. A Form 484 (change to company details) was lodged with ASIC to reflect this on 7 May 2020; and
- Mrs Kennedy consented to become director and secretary on 28 April 2020. A Form 484 (change to company details) was lodged on 7 May 2020.

3.4 Shareholders

The shareholders of Dalcassian are as follows:

Shareholder details				
Shareholder	Status	Class	Total shareholding	%
JP & L Kennedy Pty Ltd	Current	Ordinary	75	75%
James Patrick Kennedy	Current	Ordinary	25	25%

Source: ASIC Company search

3.5 Security interests

PPSR searches on the Administrators' appointment did not identify any security interest registered against Dalcassian. The Director did not identify any secured parties in the ROCAP, and no parties have purported to be secured creditors.

3.6 Books and records

The Administrators are required to provide an opinion as to whether the books and records of Dalcassian were maintained in accordance with section 286 of the Act, which requires companies to maintain financial records that:

- correctly record and explain their transactions and financial position and performance; and
- would enable true and fair financial statements to be prepared and audited.

Failure to maintain books and records in accordance with section 286 of the Act is a rebuttable presumption of insolvency, which can be relied upon by a liquidator in an application for compensation for insolvent trading or recovery of other insolvent transactions. Accordingly, the state of the books and records for Dalcassian are material to creditors' decisions concerning the future of Dalcassian.

The books and records of Dalcassian are discussed below:

Books and Records	Administrators Comments
Accounting files and associated working papers	A MYOB accounting file was maintained for Dalcassian. Dalcassian employed a bookkeeper who prepared their BAS's and arranged payment of payroll. Invoices, supplier payments and bank reconciliations were completed by the Director.
Financial statements	We have been unable to locate financial statements for Dalcassian, noting the income tax returns are outstanding for FY18, FY19 and FY20. Notwithstanding this, management accounts can be exported from the MYOB accounting file.
Bank records including account statements, cheque and deposit books	Pre-appointment bank statements have been provided to the Administrators.
Contracts / agreements	Leasing records have been provided to the Administrators which adequately explain Dalcassian's leasing arrangements.
Client files	Physical client files and electronic data have been obtained.
Employee records, including payroll and superannuation information	Employee records including payroll and superannuation information have been provided to the Administrators. This information has been generated from the MYOB accounting file and the timesheet system.
Information pertaining to Creditor / Debtor positions	MYOB reports showing the aged payables and receivables as at the Administrators' appointment have been provided. Payments and receipts were recorded in MYOB, and filed in physical files which have been provided.
Asset registers	Computer equipment records were provided to the Administrators by Dalcassian's information technology consultant.

Books and Records	Administrators Comments
Company registers and board minutes	<p>Limited board meeting minutes have been provided to the Administrators.</p> <p>A company register has not been provided to the Administrators.</p>

Overall, Dalcassian appears to have maintained the types of records one would expect, for an entity of its size and nature, in accordance with the requirements of section 286 of the Act.

Accordingly, the Administrators do not believe the presumption of insolvency, based on a failure to maintain records in accordance with section 588E of the Act, can be relied upon.

3.7 Factors contributing to financial difficulties

As outlined in the following sections, Dalcassian had not demonstrated a history of financial distress prior to the Administrators' appointment. In the ROCAP submitted by the Director, it was noted that the business did not 'fail'.

The Former Director was the only qualified tax advisor and as a result of his passing, Dalcassian could no longer provide advice to its clients, meaning Dalcassian could no longer trade. In addition, Dalcassian's only full time employee (who maintained client relationships and knowledge), resigned on 28 April 2020.

These two factors resulted in significant uncertainty for Dalcassian. For this reason, the Director determined to appoint the Administrators to facilitate an urgent sale of Dalcassian in order to (i) preserve value in the business, (ii) ensure a continuity of service for clients, and (iii) maximise the return to creditors.

4 Financial performance and position

The financial information presented herein is provided in order for creditors to better understand Dalcassian's financial history. The information presented is based on management accounts, as year-end financial accounts were not prepared in these periods.

The Administrators have not carried out an audit, nor verified the accounts in preparation of the summarised profit and loss and balance sheet set out in this Report. Accordingly, no warranty of accuracy or reliability is provided by the Administrators in respect of Dalcassian's historical financial information.

4.1 Profit and loss

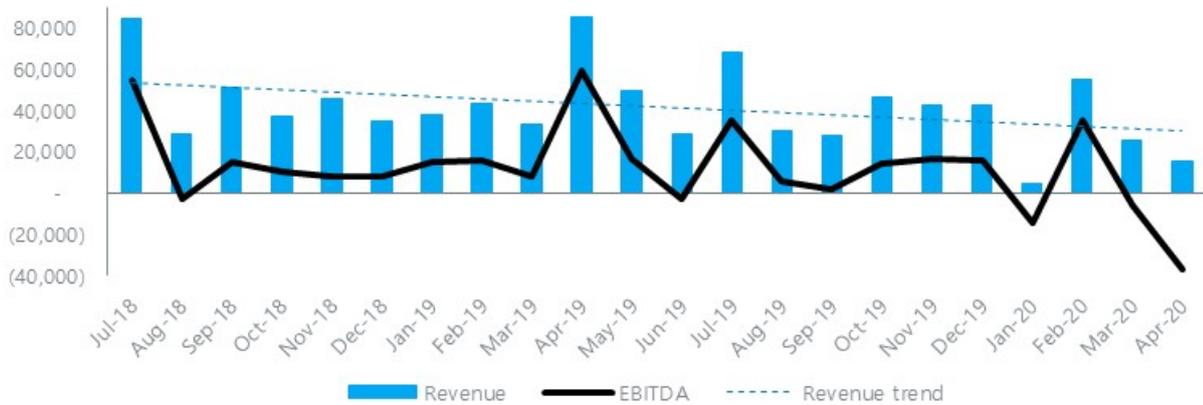
The financial performance of Dalcassian in FY18, FY19 and FY20YTD is summarised in the table below:

Profit & loss			
\$	FY18	FY19	FY20YTD
Income			
Fee income	650,791	557,470	356,037
Wages	(231,833)	(212,380)	(189,739)
Professional memberships	(622)	(2,793)	(1,395)
Recruitment & training	(853)	(16,071)	-
Gross profit	417,484	326,226	164,903
Expenses			
Bookkeeping fees	(2,448)	(2,310)	(2,425)
Cleaning	(1,950)	(1,875)	(1,425)
Disbursements	(19,209)	(10,527)	(4,245)
Entertainment & gifts	(8,461)	(1,793)	(1,204)
IT support	(19,029)	(8,997)	(13,694)
Insurance	(7,772)	(8,370)	(5,459)
Internet	(1,547)	(2,419)	(2,921)
Photocopier	(4,964)	(4,414)	(4,063)
Property holding costs	(47,471)	(55,996)	(48,200)
Publications & Subscriptions	(12,741)	(7,600)	(1,452)
Software	(2,908)	(7,342)	(4,282)
Telephone	(6,116)	(3,357)	(3,307)
Travel	(4,405)	-	(1,924)
Stationary & office suppliers	(4,151)	(4,192)	(1,612)
Other	(4,265)	(6,389)	(2,702)
Total expenses	(147,438)	(125,583)	(98,915)
Other income	4,471	1,255	41
EBITDA	274,517	201,898	66,029
Depreciation	-	-	-
Interst & bank charges	(236)	(253)	(413)
Income tax	-	-	-
Net profit	274,281	201,645	65,617

Source: MYOB accounts

Monthly revenue and EBITDA for the period July 2018 to April 2020 is illustrated in the graph below:

Monthly revenue vs EBITA (\$)



We note:

- Dalcassian demonstrated a history of profitable trading generating cumulative EBITDA profits of circa \$0.5 million across FY18, FY19 and FY20YTD. Monthly revenue steadily declined over the same period from an average of \$54k in FY18, to circa \$35k in FY20. This decline coincides with the Former Director’s ill health.
- Dalcassian has not lodged a tax return since FY17 which may overstate the net profit illustrated above. The Administrators are finalising the FY18, FY19 and FY20YTD tax returns in order to confirm Dalcassian’s liability to the ATO.
- Although Dalcassian operated with minimal employees, wages and rent comprise the largest expenses. These remained broadly consistent during the past three financials years.
- The Former Director did not take a wage, and received regular drawings paid via a loan account. Drawings totalled \$245k, \$173k and \$37k in FY18, FY19 and FY20YTD respectively.

4.2 Historical financial position

The financial position of Dalcassian at 30 June 2018, 30 June 2019 and 30 April 2020 is summarised in the table below:

Balance sheet			
\$	Jun-18	Jun-19	Apr-20
Assets			
Current assets			
Bond	19,363	19,363	19,363
Cash at bank	46,321	37,059	40,777
Cash on hand	238	400	276
Company tax paid	90,326	153,292	191,700
Debtors	29,723	28,811	57,325
Director's loan	394,561	567,767	605,025
Electronic clearing account	-	-	(18,260)
Total current assets	580,532	806,693	896,206
Non-current assets			
Computer equipment (net)	6,310	6,310	6,310
Leasehold improvements (net)	106	106	106
Office equipment (net)	1,066	1,066	1,066
Total non-current assets	7,482	7,482	7,482
Total assets	588,013	814,175	903,688
Liabilities			
Current liabilities			
ATO liabilities	(29,174)	(49,411)	(55,352)
Credit card	(1,861)	(1,917)	(3,123)
Payroll liabilities	(39,524)	(42,170)	(36,872)
Trade creditors	(1,988)	(3,564)	(14,006)
Total liabilities	(72,547)	(97,063)	(109,353)
Net assets	515,467	717,112	794,335
Net assets (excluding Director's loan)	120,906	149,344	189,310

Source: MYOB accounts

We note:

- Dalcassian's primary asset is a loan recoverable from the Former Director and the Director. The Administrators investigations indicate the Former Director took drawings from Dalcassian in lieu of wages (**Director's Loan**) which accumulated over time. The loan is listed as an asset of the company the quantum of which is not disputed by the Director.
- Dalcassian's second largest asset relates to the prepayment of tax to the ATO in respect of the estimated tax liability for FY18, FY19 and FY20. Noting tax returns for these periods have not been lodged, a corresponding tax liability (which has not yet been quantified) is likely to offset this asset on the balance sheet. As such, the net asset position shown above is overstated for each period.
- A number of liabilities incurred during April 2020 have not been included in the above position, further overstating Dalcassian's net asset position.
- The electronic clearing account in April 2020 relates to an error incorporated in Dalcassian's accounts which should be disregarded.

5 Report on company affairs and property

The Director presented a ROCAP for Dalcassian on 14 May 2020.

The ROCAP is summarised below, together with the Administrators' ERV of assets and liabilities.

Summary of financial position				Administrators' ERV	
\$	Ref.	NBV at appointment	ROCAP	Low	High
Assets					
Cash at bank	5.1.1	40,777	40,777	37,625	37,625
Cash on hand	5.1.1	276	276	124	124
Bond	5.1.2	19,363	19,363	10,800	9,800
Debtors	5.1.3	57,325	64,860	35,785	48,148
Work in progress	5.1.4	-	-	33,845	33,845
Computer and office equipment	5.1.5	7,482	10,440	16,155	16,155
Goodwill	5.1.6	-	-	130,000	130,000
Director's loan	5.1.7	605,025	605,025	Unknown	605,025
Company tax paid	5.2.2	191,700	191,700	-	Unknown
Total assets		921,948	932,441	264,333	880,721
Liabilities					
Priority creditors	5.2.1	(36,872)	(26,636)	(29,805)	(29,805)
ATO liabilities	5.2.2	(55,352)	(51,968)	(22,124)	-
Trade creditors	5.2.3	(17,129)	(9,336)	(67,391)	(67,391)
Total liabilities		(109,353)	(87,940)	(119,321)	(97,197)
Net position		812,595	844,501	145,013	783,525

5.1 Assets

Set out below is commentary regarding the assets of Dalcassian.

5.1.1 Cash at bank

Dalcassian maintained two bank accounts with Bankwest.

On appointment the Administrators wrote to Bankwest requesting to freeze the pre-appointment bank accounts. The balance of the accounts held by Bankwest on date of appointment totalled \$40,777. Notwithstanding the hold notice issued, Bankwest had a right of set off in place which enabled it to pay the outstanding credit card balance of \$3,137.56 due by Dalcassian.

On 18 May 2020, Bankwest transferred \$38,009.71 comprising:

- net cash at bank at appointment of \$37,624.71 after deducting the credit card debt; and
- further debtor collections of \$385.

Dalcassian maintained a petty cash fund which contained \$123.85 on appointment of the Administrators. This has been collected and deposited into the Administrators' bank account.

5.1.2 Bond

The Director reported a rental bond of \$19,363.40 in the ROCAP.

The Landlord advised that a bond of \$20,266.80 is held securing the lease for the Premises.

Prior to the appointment of the Administrators, the Director extended expiry of the lease of the Premises to 31 May 2020. Unpaid rent to 31 May 2020 totals \$5,365. Further, under the terms of the lease agreement between Dalcassian and the Landlord, Dalcassian is liable for "make-good" costs on vacating the Premises. The Landlord has provided an estimate of

circa \$4k in this regard, resulting in a net recovery of circa \$10k from the bond. This recovery will be finalised once the Administrators have vacated the Premise.

Any surplus after (i) rent arrears, and (ii) make-good, will be available to be distributed to the creditors of Dalcassian.

5.1.3 Debtors

The Director reported \$65k of account receivables in the ROCAP. The Administrators' review established this was before accounting for debtor receipts of circa \$32k, received between 16 April 2020 and 30 April 2020.

On the Administrators appointment, a further \$24k of WIP was identified as completed work which was capable of being invoiced (refer section 5.1.4).

After adjusting for these receipts and new invoices, the Administrators consider the book value of accounts receivable to be \$56k as detailed in the table below:

Debtors		
\$	Low	High
Director's ROCAP	64,860	64,860
Payments received pre-appointment	(32,395)	(32,395)
Amounts invoiced immediately post-appointment	23,925	23,925
NBV of debtors	56,390	56,390
Administrators' ERV	35,785	48,148

5.1.4 WIP

The Director erroneously excluded WIP from the ROCAP.

Dalcassian tracked WIP in a separate timesheet system which was not recorded in Dalcassian's MYOB file. At appointment, Dalcassian's timesheet system indicated the NBV of WIP was \$81k.

To assist with maximising WIP recoveries, the Administrators entered an agreement with the Former Employee which provided that the Former Employee received 25% of all WIP that was converted to revenue where the amount was either agreed or paid by the customer.

Together with the Former Employee, the Administrators undertook a detailed review of WIP, which identified:

- \$24k relating to finalised WIP which was immediately invoiced by the Administrators (refer section 5.1.3);
- \$23k which was considered unrecoverable and written off; and
- \$33k which was included in the BSA (refer section 6.2).

5.1.5 Computer and office equipment

The Director reported \$9,760 of computer equipment and \$650 of office equipment in the ROCAP. The NBV of same at appointment of the Administrators was \$6,310 and \$1,172 respectively.

Dalcassian's plant and equipment was sold under the BSA for \$16,155 (refer section 6.2).

5.1.6 Goodwill

The Director did not report goodwill in the ROCAP and no goodwill was recorded in the management accounts.

As outlined in detail at section 6.2, the BSA ascribed goodwill a value of \$130,000.

5.1.7 Related party loan

The books and records of Dalcassian identify a loan of circa \$0.6 million recoverable from the Director and Former Director. As noted in section 4.2, the Administrators understand the loan balance has increased overtime as the Former Director withdrew funds from the loan account in lieu of wages.

The Director's ROCAP confirmed the loan balance is due to Dalcassian and the Administrators understand the balance of the loan is not disputed. The DOCA proposed to the Administrators by the Director provides for a part payment of the loan account to ensure all creditors are repaid in full.

5.2 Liabilities

Set out below is commentary regarding the liabilities of Dalcassian.

5.2.1 Priority creditors

In the lead up to the Administrators' appointment, Dalcassian employed one full time employee and one casual employee. The full time employee resigned two days before the Administrators' appointment. The Administrators have liaised with both employees to quantify and agree the outstanding employee entitlements, which are set out in further details in the table below:

Priority creditors	
	\$
Superannuation	(1,424)
Unpaid wages	(1,877)
Annual leave	(4,374)
Long service leave	(22,130)
Total	(29,805)

Should the creditors of Dalcassian approve the DOCA proposed at section 6.3 of this report (recommended by the Administrators), priority creditors will be repaid in full.

Should creditors resolve to place Dalcassian into liquidation (not recommended by the Administrators), the FEG scheme will be available for claims made by eligible priority creditors. Under FEG, priority creditors may receive a portion of their claim (the principal item FEG does not pay is superannuation) from the Government, in advance of monies becoming available from Dalcassian, or if no funds are going to be available from Dalcassian, subject to certain terms and conditions. Further information regarding FEG can be found at <https://www.jobs.gov.au/fair-entitlements-guarantee-feg>.

5.2.2 ATO liabilities

The ATO submitted a POD on 11 May 2020 totalling circa \$22k in respect of BAS liabilities.

We note:

- Income tax returns have not been lodged after FY17, leaving the FY18, FY19 and FY20 returns outstanding; and
- the March 2020 BAS was lodged, leaving only the April 2020 BAS outstanding.

Notwithstanding the late lodgements identified above, the Administrators' investigations indicate Dalcassian made prepayments to the ATO for its income tax liability over each of the recent financial years. Since our appointment, the Administrators engaged a tax accountant to complete the outstanding returns in order to finalise Dalcassian's liability to the ATO.

Preliminary tax calculations prepared by the independent accountant indicate Dalcassian may have overpaid its estimated tax liability by circa \$20k for FY18 and FY19. Further, the estimated tax position for the period 1 July 2019 to 30 April 2020 indicates a further refund of circa \$20k may be available for this period.

On finalising the pre-appointment tax lodgements with the accountant, the Administrators consider it likely that a tax refund will be paid to the Administration of Dalcassian.

5.2.3 Trade creditors

The Administrators review of the MYOB file indicates the creditor position had not been fully updated to reflect a number of creditor invoices received in April 2020.

Based on the POD's received the Administrators consider the trade creditor position in MYOB was understated at appointment and is estimated at circa \$67k (excluding the position with the ATO).

6 Trading, sale of business and Deed of Company Arrangement

6.1 Trading position

As a tax accountancy practice, Dalcassian required an appropriately qualified tax accountant who was authorised to approve tax advice before it could be issued to clients. The Former Director was the only qualified tax accountant employed at Dalcassian, and on his passing, Dalcassian was unable to complete work.

On appointment, the Administrators immediately investigated options to engage a caretaker to:

- enable Dalcassian to continue to service its clients during the Administrators' appointment;
- assist with client retention to maximise the return from any sale process; and
- allow a potential purchaser the opportunity to complete their due diligence.

After the Administrators conducted preliminary discussions with each of the interested parties, the Administrators determined not to proceed with engaging a caretaker noting:

- the due diligence material sought by each interested party was accessible to the Administrators;
- each of the interested parties confirmed they were prepared to act quickly and could complete a purchase of Dalcassian within one week;
- a caretaker would provide an unfair advantage to the interested party acting in the role of caretaker and likely diminish the competitive tension between parties; and
- it was likely the caretaker role would increase costs.

On determining not to appoint a caretaker, the Administrators focused all efforts to achieve a sale of the business on an expedited basis (refer section 6.2). Although no trading costs were incurred, the Administrators incurred minimal costs associated with maintaining the Premises, information technology support and other costs to enable the sale of Dalcassian.

Total cost in maintaining operations is not expected to exceed circa \$12k.

6.2 Sale of business

After the passing of the Former Director, but before the Administrators' appointment, Dalcassian entered into an agency agreement with Zircom (a business broker) to facilitate a sale of Dalcassian's business. Zircom commenced the process of preparing an information memorandum and began introducing interested parties.

Before the terms of any sale could be negotiated, the Former Employee resigned on 28 April 2020. Without the assistance of the Former Employee to manage the transfer of clients on the sale of the business, the Director determined a sale could not be achieved and appointed the Administrators.

Immediately on accepting the appointment, the Administrators commenced negotiations with (i) the Former Employee, and (ii) parties who expressed an interest in acquiring Dalcassian.

Noting the Former Employee had resigned from Dalcassian, the Administrators negotiated an agreement with the Former Employee. In exchange for co-operation with the Administrators through the sale process of Dalcassian, the Administrators agreed the following payment to the Former Employee:

- a success fee calculated at 15% of the sale price (excluding GST) achieved for Dalcassian;
- a WIP conversion fee calculated at 25% of any WIP converted to sales and either (i) confirmed as agreed by the customer, or (ii) paid by the customer; and
- a flat fee of \$500.

As noted in section 6.1, the Administrators determined not to engage a caretaker, but instead focused on running an expedited sale of business campaign. An expedited sale process was required to mitigate the risk of clients leaving Dalcassian and to preserve the value in its business for any potential sale. The timeframe communicated to parties for the sale of Dalcassian was communicated to creditors on Monday, 4 May 2020 and is summarised below:

- executed CA's due on 4 May 2020;
- due diligence materials provided to interested parties by 5 May 2020;

- draft sale contract provided to interest parties by 6 May 2020;
- offers to be presented to the Administrators by 7 May 2020; and
- completion of the sale contract to occur by 12 May 2020.

Executed CA's were submitted by three interested parties by the deadline. A fourth interested party was introduced to the sale process late and submitted a CA after the deadline, but participated in the sale process. A fifth party purported to have an interest in participating in the Administrators' sale process but did not complete a CA and withdrew from the sale process.

The Administrators prepared and distributed a due diligence pack to each interested party who had submitted an executed CA. The due diligence materials included Dalcassian's:

- historical revenue;
- client details and composition;
- WIP position;
- timesheet reports;
- tax lodgement history; and
- other ad-hoc client information.

In addition to providing due diligence material, the Administrators facilitated meetings between interested parties and the Former Employee on 5 and 6 May 2020 at the Premises and via telephone.

Draft sale contracts were issued to each of the four interested parties on Wednesday 6 May 2020 and the Administrators worked to agree and finalise any changes and amendments to each sale contract. The offers received by the Administrators are summarised in the table below:

Sale of business			
Bidders	CA signed	Meeting held	Offer made (\$)
Bidder 1 (Fields)	✓	✓	170,000
Bidder 2	✓	✓	100,000
Bidder 3	✓	✓	×
Bidder 4 (note 1)	✓	×	320,000
Bidder 5	×	×	×

Note 1: The offer was presented via email rather than executed sale contract and was subject to certain conditions.

We make the following comments:

- Bidder One's (Fields) offer included goodwill, plant and equipment and Dalcassian's WIP;
- Bidder Two's offer was materially less than the other two offers submitted;
- Bidder Three advised the Administrators that they did not intend to submit an offer;
- Bidder Four's offer included a condition that the Former Employee accept their offer of employment, and remain employed for a period of 12 months. The Former Employee advised the Administrators that they would not accept an offer from Bidder 4. Accordingly, the Administrators were unable to consider this offer further.
- Bidder Five determined not to sign the Administrators' CA and withdrew from the process before submitting an offer or being provided due diligence material.

On receipt of the Fields offer, the Administrators presented a counter offer of \$195k. Fields rejected the Administrators' counter offer and instead presented a best and final offer of \$180k. The Administrators accepted Fields' final offer, noting:

- the offer was an unconditional offer and not subject to finance;
- it included all assets of Dalcassian, including computer equipment, goodwill and WIP;
- it minimised the risk of client leakage and the potential deterioration to Dalcassian's intellectual property; and

- it achieved the general objectives of the Voluntary Administration regime (i.e. to maximise the prospects of the business of Dalcassian continuing).

On 8 May 2020, the Administrators entered an unconditional BSA with Fields for the sale of plant and equipment, goodwill and WIP for a combined sale price of \$180k (excluding GST). Completion of the BSA occurred on 12 May 2020 on receipt of \$180k plus GST.

The Administrators continue to work with Fields to transfer client records, noting client records can only transfer to Fields where individual clients consent for their information to be transferred. At the date of writing, 28 clients have consented to have their records transferred from Dalcassian to Fields.

6.3 Deed of Company Arrangement

Once the BSA had completed, the Administrators prepared a detailed estimated return to creditors, and held meetings with the Director to outline the Company's position and explore options for a DOCA.

The Director (**Proponent**) put forward a DOCA proposal to the Administrators, which provides for payment of all priority and unsecured creditor claims in full (**DOCA Proposal**).

6.3.1 Outline of DOCA

The terms for the DOCA are set out in the attached term sheet, and summarised below:

- all assets of Dalcassian, including cash at bank, proceeds from the BSA, debtors, GST, tax refunds, and the proponent contributions (**Proponent Contributions**) will form part of a DOCA fund (**Deed Fund**);
- the Proponent Contributions will comprise:
 - \$125k, payable on execution of the DOCA. Execution is expected to occur shortly after the DOCA is approved by creditors at the Second Meeting; and
 - any further amounts which are deemed necessary by the Deed Administrators in order to ensure creditors are paid in full, payable within 2 business days of request.
- the Deed Fund be available to pay priority and unsecured creditors in full, and pay costs of the Administrators and Deed Administrators.

The Administrators consider that the initial Proponent Contributions of \$125k will be sufficient to pay all creditors in full within 6 weeks of execution of the DOCA. If the total Proponent Contributions results in a surplus of funds available after the payment of all creditors and costs, the surplus will remain part of Dalcassian when control of Dalcassian reverts to the Director.

6.3.2 Reasons for the DOCA

As outlined at section 5.1.7, a \$0.6 million loan is payable from the Director to Dalcassian. Full repayment of the loan is not required in order to enable creditors to receive full payment, however some recovery of this loan is necessary. As such, the DOCA Contribution reflects repayment of this loan, to the extent that it is necessary to extinguish all priority and unsecured creditor claims.

As outlined at section 7, if appointed, liquidators would be required to conduct detailed investigations in the affairs of Dalcassian, in order to identify any potential liquidator recoveries. Additionally, significant costs would be incurred in satisfying various statutory reporting requirements required of liquidators.

Implementation of the DOCA Proposal allows the following:

- payment of priority creditors in full;
- payment of unsecured creditors in full;
- collection of the Director's loan account to the extent necessary to extinguish creditor claims;
- mitigation of costs incurred by a liquidator in conducting investigations; and
- mitigation of costs incurred by a liquidator in satisfying reporting requirements of the Act.

6.3.3 Remuneration and expenses

The Deed Administrators intend to be remunerated for their time in administering the DOCA on the same basis that they are currently being remunerated as Administrators, being on hourly rates pursuant to the schedule of rates previously reported to creditors.

The Deed Administrators intend to have creditors consider and approve (if appropriate) their estimated remuneration in acting as the Deed Administrators at the Second Meeting (refer Section 10).

6.3.4 Estimated return to creditors

The Administrators consider that the DOCA Proposal is likely to provide a better, more timely return to creditors and members than in a winding up

Refer to section 8, for the expected quantum and rate of distribution under the DOCA Proposal as compared to a liquidation scenario.

6.3.5 Compliance opinion

The Administrators have made enquiries with the Director regarding their ability to comply with their obligations under the DOCA Proposal which primarily involves the payment of the DOCA Contribution.

The legal advisor to the Proponent has independently confirmed to the Administrators their belief that the Proponent has sufficient funds available to meet the DOCA contribution.

Based on the Director's response, the Administrators are of the opinion that the Director will be capable of complying with the obligations of the DOCA Proposal.

7 Offenses, insolvent trading and voidable transactions

A key role of the Administrators is to investigate Dalcassian's affairs and determine whether any offences under the Act, or other relevant legislation, may have transpired and to determine if any recovery from insolvent or voidable transactions could be pursued by the Liquidators (if appointed) for the benefit of creditors.

These investigations are important to creditors as they:

- provide context to Dalcassian's financial position and explain the conduct leading up to the Administrators' appointment;
- inform the likely return to creditors from a liquidation of Dalcassian (which may be enhanced by successful liquidator recovery actions), should creditors resolve to place Dalcassian into liquidation at the Second Meeting; and
- allow creditors to fully assess and compare the DOCA proposal (where relevant), as the acceptance of such a proposal will avoid liquidation and forgo the prospects of any liquidator recovery actions for the benefit of the creditors.

7.1 Offenses

ARITA has issued an "Offences, Recoverable transactions and Insolvent trading" information sheet providing general information for creditors about insolvent trading and voidable transactions. This information sheet is available from the ARITA website (<http://www.arita.com.au>). If you are unable to access this website, please contact this office on (08) 6363 7600 to obtain a copy.

Under the Act, the Administrators are obliged to investigate Dalcassian's business, property, affairs and financial circumstances. These investigations are to be performed as soon as practicable after the administration begins in order to enable the Administrators to form an opinion about the future of Dalcassian and so that creditors may make a fully informed decision on the future of Dalcassian.

Accordingly, the Administrators have conducted preliminary investigations in order to understand the events leading to their appointment and to identify potential recovery actions which may increase funds available to the creditors of Dalcassian in liquidation.

The findings from the Administrators' preliminary investigations are detailed in the following sections. Should Dalcassian be placed into liquidation, then further detailed investigations will be undertaken.

7.2 Summary of matters investigated and Administrators' preliminary view

The primary focus of the Administrators' preliminary investigations has been to ascertain whether there are actions which would be available to the Liquidators (if Dalcassian were to be placed into liquidation).

In the time available, the Administrators have undertaken the following investigations to prepare this report and formulate an opinion on the future of Dalcassian.

- issued a ROCAP and questionnaire to the Director of Dalcassian and considered the response;
- reviewed Dalcassian's MYOB accounting file;
- reviewed the books and records of Dalcassian provided to date, including statutory documents and correspondence;
- held discussions with the Director and various other parties regarding the affairs of Dalcassian; and
- conducted searches of publicly available information such as ASIC, the PPSR, DoT and the ATO.

7.3 Insolvency analysis

The Act specifies that a company is solvent if, and only if, it is able to pay all of its debts as and when they fall due. A company that is not solvent is insolvent.

This is an important factor for the Administrators and creditors to understand, as the likely date of Dalcassian's insolvency will directly influence whether:

- the offence of insolvent trading has been committed by the Former Director and/or Director;

- a claim for insolvent trading against the Former Director and /or Director could be pursued by the Liquidators (if appointed) and the likely quantum of such a claim; and
- other potential insolvent or voidable transactions could be pursued by the Liquidators (if appointed).

The Administrators' investigations indicate that Dalcassian may have been insolvent from 17 April 2020 (being the date the Former Director passed away) up to the Administrators' appointment (13 days). This was the period Dalcassian was unable to complete client work, and could not generate income to pay ongoing liabilities.

The Administrators have undertaken a preliminary review of the books and records to come to this conclusion. Further details of which follow.

7.3.1 Indicators of insolvency

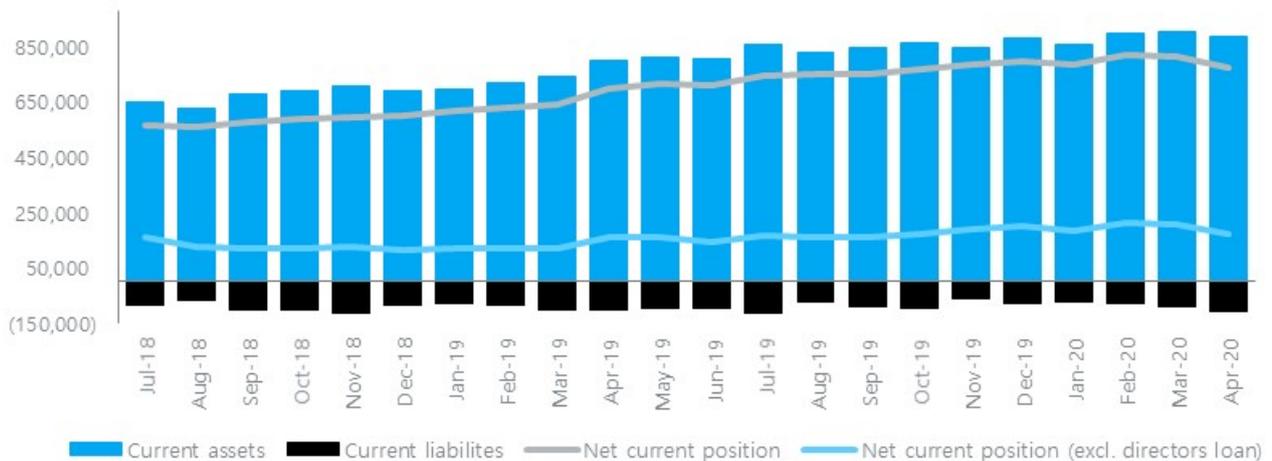
Solvency is a matter of law to be determined in light of all of the relevant facts and circumstances. Definitively determining a date of insolvency is complex and is often based on a number of factors, each of which may themselves be complex and require detailed consideration.

The Administrators have undertaken preliminary financial analysis and considered various indicators of insolvency to consider Dalcassian's position.

7.3.2 Net current asset position

Dalcassian's current assets, current liabilities and net current asset position since July 2018 is summarised in the chart below.

Net current assets / liabilities (\$)



Dalcassian reported a net current asset position of between \$0.55 million and \$0.85 million for at least the last 22 months.

The largest assets on the balance sheet in this period were:

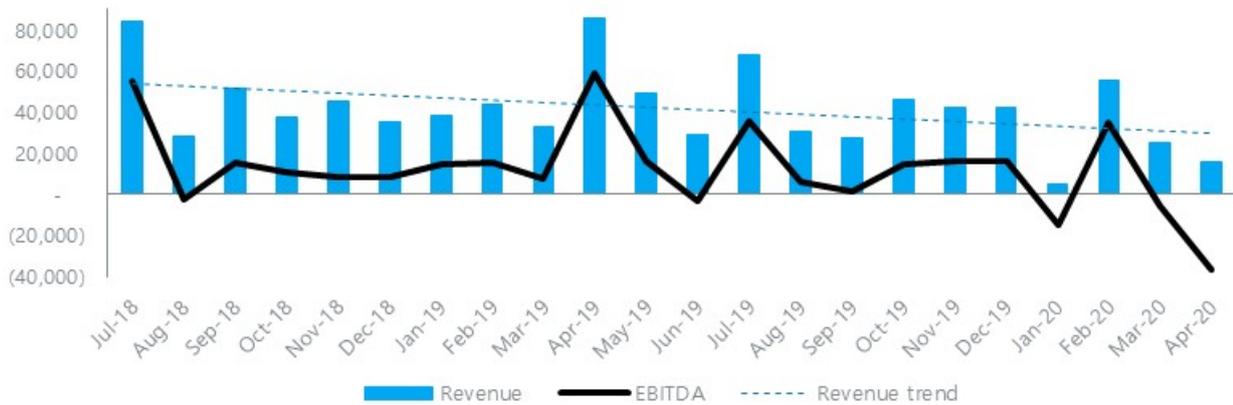
- a loan due by the Former Director of circa \$0.4 million to \$0.6 million. Excluding this loan from Dalcassian's financial position results in net current assets being reported between \$115k and \$200k; and
- income tax paid in advance of between \$90k and \$190k. As outlined at section 4.2, a corresponding liability for FY18, FY19 and FY20 income tax returns not yet lodged is missing from the accounts, and as such, overstates the net asset position.

Notwithstanding this, it doesn't not appear that Dalcassian has been experiencing the type of balance sheet stress which would indicate it was insolvent.

7.3.3 Profitability

Dalcassian’s EBITDA since July 2018 set out below.

Monthly revenue vs EBITA (\$)



Dalcassian generated a positive EBITDA in 17 of 22 months since July 2018. Further commentary was provided on Dalcassian’s profit position at section 4.1.

A history of recurring profits is an indicator of solvency. The longer the profit making period and the greater the accumulated gains, the more likely an entity is solvent.

7.3.4 Creditor analysis

The graph below sets out an analysis of Dalcassian’s creditor profile compared to its cash at bank for the period July 2018 to appointment of the Administrators.

Creditors vs cash at bank (\$)



Dalcassian’s key trade creditors are the Landlord and the ATO. On appointment of the Administrators, as outlined at section 5.2.3, rent was outstanding for one month.

A number of liabilities incurred during April 2020 have not been included in the above position, understating the creditors as at April 2020.

Finally, although the ATO have submitted a POD for circa \$22k, the Administrators’ subsequent investigations have established Dalcassian prepaid its tax liability and may be entitled to a tax refund. A prepaid tax position is not symptomatic of a company in financial distress.

7.3.4.1 Other factors

The above analysis suggests that Dalcassian was solvent up to the passing of the Former Director. Noting (i) Dalcassian was unable to trade from 17 April 2020, and (ii) a sale of business could not be achieved, Dalcassian was likely to have been insolvent from 17 April 2020.

7.4 Insolvent trading

Other than in case of fraud, the Director may only be pursued for insolvent trading if Dalcassian is placed into liquidation at the Second Meeting.

A liquidation also preserves the possibility of individual creditors taking action in their own right if the Liquidators do not commence an action (subject to the Liquidators' consent or the leave of the Court).

Before a Court will order that a person pay compensation in respect of insolvent trading, a liquidator must establish that:

- the person was a director of the company at the time the company incurred the debts that are the subject of the claim;
- the company was insolvent at that time the debts were incurred or became insolvent by incurring the debt;
- at that time, there were reasonable grounds for suspecting that the company was insolvent or would become insolvent by incurring the debt; and
- the debt subject of the claim was wholly or partly unsecured and the creditors to whom the debts are owed have suffered loss and damage.

7.4.1 Quantum of claim

Quantification of an insolvent trading claim is a highly complex matter that is dependent on a number of factors.

In this case, during the extremely short period between the estimate date of insolvency and the Administrators' appointment (13 days), the only costs which would have been incurred were wages, rent, legal fees, electricity, insurance and the like. Many of these debts cannot typically be included in an insolvent trading claim (as they were contracted many years ago), and therefore, would not be included in an insolvent trading claim.

Accordingly, the Administrators do not consider it likely that a material claim will be available to creditors in this regard.

7.4.2 Likely respondents

On 7 May 2020, a 'change to company details' form was lodged for Mr Kennedy, effecting his cessation as a director of Dalcassian as at 17 April 2020.

Mrs Lisa Kennedy consented to become director on 28 April 2020, and was therefore appointed on that day.

This further complicates the existence of any insolvent trading claim, and notwithstanding the comments made at section 7.4.1, would need to be considered further should a claim be identified.

7.4.3 Defences

There are various defences available to directors in relation to an insolvent trading claim. In summary they are:

- the director had reasonable grounds to suspect that the company was solvent;
- the director had reasonable grounds to believe or did believe that a competent reliable person was responsible for providing adequate information on the company's solvency and that person fulfilled the responsibility and the director believed that at the time the debt was incurred, and considering the other debts existing at that time, the company was solvent and remained solvent;
- whether the director obtained valid safe harbour advice;
- the director was ill (and therefore did not take part in management of the company) at the time the debt was incurred; and
- the director took reasonable steps to prevent the debt being incurred.

If an insolvent trading claim was identified, the above defences may be available to the Former Director and Director given the circumstances that surrounded Dalcassian in the relevant period.

7.5 Voidable transactions

In the event that the Dalcassian is placed into liquidation at the Second Meeting, certain transactions that occurred at a time when Dalcassian was insolvent (or caused Dalcassian to become insolvent) and/or where the property of Dalcassian was disposed of or dealt with inappropriately, may be recovered by the Liquidators under Part 5.7B of the Act.

This may result in, among other things, a requirement for a third party to return property to Dalcassian and thereby increase the assets available to the Liquidators and creditors. These are known as voidable transactions.

Corporations Regulation 5.3A.02 requires the Administrators to specify whether there are any transactions that appear to the Administrators to be potentially voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act.

Voidable transactions may include:

- Unfair preference claims: transactions between Dalcassian and its creditors, resulting in an unsecured creditor receiving a greater amount than it would have received in a winding up. These transactions must have occurred when Dalcassian was insolvent or have caused Dalcassian to become insolvent;
- Uncommercial transactions: transactions which a reasonable person in the place of Dalcassian would not have entered into, taking into account the benefits and the detriment to Dalcassian, the respective benefits to the other parties involved and any other related matters. These transactions must have occurred when Dalcassian was insolvent or have caused Dalcassian to become insolvent;
- Unfair loans: a loan agreement where the interest or charges are considered to be extortionate. Unfair loans made to Aloha Group at any time prior to the Administrators' appointment may potentially be overturned by the Liquidators, whether or not Dalcassian was insolvent when the loan was entered into (or any time thereafter); and
- Unreasonable director-related transactions: transactions made to or on behalf or for the benefit of a director, or a close associate, which a reasonable person in the place of Dalcassian would not have entered into, taking into account the benefits and the detriment to Dalcassian, the respective benefits to the other parties involved and any other related matters and whether or not Dalcassian

To the extent that information has been available, the Administrators have conducted preliminary investigations in order to identify potentially voidable transactions, which may increase the funds available to creditors of Dalcassian in the event of liquidation.

7.5.1 Unfair preference claims

Pursuant to section 588FE of the Act a transaction constitutes an unfair preference if:

- Dalcassian and the creditor are parties to the transaction;
- the transaction results in the creditor receiving from Dalcassian, in respect of an unsecured debt, more than the creditor would receive if the transaction were set aside and the creditor were to prove for the debt in a winding up;
- the payment was made within six months prior to Administrators' appointment (Relation Back Period), being 30 October 2019; and
- the transaction is an insolvent transaction, having occurred at a time when Dalcassian was insolvent or caused Dalcassian to become insolvent.

As noted at section 7.3, the period in which Dalcassian is believed to have been insolvent is from 17 April 2020. As a result, the Administrators have reviewed the period 17 April 2020 to 30 April 2020 to determine whether any potentially preferential transactions may be recoverable.

As this is a relatively short time period (and the Company was not operating as usual) Dalcassian made very few payments in this period. As such, no unfair preference payments have been identified.

7.5.2 Uncommercial transactions

A liquidator is able to recover money or property associated with transactions entered into by a company where:

- a reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefit and detriment of the transaction;
- the company is insolvent or becomes insolvent because of the transaction; and
- the transaction occurred within two years of the appointment of administrators, four years if the transaction was with a related party or ten years if the transaction was entered into to defeat creditors.

No uncommercial transactions have been identified which the Administrators consider may be capable of being pursued by the Liquidators (if appointed) for the benefit of creditors.

7.5.3 Unfair loans

Pursuant to section 588FD of the Act, a liquidator is able to treat an unfair loan as voidable. A loan is considered unfair if:

- the interest on the loan was extortionate; or
- the charges associated with the loan were/are extortionate.

No unfair loans have been identified which the Administrators consider may be capable of being pursued by the Liquidators (if appointed) for the benefit of creditors.

7.5.4 Unreasonable director related transactions

Pursuant to section 588FDA of the Act a transaction is a voidable unreasonable director-related transaction where:

- a transaction occurs between the company and a company director, or a close associate, for the benefit of a director or a director's close associate;
- a reasonable person in the company's circumstances would not have entered into the transaction, having regard to the benefits and detriment to the company of entering the transaction; and
- the transaction occurred within four years of the Administrators' appointment.

No unreasonable director related transactions have been identified which the Administrators consider may be capable of being pursued by the Liquidators (if appointed) for the benefit of creditors.

7.5.5 Breach of Directors' duties

Pursuant to section 438D of the Act, the Administrators must lodge a report with ASIC if it appears to the Administrators that:

- a past or present officer or employee or a member may have been guilty of an offence; or
- a person who has taken part in the formation, promotion, administration, management or winding up:
- may have misapplied or retained or may have become liable or accountable for money or property; or
- may have been guilty of negligence, default, breach of duty or breach of trust.

A summary of common potential offences which the Administrators have considered in the course of undertaking their investigations is provided in the table overleaf:

Summary of common offences

Section	Offence
180	Failure to discharge duties with reasonable degree of care and diligence.
181	Failure to act in good faith and in best interests of the corporation and for proper purpose.
182	Improper use of position to gain personal advantage or cause detriment to corporation.
183	Improper use of information to gain advantage or cause detriment to corporation.
184	Reckless or intentionally dishonest and failing to exercise powers and discharge duties in good faith and for a proper purpose.
206A	Disqualified person managing corporation.
286	Failure to keep financial records..
1307	Falsification of books.
1401H	Misleading or deceptive conduct

Source: Corporations Act 2001

Creditors should note that the list of offences in the table above is not an exhaustive list of all potential offences under the Act, but rather a summary list of offences more commonly committed.

The Administrators' preliminary investigations have not identified any evidence of potential breaches pursuant to any of the above section.

8 Estimated return to creditors

The Administrators' detailed calculation of the estimated return under the DOCA Proposal, as opposed to in liquidation, is set out below:

Dalcassian - Estimated outcome statement					
Detail	Ref:	DOCA		Liquidation	
		Low	High	Low	High
Asset realisations					
Cash	5.1.1	37,625	37,625	37,625	37,625
Cash on hand	5.1.1	124	124	124	124
Debtors (actual and estimate)	5.1.3	35,785	48,148	35,785	48,148
WIP	5.1.4	33,845	33,845	33,845	33,845
Goodwill	5.1.6	130,000	130,000	130,000	130,000
Computer and office equipment	5.1.5	16,155	16,155	16,155	16,155
Landlord bond	5.1.2	10,800	9,800	10,800	9,800
Liquidator recoveries	8	-	-	-	Unknown
Director loan account	5.1.7	-	-	-	605,025
DOCA Contribution	6.3	125,000	125,000	-	-
Total realisations		389,333	400,696	264,333	880,721
Costs					
Trading costs	6.1	(12,500)	(8,500)	(12,500)	(8,500)
Legal fees	-	(16,358)	(13,858)	(16,358)	(13,858)
Accountancy fees	5.2.2	(7,500)	(5,000)	(7,500)	(5,000)
Former Employee - WIP & Success fee	6.2	(33,438)	(33,438)	(33,438)	(33,438)
Provision for Capital Gains Tax	5.2.2	(12,500)	-	(12,500)	-
Administrators' fees to 26 May 2020	10	(135,000)	(135,000)	(135,000)	(135,000)
Administrators' fees to completion	10	(5,000)	(5,000)	(5,000)	(5,000)
Administrators' disbursements to 26 May 2020	10	(502)	(502)	(502)	(502)
Deed Administrators' fees to completion	10	(15,000)	(5,000)	-	-
Liquidators' fees to completion	10	-	-	(60,000)	(40,000)
Total costs		(237,797)	(206,297)	(282,797)	(241,297)
Funds available for priority creditors		151,536	194,399	(18,464)	639,424
Employee entitlements	5.2.1	(29,805)	(29,805)	(29,805)	(29,805)
<i>Rate - priority creditors</i>		<i>100%</i>	<i>100%</i>	<i>0%</i>	<i>100%</i>
Funds available for unsecured creditors		121,731	164,594	(48,269)	609,618
Australian Taxation Office	5.2.2	(22,124)	-	(22,124)	-
Other trade creditors	5.2.3	(67,391)	(67,391)	(67,391)	(67,391)
Contingency for unknown creditors	-	(5,000)	-	(5,000)	-
Total		(94,515)	(67,391)	(94,515)	(67,391)
<i>Rate - unsecured creditors</i>		<i>100%</i>	<i>100%</i>	<i>0%</i>	<i>100%</i>
Funds available for return to shareholders		27,215	97,202	(142,785)	542,227

9 Alternative courses of action and the Administrators' recommendation

The Administrators are required to provide creditors with a statement of their opinion about each of the courses of action in respect of which creditors are entitled to vote at the Second Meeting.

The matters requiring the Administrators' opinion are:

- whether it would be in the creditors' interest for Dalcassian to execute a DOCA, should one be proposed; or
- whether it would be in the creditors' interest for the administration of Dalcassian to end with control reverting back to the Director; or
- whether it would be in the creditors' interests for Dalcassian to be wound up.

In addition, creditors may resolve to adjourn the Second Meeting for up to 45 business days, however, this is a temporary postponement only and not an ultimate outcome from Administration.

For the reasons that follow, the Administrators recommend that Dalcassian's creditors accept the DOCA Proposal.

9.1 DOCA

A DOCA is a binding arrangement between a company and its creditors governing how the company's affairs will be dealt with. It aims to maximise the chances of the company, or as much as possible of its business, continuing, or to provide a better return for creditors than an immediate winding up. A DOCA binds all unsecured creditors, even if they voted against the proposal.

As outlined at section 6.3, a DOCA Proposal has been submitted.

The Administrators recommend that Dalcassian execute the DOCA Proposal as, in their opinion, this is in creditors' best interest for the following reasons:

- priority creditors will be paid in full;
- unsecured creditors will be paid in full;
- priority and unsecured creditors will receive payment of their claim quicker than in liquidation;
- the Administrators' and Deed Administrators costs will be paid;
- costs incurred by a liquidator in conducting investigations will be avoided; and
- costs incurred by a liquidator in satisfying reporting requirements of the Act will be avoided.

As a result of enquiries with the Proponent to understand their financial position, we consider risk of the DOCA Contribution not being paid, and accordingly, the DOCA not being effectuated, is low.

9.2 Administration to end

Creditors may consider ending the administration and returning the control of Dalcassian to the Director. Generally, such an outcome is only appropriate if Dalcassian is found to be solvent or is otherwise restructured and returned to solvency whilst in Administration.

The Administrators do not recommend that the Administration end and control be returned to the Director

9.3 Dalcassian be wound up

Liquidation is generally recommended when no DOCA proposal has been received or where a DOCA proposal received does not provide for a better return to creditors or is subject to unacceptable risks.

As an adequate DOCA proposal has been received, the Administrators do not recommend that Dalcassian be placed into liquidation at the Second Meeting.

9.4 Adjournment of Second Meeting

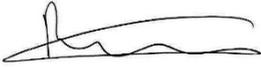
Although not an ultimate outcome that can be recommended, the Administrators do not consider that there is any benefit or utility in creditors adjourning the Second Meeting for an additional period as significant work to explore all possible outcomes has already been undertaken and all possibilities exhausted and doing so is only likely to increase costs.

10 Remuneration

We enclose a detailed report of our remuneration, called a Remuneration Report.

The remuneration of the Administrators will be considered at the meeting of creditors convened for 5 June 2020. .

Information on the creditors meeting and proposed remuneration is enclosed.



Rob Kirman
Administrator

Appendices:

Appendix A: Administrators' DIRRI

Appendix B: Director's ROCAP

Appendix C: Remuneration Report