



# Remuneration Approval Report

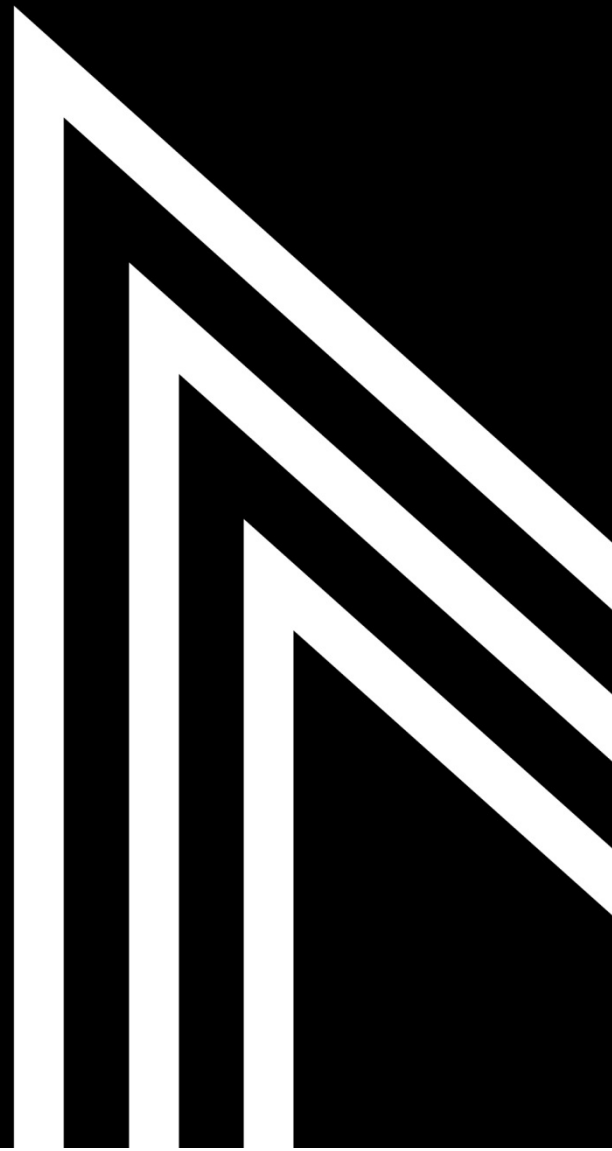
Sound Diagnostics Pty Ltd (Subject to Deed of Company Arrangement)

ACN: 116 377 201

9 October 2020



McGrathNicol



This remuneration approval report provides you with information to assist you to make an informed decision regarding the approval of our proposed remuneration for undertaking the Deed of Company Arrangement of Sound Diagnostics Pty Ltd (Subject to Deed of Company Arrangement) (**Sound Diagnostics**).

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## 1 Declaration

We, Rob Kirman and Matthew Caddy of McGrathNicol, have undertaken a proper assessment of this remuneration claim for our appointment as Deed Administrators of Sound Diagnostics in accordance with the law and applicable professional standards. We are satisfied that the remuneration claimed is in respect of necessary work, properly performed, or to be properly performed, in the conduct of this matter.

We have reviewed the work in progress report for the Deed of Company Arrangement (**DOCA**) to ensure that remuneration is only being claimed for necessary and properly performed work.

## 2 Executive Summary

To date, remuneration as set out in the table below has been approved and paid in the Administration and DOCA.

Past approvals (exc. GST)	Appointment type	Approved	Paid
<b>Remuneration period</b>			
25 May 2020 to 7 August 2020	Administration	\$498,126.00	\$498,126.00
8 August 2020 to execution of the DOCA	Administration	\$30,000.00	\$30,000.00
Period of the DOCA	DOCA	\$170,000.00	\$170,000.00
<b>Total remuneration</b>			<b>\$698,126.00</b>

This remuneration approval report details approval sought for the following remuneration:

Remuneration approvals sought	Report Reference	Amount (ex GST)
Retrospective	3.1	\$26,995.50
Prospective*	3.2	\$50,000.00
Total remuneration approvals sought		<b>\$76,995.50</b>

\*Approval sought for future remuneration is based on an estimate of work necessary to finalisation of the DOCA.

Please refer to the report section references detailed in the above table for full details of the remuneration sought.

## 3 Remuneration

### 3.1 Retrospective remuneration

We request that the following resolution be passed to approve our retrospective remuneration. Details to support this resolution are included further below.

Retrospective remuneration resolution	Appointment Type	Amount (ex GST)
Resolution 1: 22 September 2020 – 2 October 2020	DOCA	\$26,995.50
<b>Total retrospective remuneration resolution</b>		<b>\$26,995.50</b>

#### Resolution 1: Retrospective remuneration from 22 September 2020 to 2 October 2020

*"That the remuneration of the Deed Administrators for the period 22 September 2020 to 2 October 2020, calculated at hourly rates as detailed in the Initial Remuneration Notice dated 28 May 2020, is determined in the sum of \$26,995.50, exclusive of GST."*

We will withdraw funds from the administration account in respect of the Deed Administrators' remuneration immediately upon approval if funds are available. If funds are not available, we will withdraw funds progressively over time as funds become available.

The following table sets out the time charged to each major task area by staff members working on the DOCA for the period 22 September 2020 to 2 October 2020, which is the basis of Resolution 1. More detailed descriptions of the tasks performed within each task area, matching the amounts below, are contained further below.

## Resolution 1: Retrospective remuneration from 22 September 2020 to 2 October 2020

Remuneration for the period 22 September 2020 to 2 October 2020														
Employee	Position	Hrly rate	Assets		Creditors		Trade on		Dividend		Administration		Total	
			Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)	Hrs	Fees (\$)
Rob Kirman	Appointee	595	-	-	2.30	1,368.50	-	-	-	-	2.90	1,725.50	5.20	3,094
Employee B	Director	525	0.20	105.00	0.80	420.00	0.30	157.50	6.70	3,517.50	0.40	210.00	8.40	4,410
Employee C	Manager	450	7.90	3,555.00	3.50	1,575.00	8.40	3,780.00	3.60	1,620.00	2.90	1,305.00	26.30	11,835
Employee D	Assistant Manager	410	-	-	-	-	-	-	-	-	1.00	410.00	1.00	410
Employee E	Accountant	305	0.40	122.00	9.80	2,989.00	2.70	823.50	3.30	1,006.50	7.50	2,287.50	23.70	7,229
Employee F	Administration	180	-	-	-	-	-	-	-	-	0.10	18.00	0.10	18
<b>Total fees (excluding GST)</b>			<b>8.50</b>	<b>3,782.00</b>	<b>16.40</b>	<b>6,352.50</b>	<b>11.40</b>	<b>4,761.00</b>	<b>13.60</b>	<b>6,144.00</b>	<b>14.80</b>	<b>5,956.00</b>	<b>64.70</b>	<b>26,995.50</b>
<b>Average hourly rate</b>				<b>443</b>		<b>389</b>		<b>406</b>		<b>392</b>		<b>340</b>		<b>417</b>

The below table sets out a detailed description of work undertaken on the DOCA for the period 22 September 2020 to 2 October 2020, which is the basis of Resolution 1.

**Resolution 1: Retrospective remuneration of the DOCA for the period 22 September 2020 to 2 October 2020**

Task Area	General Description	Includes
Assets 8.5 hours \$3,782.00	Completion of DOCA transaction and estimated asset position	<ul style="list-style-type: none"> <li>▪ Attending to post-Completion finalisation of administration trading position and new asset position</li> <li>▪ Updates to estimated outcome statement to refine proceeds available for first and final dividend to creditors, and surplus distribution to shareholders</li> <li>▪ Liaise with external accountant to update management accounts to Completion</li> <li>▪ Liaise with external accountant regarding administration period tax reporting requirements and impact on asset realisations</li> <li>▪ Internal discussions in relation to post-Completion matters and estimated asset position</li> </ul>
Creditors 16.40 hours \$6,352.50	Creditor Enquiries, Requests & Directions	<ul style="list-style-type: none"> <li>▪ Receive and respond to creditor enquiries, request and directions</li> <li>▪ Consider reasonableness of creditor requests and liaise with legal advisors as required</li> </ul>
	Secured creditors	<ul style="list-style-type: none"> <li>▪ Review of PPSR and liaise with remaining PPSR holders for discharge of registrations post-Completion</li> <li>▪ Correspondence with secured creditors regarding adjudication of debt claimed, requesting additional information and responding to queries as required</li> </ul>
	Creditor reports	<ul style="list-style-type: none"> <li>▪ Prepare report to creditors and accompanying remuneration report</li> <li>▪ Review work-in-progress report ahead of preparing remuneration report</li> </ul>
	Deal with proofs of debt (POD)	<ul style="list-style-type: none"> <li>▪ Receive PODs from claimants</li> <li>▪ Request outstanding PODs from known creditors and particulars of their debt</li> <li>▪ Prepare and maintain POD and adjudication schedule</li> <li>▪ Obtain legal advice as necessary with regard to various elements of creditor claims</li> <li>▪ Prepare and issue correspondence to creditors in respect of further information requirements to support claim and legal basis of claims</li> </ul>

Task Area	General Description	Includes
	Proposals to Creditors	<ul style="list-style-type: none"> <li>Prepare proposal notices and voting forms</li> </ul>
Trade On 11.4 hours \$4,761.00	Trade On Management	<ul style="list-style-type: none"> <li>Maintain and finalise profit and loss and cash flow position in preparation of first and final dividend and for updating of estimated outcome statement</li> <li>Attend to finalisation of administration trading position</li> <li>Liaise with suppliers to close administration accounts and issue final invoices</li> <li>Liaise with management in relation to post-Completion matters regarding final invoices and transition of ongoing accounts</li> <li>Liaise with external accountant for review of preparation of final management accounts, review of supplier invoices and upload to Xero accounting software</li> <li>Liaise with Management and external accounts in relation to the transition of information and finalised accounts for handover to new service provider</li> <li>Maintain and review supplier statements schedule and reconcile payments made to suppliers</li> </ul>
	Process receipts and payments	<ul style="list-style-type: none"> <li>Enter receipts and payments into accounting system</li> <li>Prepare and authorise receipt and payment vouchers in relation to any final supplier invoices</li> <li>Authorise payments within the banking platform</li> <li>Review and reconcile GST treatment</li> <li>Review and maintain a detailed summary of receipts and payments for statutory obligation purposes</li> </ul>
Dividend 13.6 hours \$6,144.00	Process proofs of debt	<ul style="list-style-type: none"> <li>Collate and adjudicate PODs</li> <li>Maintain adjudicated POD register</li> <li>Obtained legal advice as necessary regarding POD adjudication</li> </ul>

Task Area	General Description	Includes
	Dividend procedures	<ul style="list-style-type: none"> <li>Issue circular to creditors and prepare and issue ASIC advertisement regarding intention to declare first and final dividends</li> <li>Reviewing PODs and updating their respective amounts in MYOB</li> <li>Maintain and update dividend schedule and reconcile to MYOB records</li> <li>Liaise with Australian Taxation Office in regard to updated POD and requirement for tax clearance</li> </ul>
Administration 14.8 hours \$5,956.00	Document maintenance/file review/checklist	<ul style="list-style-type: none"> <li>Maintain physical and electronic engagement file</li> <li>Update checklists as required</li> </ul>
	Insurance	<ul style="list-style-type: none"> <li>Correspond with insurer regarding finalisation of policies and confirmation of run-off cover</li> <li>Review insurance policies and settle liabilities</li> </ul>
	Bank account administration	<ul style="list-style-type: none"> <li>Process and approve payments</li> <li>Reconcile pre and post-appointment bank accounts</li> </ul>
	Planning/Review	<ul style="list-style-type: none"> <li>Internal discussions regarding key work streams, including progression of DOCA, first and final dividend to creditors, distribution to shareholders and adjudication of creditor claims</li> <li>Hold internal meetings to discuss rolling checklist and statutory lodgements</li> </ul>
	Books and records / storage	<ul style="list-style-type: none"> <li>Prepare a detailed backup of Sound Diagnostics' Xero file and internal communications</li> <li>Correspondence with external accountant regarding back-up of records and provision of information post-Completion</li> </ul>
<b>Total</b> <b>\$26,995.50</b>		

### 3.2 Prospective remuneration

We will request that the following resolution be passed to approve our prospective remuneration. Details to support this resolution are included further below.

Prospective remuneration resolution	Appointment Type	Amount (ex GST)
Resolution 2 : 3 October 2020 – Finalisation of the DOCA	DOCA	\$50,000
Total prospective remuneration resolution		<b>\$50,000</b>

**Resolution 2: Prospective remuneration from 3 October 2020 to finalisation of the DOCA**

*“That the future remuneration of the Deed Administrators from 3 October 2020 to finalisation of the DOCA is determined at a sum equal to the cost of time spent by the Deed Administrators and their partners and staff, calculated at the hourly rates as detailed in the Initial Remuneration Notice dated 28 May 2020, up to a capped amount of \$50,000, exclusive of GST.”*

We will withdraw funds from the administration account in respect of the Deed Administrators’ remuneration progressively over time as funds become available and only once it is incurred. If actual costs incurred are below the capped amount, the Deed Administrators are only authorised to draw the amount incurred. If actual costs incurred exceed the amount approved, the Deed Administrator may seek further approval from creditors.”

The below table sets out the expected costs and a detailed description of the work by task area to be undertaken on the DOCA for the period 3 October 2020 to finalisation of the DOCA, which is the basis of Resolution 2.

**Resolution 2: Prospective remuneration of the DOCA for the period 3 October 2020 to finalisation of the DOCA**

Task Area	General Description	Includes
Creditors \$25,000	Creditor Enquiries, Requests & Directions	<ul style="list-style-type: none"> <li>▪ Receive and respond to creditor enquiries</li> <li>▪ Consider reasonableness of creditor requests and liaise with legal advisors as needed</li> <li>▪ Obtain legal advice on requests from creditors for information, documents or a report</li> <li>▪ Document reasons for not complying with requests or directions as required</li> </ul>
	Creditor reports	<ul style="list-style-type: none"> <li>▪ Finalise report to creditors and accompanying remuneration report</li> <li>▪ Finalise notice of proposals</li> <li>▪ Issue creditor report to all known creditors</li> <li>▪ Upload report to McGrathNicol website</li> </ul>
	Deal with proofs of debt (POD)	<ul style="list-style-type: none"> <li>▪ Receive remaining PODs from claimants</li> <li>▪ Prepare and maintain POD schedule</li> <li>▪ Adjudicate PODs and liaise with creditors regarding additional information required or related queries in respect to PODs</li> <li>▪ Liaise with legal advisors as required in relation to POD adjudication and relevant points of law</li> </ul>
	Proposals to Creditors	<ul style="list-style-type: none"> <li>▪ Review votes and determine outcome of proposal</li> <li>▪ Prepare and lodge form 5022 proposal outcomes with ASIC</li> </ul>
Trade On \$2,500	Trade On Management	<ul style="list-style-type: none"> <li>▪ Reconcile all payments of final supplier statements to supplier statement schedule</li> <li>▪ Liaise with suppliers in relation to finalisation of post-Completion invoices</li> <li>▪ Finalise management accounts with external advisor and confirm cut-off position with new service provider</li> </ul>



Task Area	General Description	Includes
	Process receipts and payments	<ul style="list-style-type: none"> <li>▪ Enter receipts and payments into accounting system</li> <li>▪ Authorisation of payments within the banking platform</li> <li>▪ Review and maintain a detailed summary of receipts</li> <li>▪ Reconcile receipts and payments for the preparation of statutory lodgements</li> </ul>
Dividend \$17,500	Estimate of DOCA Fund available	<ul style="list-style-type: none"> <li>▪ Updates to and finalisation of, as required, estimated DOCA Fund available for first and final dividend to creditors and distribution of surplus to shareholders</li> </ul>
	Process proofs of debt	<ul style="list-style-type: none"> <li>▪ Review and assess all remaining supporting documentation in relation to claimant's PODs</li> <li>▪ Maintain POD register</li> <li>▪ Correspond with claimants regarding PODs</li> <li>▪ Liaise with Australian Taxation Office regarding receipt of POD for outstanding taxation amounts and pre-appointment employee superannuation</li> </ul>
	Dividend procedures	<ul style="list-style-type: none"> <li>▪ Review and maintain dividend schedule and reconcile to MYOB records</li> <li>▪ Review PODs and update their amounts in MYOB as necessary</li> <li>▪ Prepare necessary adjudication forms to formalise admission or rejection of PODs</li> <li>▪ Finalise adjudication of PODs and correspond with creditors as required</li> <li>▪ Enter admitted claims into MYOB and prepare MYOB first and final dividend</li> <li>▪ Review estimated outcome statement and calculate first and final dividend</li> <li>▪ Prepare payment of dividend and enter into accounting system</li> <li>▪ Pay first and final dividend to all known creditors and reconcile to MYOB and estimated outcome statement</li> <li>▪ Correspondence to creditors with admitted claims regarding declaration of first and final dividend</li> <li>▪ Correspondence to Australian Taxation Office regarding payment of outstanding taxation liabilities and pre-appointment employee superannuation</li> <li>▪ Respond to any creditor queries regarding the payment of the first and final dividend</li> </ul>

Task Area	General Description	Includes
	Distribution to shareholders	<ul style="list-style-type: none"> <li>▪ Review DOCA Fund surplus following creditor dividend available for distribution to shareholders</li> <li>▪ Liaise with shareholders, and legal advisors as required, to confirm recipient(s) of distribution of surplus</li> <li>▪ Distribute surplus to shareholders or into Court, as to be agreed with shareholders and legal advisors</li> </ul>
Administration \$5,000	Document maintenance/file review/checklist	<ul style="list-style-type: none"> <li>▪ Conduct six monthly file reviews</li> <li>▪ Maintain physical and electronic engagement file</li> <li>▪ Update checklists in preparation for retirement</li> </ul>
	Bank account administration	<ul style="list-style-type: none"> <li>▪ Prepare correspondence to close accounts</li> <li>▪ Request final bank statements</li> <li>▪ Perform bank account reconciliations</li> <li>▪ Correspond with bank regarding specific transfers</li> <li>▪ Close bank accounts as and when required</li> </ul>
	ASIC forms	<ul style="list-style-type: none"> <li>▪ Prepare and lodge form 505 for the cessation of the Deed Administrators</li> <li>▪ Prepare and lodge form 5603 End of Administration return for the DOCA period</li> <li>▪ Prepare and lodge form 5022 Notice of proposals forms</li> <li>▪ Correspond with ASIC regarding any other statutory forms</li> </ul>
	ATO and other statutory reporting	<ul style="list-style-type: none"> <li>▪ Reconcile GST account</li> <li>▪ Prepare BAS returns for the DOCA period</li> </ul>
	Finalisation	<ul style="list-style-type: none"> <li>▪ Notify the Australian Taxation Office and other relevant authorities of ceasing to act as Deed Administrators</li> <li>▪ Cancel GST/PAYG registration upon retirement</li> <li>▪ Complete finalisation checklists</li> <li>▪ Conduct final file review upon retirement</li> </ul>
	Planning/Review	<ul style="list-style-type: none"> <li>▪ Internal discussions and meetings regarding status of the DOCA, dividend to creditors, distribution to shareholders and finalisation of engagement</li> </ul>
	Books and records / storage	<ul style="list-style-type: none"> <li>▪ Deal with records in storage</li> <li>▪ Preserve and deal with company records</li> </ul>
<b>Total</b> <b>\$50,000</b>		

### 3.3 Estimated future remuneration

In preparing this report, our prospective remuneration approval is our best estimate of what we believe the DOCA will cost to complete and we do not anticipate that we will have to ask creditors to approve any further remuneration. However, should the DOCA not proceed as expected, we will advise creditors and we may seek approval of further remuneration.

### 3.4 Total remuneration reconciliation

At this point in time we estimate that the total remuneration for the DOCA will be \$775,121.50 (GST exclusive), as shown in the table below.

Remuneration type	Amount (ex GST)	Amount (ex GST)
Previous remuneration approvals (refer to section 2)		\$698,126.00
Current remuneration approval being sought:		
Retrospective remuneration approval (refer to section 3.1)	\$26,995.50	
Prospective remuneration approval (refer to section 3.2)	\$50,000.00	\$76,995.50
<b>Estimated total remuneration</b>		<b>\$775,121.50</b>

In our Remuneration Report to creditors dated 10 August 2020, we estimated total remuneration for the Administration and DOCA to be \$698,126.00 (excluding GST). Our current estimate of \$775,121.50 (excluding GST) exceeds the estimate previously provided to creditors as the Deed Administrators have been required to undertake the following additional and previously unforeseen work:

- various phone, email and teleconference correspondence between the Deed Administrators, related party secured creditors, Radiology SA Holdings Pty Ltd (**RSAH**) and relevant legal advisors regarding the unexpected delay to completion of the sale of Sound Diagnostics' share capital to RSAH (**Completion**);
- consideration of the Deed Administrators' strategy and preparation of Court proceedings to facilitate Completion in the absence of co-operation from related party secured creditors;
- correspondence with related party secured creditors in relation to change in legal representation and willingness to proceed to settlement;
- additional trading requirements, adjustment to Completion adjustments and transaction documentation, and management of RSAH due to delayed completion; and
- additional and ongoing correspondence with creditors regarding adjudication of claims, including review of additional information received, requests for further supporting documentation to substantiate claims and review of validity of amounts claimed with reference to relevant information and company books and records.

### 3.5 Likely impact on dividends

It is both reasonable and appropriate for a professional service provider to be remunerated for their services. An external administrator is entitled to be remunerated for necessary work that is properly performed. That work generates the funds that may be recovered for the benefit of creditors and other stakeholders.

The impact of the approval of the external administrator's remuneration is that the remuneration will then be paid provided sufficient funds are generated to enable it to be paid. The remuneration will be paid from those funds that are generated prior to the payment of most creditors in the external administration.

It is noted that funds would only be available to any stakeholder as a consequence of the work necessarily undertaken by the external administrator.

The impact on the dividend to creditors of Sound Diagnostics remains unaffected as a result of the further remuneration sought by the Deed Administrators. At this stage, priority, secured and unsecured creditors are expected to be paid in full and a material return to shareholders is anticipated.

### 3.6 Remuneration recovered from external sources

The Deed Administrators have not recovered any remuneration from external sources or received any indemnities or up-front payments.

## 4 Disbursements

Disbursements are paid for by McGrathNicol and are recovered from the Deed Administrators' bank account.

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 have undertaken a proper assessment of disbursements claimed for the DOCA, in accordance with the law and applicable professional standards. We are satisfied that the disbursements claimed are necessary and proper.

### 4.1 Internal disbursements

Internal disbursements may have an element of profit or advantage to the External Administrator or a related party of the External Administrator. Creditors are required to approve these types of disbursements. No approval for internal disbursements are being sought at this stage.

## 5 Summary of receipts and payments

A summary of the receipts and payments for the DOCA period from 8 August 2020 to 2 October 2020 is included at Schedule A to this report.

## 6 Queries

If you have any queries regarding the information in this report, please contact Antoine Cleuet on (08) 6363 7635 or [acleuet@mcgrathnicol.com](mailto:acleuet@mcgrathnicol.com).

You can also access information that may assist you on the following websites:

- ARITA at [www.arita.com.au/creditors](http://www.arita.com.au/creditors)
- ASIC at [www.asic.gov.au](http://www.asic.gov.au) (search for "fees of insolvency practitioner").

Supporting documentation for our remuneration claim may be viewed if requested, provided sufficient notice is given.

Dated: 9 October 2020



Rob Kirman  
*Deed Administrator*

## Schedule A – Summary of receipts and payments

### Receipts and Payments for the period 25 May 2020 to 2 October 2020

#### \$ (incl. GST where applicable)

Opening cash at bank	44,914
<b>Receipts</b>	
Radiology services and other trading revenue	1,417,057
Debtors	19,360
JobKeeper Grants	265,500
ATO Cash Flow Boosts	37,500
DOCA Contribution and post-Completion adjustment for sale of share capital	15,015,287
Refund of funds paid into Court	18,042
<b>Total receipts</b>	<b>16,772,745</b>
<b>Payments</b>	
Employee wages & costs (net)	(551,649)
Employee superannuation	(64,448)
Premises rent and payments to Landlord	(290,875)
Equipment service agreements	(116,424)
Equipment rental	(9,308)
Stock and supply purchases	(54,355)
Insurance	(55,344)
Telephone & internet	(45,313)
Radiology consultants	(35,582)
Utilities	(27,667)
Bookkeeping	(22,039)
Advertising	(7,610)
Valuation fees	(4,620)
BAS payments (PAYG/GST)	(142,631)
Secured creditor claims to provide unencumbered assets at Completion	(2,428,066)
Transferring employee entitlements deducted from DOCA Contribution	(249,584)
Appointee fees and disbursements	(761,926)
Legal fees and disbursements	(168,205)
Other expenses	(24,947)
<b>Total payments</b>	<b>(5,060,593)</b>
<b>Net receipts</b>	<b>11,712,152</b>
<b>Cash at bank as at 2 October 2020</b>	<b>11,757,067</b>