



Sound Diagnostics Pty Ltd (Subject to Deed of Company Arrangement)
ACN 116 377 201
("Sound Diagnostics")
Report to Creditors

We refer to:

- the appointment of Matthew Caddy and I as joint and several Voluntary Administrators of Sound Diagnostics on 25 May 2020 and our subsequent appointment as Deed Administrators on 18 August 2020 (**Deed Administrators**); and
- the Deed of Company Arrangement (**DOCA**) executed by Radiology SA Holdings Pty Ltd (**RSAH**), Sound Diagnostics, Mr Caddy and I on 18 August 2020 pursuant to which the shares in Sound Diagnostics transferred to RSAH 10 September 2020 (**Completion**).

The purpose of this report is to:

- provide an update on the progress of the DOCA and distribution of the DOCA Fund, including a revised estimate of the return to creditors and shareholders; and
- seek approval of the Deed Administrators' remuneration to finalisation of the DOCA.

This report should be read in conjunction with the Administrators' Report to Creditors dated 10 August 2020 (**Administrators' Report**), available from www.mcgrathnicol.com/creditors/sound-diagnostics-pty-ltd.

1 Update on the progress of the DOCA

1.1 Completion

Since Completion, the Deed Administrators and their staff have substantially progressed post Completion matters, including:

- finalisation of Completion adjustments with RSAH, including accounting for final trading receipts and payments and transitioning customer and supplier arrangements, and assisting with the transition of Sound Diagnostics' business to RSAH control;
- progressing the finalisation and payment of administration trading liabilities and supplier trading accounts;
- commencement of the DOCA distribution process by issuing notices and advertising the Deed Administrators' intention to declare a first and final dividend to creditors of Sound Diagnostics on 22 September 2020 (refer section 1.2 for further detail); and
- refining the estimated return to creditors and shareholders based on progress made with finalising Completion matters, adjudication of creditor claims and the finalisation of administration receipts and payments (refer section 1.3 for further detail).

Overall, the Deed Administrators expect to finalise the reconciliation and settlement of trading liabilities within two weeks.

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1.2 *First and final dividend to creditors*

Pursuant to the Deed Administrators' advertisements and notices issued to creditors of Sound Diagnostics in relation to the intention to declare a first and final dividend, creditors are required to submit their Proof of Debt (**POD**) by close of business on 13 October 2020 to participate in the dividend.

The Deed Administrators are in the process of adjudicating creditor claims in advance of declaring a first and final dividend on or before 20 November 2020, and will shortly contact creditors directly if further information is required in support of a submitted claim or if any claim is inadmissible (in full or in part).

If it is possible to declare and pay a dividend sooner than 20 November 2020 (i.e. there are no ongoing disputes or appeals with regard to the Deed Administrators' adjudication of claims), the Deed Administrators will do so.

Further correspondence will be issued to creditors in due course regarding the declaration and payment of the dividend.

1.3 *Estimated return to creditors and shareholders*

We refer creditors to section 8.2 of the Administrators' Report which provided an estimate of the return to creditors under the DOCA as at 10 August 2020 (the date of the Administrators' Report).

The Deed Administrators have refined the estimated return to creditors and shareholders to reflect Completion, progression of post Completion matters and preparation for the first and final dividend to creditors, which have occurred subsequent to the Administrators' Report.

In summary, the Deed Administrators revised estimate of the return to creditors and shareholders of Sound Diagnostics is that:

- all creditors will be repaid in full; and
- shareholders will receive a return of between \$3.22 million (low) and \$3.75 million (high).

The return to shareholders has been refined (i) significantly upward in the low scenario as a result of further legal review and correspondence in relation to various creditor claims, and (ii) slightly downward in the high scenario as a result of increased employee claims transitioning with the business, additional secured claims in respect of IT related assets and an increase in costs to finalisation as a result of completion delays and dealing with post Completion matters.

The Deed Administrators' revised calculation of the estimated return to creditors and shareholders pursuant to the DOCA is set out overleaf.



Estimated return to creditors

\$'000	Low	High
DOCA Fund		
Proponent contribution	15,000	15,000
Less: Discount for employee entitlements for continuing employees	(250)	(250)
Cash on hand	63	63
Trade debtors & other receivables	69	69
Administrators' trading surplus	281	292
Post-Completion adjustments and non-trading tax refunds	214	214
Less: Secured creditors (to provide unencumbered assets)		
MRA debt	(2,189)	(2,189)
BHNA debt	(110)	(110)
KPPL debt	(15)	(15)
Other secured creditors	(101)	(101)
Total DOCA Fund	12,962	12,973
Less: Other costs	(55)	(37)
Less: Appointee fees & disbursements (approved and paid)	(702)	(702)
Less: Estimate of future approvals for appointee fees & disbursements	(125)	(77)
Less: Legal fees & disbursements to 30 September 2020	(202)	(202)
Less: Estimate of future legal fees & disbursements	(60)	(30)
Total assets available to priority creditors	11,819	11,925
Priority Creditors - employee entitlements		
Superannuation	(16)	(15)
Wages	(252)	(246)
Leave entitlements	(30)	(28)
PILN & Redundancy	(21)	(20)
Total priority employee entitlements	(319)	(310)
Total assets available to unsecured creditors	11,500	11,616
Unsecured creditors		
Related party creditors	(7,871)	(7,479)
Statutory creditors	(113)	(108)
Trade creditors	(213)	(203)
Excluded employee entitlements	(82)	(78)
Total estimated unsecured creditor claims	(8,280)	(7,868)
Total surplus available to shareholders	3,220	3,748



The material movements in the flow of funds pursuant to the DOCA, in comparison to that set out in the Administrators' Report, are discussed below.

- the Administrators' final trading surplus to Completion is estimated to be between \$281k and \$292k, versus a forecast trading surplus of \$111k as at 10 August 2020 (per the Administrators' Report). The increase is predominately driven by (i) further stimulus provided by the Australian Taxation Office in the form of JobKeeper and cash flow boosts that remained uncertain as at the time of the Administrators' Report, and (ii) a general reduction in overheads actually incurred versus forecast;
- payments to other secured creditors reflect actual amounts paid at or prior to Completion in order to provide clear title and unencumbered assets to RSAH. This includes payments to plant and equipment financiers with valid claims that had not previously asserted a secured claim in the Administration, and were not known as at the date of the Administrators' Report;
- further review and refinement in relation to various creditor claims; and
- Deed Administrators' and legal fees required to be undertaken to finalisation. Further information regarding Deed Administrators' fees is set out at section 2 below.

2 Deed Administrators' remuneration

Since the commencement of the DOCA, the Deed Administrators have been required to undertake additional work and incur time costs in excess of their initial forecast, including:

- dealing with the postponement of completion of the transaction contemplated by the DOCA as a result of secured creditors of Sound Diagnostics revisiting their commitment to release of securities required for the transaction to proceed, and (i) resultant negotiations between the parties, (ii) exploration of legal avenues available to the Deed Administrators to preserve the transaction, and (iii) preparation of Court proceedings;
- ongoing trading and management of the Sound Diagnostics' business and stakeholders, including employees, key suppliers and service providers in relation to the delayed and rescheduled settlement, and ongoing costs responsibility;
- dealing with RSAH in relation to the cessation of completion activities and the reversal of pre-arranged settlement processes;
- recalculation of completion adjustments including transferring employee entitlements, prepayments and Medicare/debtor adjustments; and
- protracted communications and follow up with post appointment suppliers and pre-appointment creditors in relation to the settlement of trading liabilities and creditor claim review and adjudication issues respectively, than was initially forecast.

Accordingly, the Deed Administrators are seeking approval of remuneration both incurred and to be incurred in respect of the above matters, and enclose a detailed report on their remuneration, called a Remuneration Report for the consideration of creditors.

In accordance with our enclosed Remuneration Report, the Deed Administrators are seeking approval of their remuneration totalling \$76,995.50 (excluding GST) over and above that previously approved by creditors for the period of the DOCA, comprising (i) retrospective (actual) remuneration for the period from 22 September 2020 to 2 October 2020 totalling \$26,995.50 (excluding GST), and (ii) prospective remuneration for the period from 3 October 2020 to finalisation of the DOCA totalling \$50,000.00 (excluding GST).



We propose to have our remuneration approved by proposal and without a meeting. Information about passing resolutions without holding a creditors meeting, and voting forms with regard to each resolution is enclosed.

In summary, the key tasks comprising the prospective Deed Administrators' remuneration request is set out in detail in the enclosed Remuneration Report and include:

- attending to final reconciliation and settlement of administration trading liabilities;
- adjudicating the claims of creditors of Sound Diagnostics as part of the dividend process;
- declaring and paying the first and final dividend to creditors of Sound Diagnostics on or before 20 November 2020;
- distributing the remainder of DOCA Fund (following repayment of creditors) to shareholders; and
- effectuation of the DOCA, completion of all statutory obligations and retirement as Deed Administrators.

3 Where can you get more information?

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

- ARITA at www.arita.com.au/creditors.
- ASIC at www.asic.gov.au (search for "insolvency information sheets").

If you require any further information or clarification of the matters set out above, please contact Magnus Howie of my staff on (08) 6363 7600 or by email to mhowie@mcgrathnicol.com.

Dated: 9 October 2020

Rob Kirman
Joint and Several Deed Administrator

Enclosures:

- 1 Remuneration Report
- 2 Notice of Proposal – Retrospective fees
- 3 Notice of Proposal – Prospective fees
- 4 ARITA Information Sheet – Proposals without meetings