



McGrathNicol

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McGrathNicol
Partnership

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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")
(Both 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:

- Asset sales;
- WIP and debtor collections;
- Investigations;
- Preference claims;
- Receipts and payments and outline of estimated return to creditors; and
- Next steps in the liquidation.

1 Asset sales

All remaining assets of SES and Pumpcare have now been sold.

2 WIP and debtor collections

SES

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. We are continuing work to finalise this issue. We consider it will be difficult to recover further monies due to an offset claimed by Bluescope relating to faulty equipment supplied prior to my appointment and the inadequate books and records of SES.

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. With the possible exception of the above, we do not expect any further realisations from debtor collections. Should this position change materially, creditors will be notified.

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Pumpcare

Debtors and uninvoiced WIP were substantial assets upon our appointment as Voluntary Administrators.

The position in relation to WIP and debtor collections is summarised below:

- we took steps to expedite debtor collections, invoiced work in progress and attended to the return of customer equipment to third parties. This included completing a number of items of WIP (where it was commercially viable to do so) and issuing invoices on WIP;
- at the date of our appointment, outstanding pre-appointment debtors were circa \$385,117. During our appointment, we collected pre-appointment debtors of circa \$244,260, representing 63% of total outstanding pre-appointment debtors. The balance is disputed and/or uncollectable.
- we collected circa \$73,018 on WIP commenced and finalised after our appointment.

We do not expect any further realisations from WIP or debtor collections.

3 Investigations

3.1 Solvency position

Since our previous report we undertook a detailed review of the Companies' financial position, with a view to identifying recoveries potentially available for the benefit of creditors. Based on my investigations and the following indicators, we established that the Company traded whilst insolvent for a period prior to my appointment:

- Continuing losses;
- The existence of extended payment arrangements with suppliers; and
- Correspondence from creditors:
 - Demanding payment of overdue debts;
 - Threatening enforcement action; and
 - Placing accounts on hold.

Due to the Companies insolvency prior to my appointment, the following recovery actions were available to the Liquidators under the Act. The liquidators have pursued recoveries where it has been commercially appropriate to do so.

3.2 Insolvent trading

A director may be personally liable to a company if the director fails to prevent a company from incurring a debt when at the time, the director knew, or should have known, that the company was insolvent. A director's requirement to compensate the company for insolvent trading is equal to the value of debt(s) incurred when the company was insolvent, as long as that debt(s) remains unpaid at the time of liquidation.

In determining whether the directors traded the Companies at a time when they were insolvent, consideration is given to the Companies ability to pay their debts as and when they fall due (the cash flow test), the Companies net asset position (the balance sheet test) and the "indicia of insolvency" established in certain case law.

We have determined that the Companies may have traded whilst insolvent for a period of time leading up to our appointment. However, as the directors hold minimal and/or no assets held in their personal capacity, there is not likely to be any commercial benefit to creditors achieved by pursuing the directors for



any insolvent trading claim against them. Accordingly, we do not currently intend to take any further action in respect of insolvent trading recoveries.

4 Preference claims

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

4.1 Unfair preference payments

The liquidators have now finalised preference recoveries and received \$2.325m for the benefit of creditors.

Pursuant to the Act an unfair preference is a payment by a company to an unsecured creditors (generally in the six months prior to the company entering into administration) which results in that creditor receiving a greater amount than it would have received in relation to the debt in the winding up.

SES

Since my last update, the process of identifying and pursuing potential preference payment claims has included:

- 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;
- conducting analysis of the Companies' accounts to form an opinion on solvency, (as noted above);
- 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 and the likely costs associated with pursuing and litigating any preference claim, it was deemed uncommercial to pursue action against the bulk of preference recipients.

Pleasingly, we successfully settled claims against the Australian Taxation Office and American Express Limited for a combined total of \$2.325m. These funds have been received from the relevant parties and no further funds will be realised from preference recoveries. This will enable a dividend to be paid to priority creditors in the new year.

Pumpcare

The liquidators identified one potential preference recipient but I determined not to pursue this claim as there was unlikely to be any commercial benefit to creditors.

Receipts and payments and estimated returns to creditors

4.2 Receipts and payments

Set out at Annexure A are summaries of the receipts and payments for SES and Pumpcare for the period 23 September 2016 to 22 September 2017.

4.3 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 months.

Our current assessment is that following preference recoveries there will be sufficient funds to enable a distribution to be made to priority creditors of SES.



4.4 *Estimated return to creditors – Pumpcare*

Priority creditors of Pumpcare (i.e. employees) were previously paid out in full from circulating asset realisations, with an amount of circa \$214k paid to discharge priority employee entitlements outstanding as at the date of our appointment as Voluntary Administrators.

We do not anticipate any further monies will be received in the liquidation and therefore, no additional funds will be available for distribution to any class of creditors.

5 Next steps in the liquidation

SES

The following matters remain outstanding:

- continue to review and refine the estimated return to creditors of SES. A summary of receipts and payment for Pumpcare and SES for the period 23 September 2016 to 30 November 2017;
- issue a detailed Report to Creditors of SES calling for a meeting of creditors;
- hold meeting of creditors;
- final distribution to secured creditor, if applicable;
- review priority claims;
- call for dividend to priority claims;
- attend to all tasks associated with dividend to priority unsecured creditors; if applicable;
- final report to creditors;
- attend to statutory matters;
- prepare a supplementary report to ASIC on possible offences by directors and officers; and
- finalisation tasks.

Pumpcare

The majority of the liquidation tasks in Pumpcare are now complete and the liquidators intend to retire in the coming year.

If you have any queries in relation to the matter covered in this circular, please contact Lauren Del Monte of my staff on (02) 9338 2697.

Yours faithfully

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

Shaun Fraser
Joint and Several Liquidator

Enclosures:

Appendix A – Receipts and Payments for the period 23 September 2016 to 30 November 2017



Annexure A – Summaries of receipts and payments - 23 September 2016 to 30 November 2017

Southern Engineering Services Pty Ltd (In Liquidation)

Summary of receipts and payments for the period 23 September 2016 to 30 November 2017

	Amount (\$)
Opening balance	1,173,914
Receipts	
GST received	123,138
Interest income	19,178
Legal fees (incorrect payment)	1,405
Plant and Equipment	5,610
Voidable transaction recoveries	1,850,000
Total receipts	1,999,330
Payments	
Agent's fees	309
Appointee disbursements	3,467
Document storage	783
Appointee fees	95,632
GST payable	1,804
IT services	16,347
Legal fees	106,199
PAYG paid	748
Printing and stationery	767
Refund	684
Total payments	226,739
Net receipts and payments for the period 23 September 2016 to 30 November 2017	1,772,591
Closing balance at 30 November 2017	2,946,505
Add:	
Voidable transaction recoveries not yet received	475,000
Adjusted closing balance	3,421,505



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

Summary of receipts and payments for the period 23 September 2016 to 30 November 2017

	Amount (\$)
Opening balance	132,902
Receipts	
GST received	8
Total receipts	8
Payments	
Printing and stationery	96
Total payments	96
Net receipts and payments for the period 23 September 2016 to 30 November 2017	(88)
Closing balance at 30 November 2017	132,814
Less:	
Payment of liquidator fees and disbursements yet to be paid	131,996
Adjusted closing balance	818