

Report to Creditors

under Insolvency Practice Rule 70-40

Novo Pty Limited (In Liquidation)

ACN 618 659 377

10 July 2019

Peter Krejci
Liquidator

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BRI Ferrier

The logo for BRI Ferrier, featuring the company name in a bold, sans-serif font. The text is white and set against a dark grey rectangular background. A green diagonal line runs from the bottom right corner of the grey box towards the top right corner.

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1 EXECUTIVE SUMMARY

As you are aware, I was appointed Liquidator of Novo Pty Ltd (“the Company”) by a special resolution passed at a duly convened meeting held on 30 January 2019 pursuant to Section 491 of the Corporations Act 2001 (“the Act”).

This report has been prepared in accordance the Rule 70-40 of the Insolvency Practice Rules (Corporations) to provide creditors with an update on the developments of this Liquidation. I provide hereunder a summary of my preliminary investigations into the affairs of the Company to date, the potential returns for creditors and the conduct of the Liquidation over the past three (3) months.

The Company was incorporated on 21 April 2017, providing IT services, including cloud-based services, online security and support and infrastructure services, and operating from leased premises in NSW, VIC and QLD. The business was formerly operated by a related entity, Novo IT Pty Ltd (In Liquidation) (“Novo IT”). The Company was established as a wholly owned subsidiary of Novo IT and on 1 May 2017, the Company entered into direct service agreements with Novo IT, where the employees, leases and supplier contracts remained with Novo IT.

On 23 May 2017, Novo IT was placed into Voluntary Administration, and Mr David Ian Mansfield and Mr Neil Robert Cussen of Deloitte Financial Advisory were appointed as Joint and Several Administrators. The Company entered into a Licence Agreement with the Administrators for the use of specific assets and employees of Novo IT, whilst a Deed of Company Arrangement (“DOCA”) was explored for Novo IT. The Licence Agreement allowed the Company to continue trading the business during the Administration of Novo IT.

Ultimately, a DOCA proposal was provided to the Administrators of Novo IT, with the Company named as the Deed Proponent. In summary, the DOCA proposed that the Company would pay \$609K to Novo IT, comprised of cash contributions, and consideration for the assets, debtors and WIP balance of Novo IT. At the second meeting of creditors of Novo IT convened by the Administrators on 28 June 2017, creditors resolved to accept the DOCA proposal and the DOCA was executed on 11 July 2017.

My review of the available financial records indicates that the Company incurred substantial debts with the Australian Taxation Office (“ATO”) during FY2018, which were not discharged. I also understand that the Company experienced difficulties attracting new clients, due to the stigma associated with the business when Novo IT was placed into external administration. As a result, the Company was unable to meet its revenue target, in order to fund the DOCA contributions for Novo IT. Ultimately, the ATO issued a Directors Penalty Notice, which expired in mid-April 2019, leading to my appointment.

Upon my appointment, the Company was still trading and operating from leased premises. Initially, one of the shareholders, DEM Australasia Pty Ltd (“DEM Australasia”) expressed an interest in acquiring the business. Considering the limited resources, I continued to trade the business in the short-term to preserve value whilst I explored a sale. However this sale ultimately did not proceed and instead, I was able to quickly negotiate a sale with a competitor, Virtual IT Group Pty Ltd (“the Purchaser”). A sale of business contract was executed, with the primary purpose of preserving the business contracts and value of the Company’s debtors, and thereafter, the Company effectively ceased to trade and employ staff on COB, 17 April 2019. The terms of the sale are discussed in Section 5 in this Report.

Following my appointment, I recovered \$11K cash at bank and also realised two (2) motor vehicles for \$4.5K (incl GST). The major asset of the Company was the trade debtors, with a book value of \$318K at my appointment. To date, I have recovered \$92K in total from trade debtors and it is my opinion that an amount of \$23K may be impaired/unrecoverable. Of the remaining balance of \$202K, I understand that \$41K may be subject to disputes, where recovery is doubtful. This leaves a potentially recoverable balance of \$161K, of which the majority relates to Telstra for \$111K. Whilst I am not aware of any disputes with Telstra, I understand the Company negotiated a payment arrangement for the debt to be paid over time up to June 2020. In this regard, to expedite the recovery, I may consider a compromise of this claim. It is my intention to engage a debt collector to assist with the recovery of the remaining debtor balance.

Priority (employee) Creditors of \$310K in respect of superannuation, annual leave, long service leave, payment in lieu of notice ("PILN") and redundancy. Of this amount, \$121K relates to superannuation, which is owed to the ATO pursuant to the Superannuation Guarantee Charge Act. I note that the Fair Entitlements Guarantee ("FEG") scheme run by the Department of Employment, Skills, Family and Small Business ("the Department") is available to eligible employees for outstanding entitlements, excluding superannuation. In this regard, I understand that four (4) employees have lodged FEG claims and a distribution will be paid to those employees shortly.

Unsecured Creditors are owed approximately \$1.33M, where the majority relates to the ATO in respect of tax liabilities for \$719K and related parties for \$290K. The remaining balance relates to trade creditors for \$320K, which appear to have been outstanding for some time prior to my appointment. A Formal Proof of Debt form ("POD") is attached as **Annexure "1"**, should any creditor wish to lodge a claim.

Based on the available books and records, I have determined that the Company may have been insolvent from November 2017 and there may be a potential insolvent trading claim valued at around \$1M which could be pursued against the current and former Directors. My investigations are preliminary and such claims will require further investigations, evidence and funding to pursue. As such, creditors are invited to provide funding to pursue these claims. If creditors are interested, please contact Ms Katherine La of this office by close of business 31 July 2019. Absent any funding, I may seek a commercial settlement of the claim, which typically involves a discount.

My preliminary investigations have identified a potential unfair preference claim against the ATO for at least \$133K and potential voidable transactions totalling \$205K against the ATO, the Director and related parties that could be pursued. Please refer to Section 9.59.5.1 of this Report.

In the near term, I intend to lodge a report with ASIC pursuant to Section 533(1) of the Act, detailing my investigations into the affairs of the Company and the conduct of the Director. The report is confidential and is not be available to creditors.

My current estimates indicate that any return to Priority and Unsecured Creditors is largely contingent on pursuing and successfully recovering the debtor claims and the voidable recoveries identified, where if litigation is required to pursue, I will likely require funding from creditors. By way of best estimate, there may be a return between nil and 100 cents in the dollar to Priority Creditors and between nil and 36 cents in the dollar to Unsecured Creditors. Finalisation of this Liquidation could take one (1) to two (2) years, or a lesser timeframe, if a commercial settlement of the abovementioned claims is achieved.

1.1 PREVIOUS REPORTS TO CREDITORS

I previously issued my initial report to creditors dated 29 April 2019, which should be read in conjunction with this report.

1.2 PREVIOUS MEETINGS OF CREDITORS

No meetings of creditors have been held to date. I note that creditors approved my remuneration by proposal, in lieu of a meeting.

1.3 DECLARATION OF INDEPENDENCE, RELEVANT RELATIONSHIPS AND INDEMNITIES

Attached to my initial report was a copy of the Declaration of Independence, Relevant Relationships and Indemnities (“DIRRI”) dated 29 April 2019. I advise that there have been no changes to the DIRRI.

1.4 DISCLAIMER

This Report and the statements made herein are based upon available books and records, information provided by the Company’s Director, Advisors, Employees and from my own enquiries. Whilst I have no reason to doubt the accuracy of the information provided or contained herein, I reserve the right to alter my opinions or conclusions should the underlying data prove to be inaccurate or materially change after the date of this Report.

In considering the options available to Creditors and in formulating my opinions, I have necessarily made forecasts and estimates of asset realisations and recoveries and the ultimate quantum of Creditors’ claims against the Company where appropriate. These forecasts and estimates may change in due course as Creditors’ claims are made and adjudicated upon. Whilst the forecasts and estimates are the Liquidator’s best assessment in the circumstances, Creditors should note that the Company’s ultimate deficiency, and therefore the outcome for Creditors could differ from the information provided in this Report.

Neither the Liquidator nor any member or employee of BRI Ferrier accepts responsibility in any way whatsoever to any person in respect of any errors in this Report arising from incorrect information provided to me, or necessary forecasts, estimates and assessments made for the purposes of these Reports.

2 STATUTORY INFORMATION

The following is a summary of the Company’s statutory and business details obtained from the ASIC database, the Personal Property Securities Register (“PPSR”) database, and the Company’s records:

2.1 COMPANY DETAILS

Company Name	Novo Pty Limited
Registered Address	Level 7, 77 Market Street, Wollongong NSW 2500
Principal Place of Business	Level 1, 495-497 Princes Highway, Fairy Meadow NSW 2519
Incorporation Date	14 December 2018
A.B.N	31 618 659 377
A.C.N	618 659 377

2.2 COMPANY OFFICE HOLDERS

Name	Position	Appointed	Ceased
Robert Anthony Kell	Director & Secretary	21-Apr-17	Current
Stephen Paul Chapman	Director	21-Apr-17	12-Mar-18
Tony Pierro	Director	21-Apr-17	10-Mar-18

2.3 SHAREHOLDINGS

Name	Share Class	Number of		Status
		Shares	Fully Paid Up	
Rakk Pty Ltd	Ordinary Shares	1,200	Yes	Current
Hashtag Super Pty Ltd	Ordinary Shares	300	Yes	Current
Dem Australasia Pty Limited	Ordinary Shares	600	Yes	Current
Peter Kell & Faye Kell	Ordinary Shares	300	Yes	Current
Ape Man Pty Limited	Ordinary Shares	300	Yes	Current

2.4 REGISTERED SECURITY INTERESTS

A search of the PPSR indicates the following registered security interest:

Registration Number	Secured Parties	Start Date	Collateral
201710310075577	Westoon Group Pty Limited	31-Oct-17	Commercial - Other goods

I make the following comments:

- Correspondence was issued to Westcon Group Pty Limited (“Westcon Group”) requesting documentation to validate their respective claims.
- I understand that Westcon Group only provided IT services to the Company and as such, do not have any claim over assets held by the Company. Further, I have yet to receive any documentation to evidence that their security is enforceable. Accordingly, at this stage, it appears that any debt owed to Westcon Group is an unsecured claim against the Company.

2.5 RELATED PARTIES AND ASSOCIATES

A directorship search has been undertaken for the current Director, Mr Robert Kell, which indicate that he holds the following Officer roles in other entities.

Company	ACN	Position	Appointed	Ceased
Rakk Pty Ltd	628 091 752	Director & Secretary	10-Aug-18	Current
Novo Pty Limited	618 659 377	Director & Secretary	21-Apr-17	Current
Devplus Pty Ltd	148 136 387	Secretary	24-Mar-16	Current
ICT Vision Investment Holdings Pty Ltd	148 136 403	Secretary	24-Mar-16	Current
Novo IT Pty Ltd	096 550 828	Secretary	24-Mar-16	Current
Novo IT Pty Ltd	096 550 828	Director	24-Oct-13	Current
Devplus Pty Ltd	148 136 387	Director	01-Jul-11	Current
ICT Vision Investment Holdings Pty Ltd	148 136 403	Director	01-Jul-11	Current
Mega Group Holdings	107 019 107	Director	29-Dec-03	Current
SBMS (Australia) Pty Limited	076 453 515	Director & Secretary	03-Dec-96	Current
ICT Vision Pty Ltd	* 607 761 035	Director	20-Aug-15	20-Jan-19
AVC (NSW) Pty Ltd	* 151 779 056	Director & Secretary	01-Jul-12	03-Oct-18
Strategy ICT Pty Ltd	* 606 272 431	Director	05-Jun-15	20-Dec-17
Stratosphere IT Pty Ltd	* 163 959 064	Director & Secretary	27-May-13	10-Aug-16
Novo IT Pty Ltd	* 096 550 828	Director	01-Jul-11	07-Nov-11
Cabling And Wireless Pty Ltd	144 536 612	Director	01-Jul-11	01-Sep-11
Gateway Partners Insurance Brokers Pty Ltd	* 133 658 698	Director & Secretary	10-Oct-08	27-Oct-09
Gateway Partners Pty Ltd	* 109 847 314	Secretary	12-Mar-08	27-Oct-09
Gateway Partners Wealth Management Pty Ltd	* 121 875 812	Secretary	12-Mar-08	27-Oct-09
Gateway Partners Finance Pty Ltd	* 124 540 165	Secretary	12-Mar-08	27-Oct-09
Gateway Partners Insurance Pty Ltd	* 124 540 398	Secretary	12-Mar-08	27-Oct-09
Gateway Partners Services Pty Ltd	* 127 185 111	Secretary	12-Mar-08	27-Oct-09
Gateway Partners Audit Pty Ltd	* 126 053 601	Secretary	12-Mar-08	27-Oct-09
Grocor Management Pty. Ltd.	069 062 540	Secretary	12-Mar-08	27-Oct-09
Gateway Partners (Nominees) Pty Ltd	* 129 576 174	Secretary	06-Feb-08	27-Oct-09
Jaxeto Pty Ltd	001 633 076	Secretary	11-Jul-08	26-Sep-08
Mapelou Pty Limited	* 110 716 946	Secretary	11-Jul-08	20-Sep-08
Mega Group Management Pty Ltd	* 116 111 249	Director & Secretary	06-Sep-05	25-Oct-06
GBA Sservices Pty Limited	* 082 931 342	Director	10-Oct-03	01-Jul-04
Australian Orthodontic Centres Pty Ltd	103 487 887	Director	29-Jan-03	31-Mar-03

* Deregistered

3 COMPANY BACKGROUND AND EVENTS LEADING TO MY APPOINTMENT

The following information was obtained from the Company's books and records, enquiries of officers, staff and documentation provided to the Liquidator:

- ▲ The Company was incorporated on 21 April 2017 and provided cloud-based services, online security and other IT-related support and infrastructure services.
- ▲ The Company's business was formerly operated by a related entity, Novo IT. The Company was established as a wholly owned subsidiary of Novo IT and on 1 May 2017, the Company entered into direct service agreements with Novo IT, where the employees, leases and supplier contracts remained with Novo IT. Novo IT effectively ceased trading the business on this date.
- ▲ On 23 May 2017, Novo IT was placed into Voluntary Administration, and Mr David Ian Mansfield and Mr Neil Robert Cussen of Deloitte Financial Advisory were appointed as Joint and Several Administrators.
- ▲ Shortly following the appointment of the Administrators, the Company entered into a Licence Agreement for the use of specific assets and employees of Novo IT, in order to preserve the value of the business whilst a DOCA was explored for Novo IT. The Licence Agreement allowed the Company to continue trading the business during the Administration of Novo IT.

- ▲ Ultimately, a DOCA proposal was provided to the Administrators of Novo IT, with the Company named as the Deed Proponent. The major terms of the DOCA proposal were as follows:
 - A total Deed Fund of up to \$609K, comprised of the following:
 - Cash contribution of \$100K for the Deed Fund, with \$50K paid upfront and the remaining \$50K to be paid over time;
 - Debtors and WIP balance of \$169K to be collected over time and paid to the Deed Fund; and
 - Eight (8) quarterly instalments totalling \$390K to be paid to the Deed Fund.
 - The contributions to the Deed Fund would be paid over a two (2) year period from the ongoing trading profits of the Company. The Company would also undertake a capital raising for key employees to purchase additional shares of the Company.
 - Employees and related parties would not participate in the distribution from the DOCA.
 - If the ATO voted in favour of the DOCA, the ATO would remove their security interests registered over related entities, including Novo IT.
 - The Company would grant a circulating and non-circulating security interest over the Company's assets to the Deed Administrators. It should be noted that a search of the PPSR has not identified any such security interest registered by the Deed Administrators.
- ▲ At the second meeting of creditors convened by the Administrators on 28 June 2017, creditors resolved to accept the DOCA proposal and the DOCA was executed on 11 July 2017.
- ▲ The Company operated from leased offices in Sydney CBD, Wollongong, NSW, Melbourne, VIC and Brisbane, QLD, with ten (10) staff, including the Director, remaining at the time of my appointment.
- ▲ During FY2018, the Company was unable to meet its revenue target of \$3.9M to \$4.8M (business plan from Deloitte s439A report), in order to fund the DOCA contributions. Instead, the Company was only able to generate revenue of \$3.2M, placing a severe strain on the Company's cash flow to make payment of the quarterly DOCA contributions.
- ▲ It appears that the Company experienced difficulties securing new clients, due to the stigma associated with the business when Novo IT was placed into external administration.
- ▲ The Company appears to have attempted to raise capital in late 2018, as required by the DOCA, to assist with the DOCA contributions. However, there was insufficient funds raised to meet the DOCA contribution.
- ▲ During FY2018, the Company incurred a substantial debt with the ATO, in respect of GST and PAYGW, which the Company was unable to discharge. In early 2018, it appears the Company entered into a payment arrangement with the ATO, however the debts continued to accrue, as the Company was unable to service the ongoing GST and PAYGW liabilities.

- ▲ Ultimately, this led to a Directors Penalty Notice being issued by the ATO in late March 2019, which expired in mid-April 2019.
- ▲ As such, on 10 April 2019, the Director (also the shareholder) took steps to have me appointed as Liquidator of the Company.

4 REASONS FOR FAILURE

The Director has verbally advised the following reasons for the failure of the Company:

- ▲ Onerous DOCA contributions payable to Novo IT;
- ▲ Stigma associated with external administration of Novo IT made attracting new clients difficult;
- ▲ Loss of key staff, including managing directors;
- ▲ Delayed recovery of collections/commissions due from Telstra;
- ▲ Failure to raise sufficient capital from employees and shareholders; and
- ▲ Inability to meet tax obligations, in particular the ATO.

Whilst I agree with the above, I also note the following additional causes of failure:

- ▲ Non-payment of statutory liabilities over an extended period of time;
- ▲ Inability to generate sufficient income to meet ongoing DOCA contributions payable to Novo IT; and
- ▲ Insufficient working capital.

5 SALE OF BUSINESS & TRADING

As discussed in my Initial Report, one of the shareholders initially expressed an interest in acquiring the business. Given the minimal cash on hand and limited resources to manage the operations, I continued trading on a limited basis for a brief period to preserve the value of the business and assets, in anticipation of executing a sale of the business imminently. However this ultimately did not proceed due to certain key staff resigning following my appointment.

Shortly thereafter, a competitor expressed an interest in the business and, considering the lack of working capital to continue trading, deteriorating trading conditions and potential impairment of the debtors ledger (if provision of services were not continued), I determined there was insufficient time to run a public sale campaign.

Instead, I quickly negotiated and executed a sale agreement with the competitor, Virtual IT Group Pty Ltd (“the Purchaser”) on 17 April 2019. As part of the sale, the Company ceased to trade the business and all staff were terminated, effective COB 17 April 2019. A summary of the sale terms is as follows:

- ▲ Assets sold included:
 - Sundry plant and equipment, consisting of virtual servers and laptops; and

- Intellectual property, including client database, website domains, telephone numbers; and associated event logos.
- Sale consideration was transfer of three (3) employees and their entitlements to the Purchaser, estimated to be circa \$55K.
- The Purchaser is required to assist with the Company's debtor collections, in continuation of service provided to the debtors.
- Effecting a change of the Company name (likely to ACN 618 659 377 Pty Ltd), however, ultimately the Purchaser agreed that this was not required.

The primary driver of the sale was to preserve the business contracts and recoverable value of the debtors, to the extent possible.

Whilst there was no value ascribed to the Company's assets sold to the Purchaser, based on the cash liabilities assumed, the notional sale value could be the value of the entitlements assumed by the Purchaser, being \$55K.

Considering the Company's historical trading losses and significant net asset deficiency at the time of the sale, I have determined that the sale was reasonable.

6 HISTORICAL FINANCIAL INFORMATION

I have reviewed the Company's available management accounts for the financial year ended 30 June 2017, 2018, and the period ended 10 April 2019.

6.1 COMPARATIVE BALANCE SHEETS

Attached as **Annexure "2"** is a comparative analysis of the Balance Sheets for the abovementioned periods.

I make the following commentary on the comparative Balance Sheets:

- Between May 2017 and May 2018, the cash position of the Company represented on average 34% of current assets, however, substantially deteriorated to \$22k at 10 April 2019 (representing 5% of current assets). Of this balance, \$10K relates to a suspense account which appears to be an accounting entry only and as such, the downward trend is indicative of diminishing cash resources available.
- The Trade Debtors balance increased from \$125K in May 2017 to \$318K in April 2019, which demonstrates the Company's inability to manage its collections from customers. My enquiries indicate that debtors of around \$65K are impaired (bad debts or disputed) and therefore, this balance may be overstated at my appointment.
- The Plant and Equipment balance remained relatively stagnant from \$87K in April 2017 to \$97K at appointment and appears to relate to the acquisition of assets as part of the DOCA executed in July 2017.

- ▲ Goodwill relates to the DOCA contributions and assumption of employee entitlements under the DOCA executed in July 2017, where the balance has remained static at \$560K from June 2017 to my appointment. Regardless, this is not a recoverable asset and considering the Company's current circumstances, has artificially inflated the Company's net asset position.
- ▲ Despite being recorded as an asset item, the Related Party Loans balance consistently disclosed a net credit balance, except during September 2017 to November 2017. It appears that the loans primarily relate to the payment of Directors' wages and travel and entertainment costs.
- ▲ The Working Capital Loans balance reported a credit balance between April 2017 and May 2018, which related to contributions towards the DOCA of Novo IT Pty Ltd. This appears to relate to the debtors/WIP of \$169K that was required to be collected and paid to Novo IT as part of the DOCA terms. Whilst the balance reduced to nil several months prior to my appointment, a review of the ledgers appears to indicate that there was impaired debts of circa \$42K.
- ▲ The liabilities owed to the ATO (GST, PAYG Withholding and Superannuation) spiralled from \$16K in May 2017 to \$631K at June 2018, indicating an increased difficulty in meeting its statutory tax obligations as they fell due. The Company appears to have entered into a payment arrangement with the ATO in June 2018, which converted the majority of the debt to a "Non-Current" class and alleviated cash flow problems at the time, however did not resolve the Company's financial difficulties.
- ▲ The Trade Creditors balance increased from \$146K in May 2017 to \$258K at appointment, evidencing a strain on the cash flow and the Company's difficulty in discharging its creditors in the ordinary course.
- ▲ The Novo IT liability balance reduced from \$390K in June 2017 to \$180K at appointment, and relates to the DOCA contributions paid under the DOCA executed in July 2017.
- ▲ It appears that one of the shareholders, DEM Australasia provided professional services in assisting with DOCA, totalling \$198K. In around December 2018, DEM Australasia appears to have subordinated a portion of their claim to allow other creditors to be discharged first. In this regard, their claim for \$99K has been recorded as equity "paid up capital" in the Company's accounts.

6.2 COMPARATIVE PROFIT AND LOSS STATEMENTS

Attached as **Annexure "2"** is a comparative analysis of the Profit and Loss Statements for the abovementioned periods.

I make the following commentary on the comparative Profit and Loss Statements:

- ▲ Income is largely derived from service revenue, accounting for approximately 50% of total income across the reported period.
- ▲ Total income has experienced a downward trend from \$1M in September 2017 to \$539K in March 2019, indicative of the Company's deteriorating trading performance.
- ▲ The major expenditure item of the business historically has been employment related, accounting for 71% to 81% of total expenses across June 2017 to March 2018. This is fairly typical of a service business, where employment expenses are the largest expense.

- It appears that the Company attempted to mitigate losses by reducing employment expenses from \$615K at June 2017 to \$214K at March 2019. However, the reduction in the employment expenses did not alleviate the trading losses incurred.
- The Company has been reporting either losses or break-even across the reported period. In total, the Company had approximately \$1M in accumulated losses at my appointment.

7 REPORT ON COMPANY ACTIVITIES AND PROPERTY

The Director has failed to provide a completed ROCAP for the Company detailing the Company’s financial position as at the date of my appointment. This is a breach of the Act and will be reported to ASIC. Based on my investigations and queries, I provide below a summary of the Company’s financial position.

Novo Pty Limited (In Liquidation)				
A.C.N. 618 659 377				
Summary of Director's Report on Company Activities and Property				
	Report Reference	Book Value as at 10/04/2019 (\$)	Director's ERV (per ROCAP) (\$)	Liquidator's ERV as at 10/04/2019 (\$)
Assets				
Cash and Cash Equivalents	7.1.1	22,452	Not Provided	11,215
Trade Debtors	7.1.2	318,871		274,415
Sundry & Other Receivables	7.1.3	(12,570)		-
Plant and Equipment	7.1.4	97,845		4,325
Related Party Loans	7.1.5	(16,445)		-
Goodwill	7.1.6	560,086		-
Total Assets		970,239		
Liabilities				
Priority Creditors	7.2.1	235,839	Not Provided	307,223
Secured Creditors	7.2.2	-		-
Unsecured Creditors	7.2.3	1,324,794		1,329,670
Total Liabilities		1,560,633		1,636,893
Estimated Net Asset / (Deficiency)		(590,394)		(1,346,938)

7.1 ASSETS

7.1.1 Cash and Cash Equivalents

The management accounts indicated that the Company held cash at bank with Westpac Banking Corporation (“Westpac”) with a credit balance of \$11K. Following my appointment, I have recovered this balance in full.

The management accounts also disclosed a suspense account with a balance of circa \$10K, however this is an accounting entry only and not a recoverable asset available for the benefit of creditors.

7.1.2 Trade Debtors

As mentioned previously, customers were on month-to-month contracts with the Company, with infrastructure services billed as a fixed cost for the month in advance and support services billed on hourly rates for the previous month. In this regard, upon my appointment, customers were issued with invoices that credited half of the fixed cost of the infrastructure services for April 2019, and no adjustments for the support services for March 2019.

The major exception in the customer arrangements was Telstra, in which the Company had a reseller agreement for services hosted/provided by Telstra. This agreement effectively allowed for trailing commissions to be recovered by the Company, however, at times, Telstra was slow to make payment. In or around May 2018, the Company conducted a reconciliation of the trailing commissions payable by Telstra and identified a significant underpayment of \$104K (excl. GST), which appears to have been acknowledged by Telstra in June 2018. However, the Director advised that there were further delays experienced in recovering commissions from Telstra. As the major debtor of the Company, this placed severe strain on the Company's cash flow.

At the time of my appointment, the Company's management accounts disclosed debtors totalling \$318K. To date, debtor recoveries can be summarised as follows:

Debtors	Amount (\$)
Recovered to Date	92,086
Bad Debt / Write-off	23,228
Disputed	41,333
Recoverable / To be Recovered	161,663
Total	318,310

In this regard, the majority of the recoverable balance relates to Telstra for \$111K, and I am not aware that Telstra has disputed the debts owing to the Company. It appears that prior to my appointment, the Company negotiated a payment of the commissions debt in instalments over time until June 2020. In order to expedite this recovery, I may consider a compromise for the remaining debtor balance.

I am of the opinion that the remaining balance of recoverable debtors (and possibly a portion of disputed debtors) could be recovered for the benefit of creditors, and accordingly, I intend to engage a debt collector on a short-term arrangement to assist with recovery of these debtors. Creditors will be kept apprised in future reports of the outcome of these debtor recoveries.

7.1.3 Sundry and Other Receivables

The Company's management accounts reported Sundry Debtors as a contra asset (i.e. liability) with a balance of approximately \$16K. My investigations indicate that this appears to be a misallocation of debtor (commission) payments received from Telstra. As such, this is not a true liability and merely an error in the management accounts.

The remaining balance of \$3K relates to a rental bond for the leased offices in Wollongong, NSW. Whilst I understand there does not appear to be any rental arrears, it is likely that the landlord may have a claim for make good and lost rent.

7.1.4 Plant and Equipment

The plant and equipment disclosed in the management accounts relates to office equipment, IT equipment, and two (2) unencumbered motor vehicles. The value of \$90K was attributed as consideration for the plant and equipment by the Administrators in the DOCA. At the time of my appointment, the IT equipment related to various laptops used by employees and the office equipment were located in the various leased offices. My enquiries indicated that these had minimal commercial value and I abandoned same.

The two (2) motor vehicles were both 2011 Volkswagen Golf, one of which was located in the Wollongong office and the other was in the possession of a former employee located in QLD. The former employee made an offer of \$1.7K (incl. GST) for the vehicle, given the poor condition of the vehicle. Based on my enquiries on value and realisations costs, I determined that this was a reasonable offer and accepted same. Accordingly, I have recovered this balance in full from the former employee.

I instructed Grays to collect the other vehicle located in Wollongong office, which was in reasonable condition, and proceeded to sell this vehicle via online auction. Grays have advised that the vehicle was sold for \$4K (incl. GST), and I anticipate recovering \$3K (incl. GST) in net sale proceeds, after realisation costs.

7.1.5 Related Party Loans

7.1.5.1 Director/Shareholder Loan Account

The Company's management accounts disclose a Loan of \$3.5K owed by the Director to the Company. However, considering the outstanding employee entitlements owed to the Director exceeds this balance, there is no recovery available for the benefit of creditors.

7.1.5.2 Former Director/Shareholder Loan Account

The loan account with a former director, Stephen Chapman, is reported in the Company's management accounts as a contra asset for \$20K. This appears to relate to various expenses of the Company that was paid by the former director, and appears to remain a liability of the Company.

7.1.6 Goodwill

As discussed above, the Company acquired the business from the Administrators of Novo IT by way of the DOCA in June 2017. In this regard, the goodwill value recorded in the Company's management accounts for \$560K relates to the assumption of employee entitlements and ongoing DOCA contributions from the acquisition of the business. Given the current circumstances of the Company, there is no realisable value for goodwill.

7.2 LIABILITIES

7.2.1 Priority Creditors

As mentioned in my Initial Report, the Company employed approximately ten (10) staff at the time of my appointment. My preliminary assessment indicates that entitlements may be approximately \$310K. Below is a summary:

Entitlements	Liquidator's ERV Amount			Total (\$)
	Unrelated (\$)	Director-related (\$)	Residual Unsecured (\$)	
Wages	-	-	-	-
Superannuation	121,248.78	Unknown	Unknown	121,248.78
Annual Leave	45,782.59	729.10	3,312.75	49,824.44
Long Service Leave	13,495.42	770.90	3,502.63	17,768.95
PILN	32,961.74	-	5,384.66	38,346.40
Redundancy	72,135.12	-	10,769.32	82,904.44
Total	285,623.65	1,500.00	22,969.36	310,093.01

I provide my commentary as follows:

- Upon my appointment, I understand all employee wages were paid up to 12 April 2019. During the Liquidation, I continued to pay wages until all employees were formally terminated on 17 April 2019. As such, I am not aware of any outstanding wages owed to employees.
- In accordance with Section 52 of the Superannuation Guarantee (Administration) Act 1992, any claim received from the ATO in relation to a Superannuation Guarantee Charge ("SGC") has a priority equal to the debts referred to in section 556(1)(e) of the Act in the event that a distribution is made, i.e. it is treated as a priority equal to wages. In this regard, the ATO has lodged a claim for outstanding SGC of \$121K.
- In accordance with Section 556(1A) of the Act, the priority amount owed to the Director in respect of leave entitlements (Annual Leave and Long Service Leave) is capped to \$1.5K. Accordingly, the residual balance remains as an unsecured creditor claim.
- Payment in Lieu of Notice ("PILN") and Redundancy has been calculated based on the National Employment Standards. In accordance with Section 556(1C) of the Act, the amount owed to the Director in respect of PILN and Redundancy does not have a priority ranking and is considered an unsecured creditor claim.

Based on realisations to date, there are insufficient funds to discharge employee claims in full. As such, employees were eligible to lodge a claim under the Fair Entitlements Guarantee Scheme ("FEG") for their outstanding entitlements. Please see below for further information.

7.2.1.1 Fair Entitlements Guarantee ("FEG")

In a liquidation, employees may be eligible to apply to the Federal Government, which has established a safety net scheme known as FEG, for payment of their outstanding entitlements. FEG is administered by the Department of Employment, Skills, Small and Family Business ("the Department") for eligible employees who have been terminated as a result of their employer's insolvency and are owed entitlements.

In order for an employee to be eligible to claim outstanding entitlements under FEG:

- The employee must be an Australian citizen or permanent resident (contact the Department for further details); and

- ▲ The end of their employment must be due to the insolvency of the employer, or have occurred less than six (6) months before the appointment of an insolvency practitioner, or occurred on or after the appointment of an insolvency practitioner.

Employees may submit claims in respect of the following entitlements, provided they are entitled to claim under their respective industrial instrument, contract of employment or by any other means:

- ▲ Up to thirteen (13) weeks unpaid wages for the period ending at the earlier of the date on which employment ended or the appointment of an insolvency practitioner;
- ▲ Unpaid annual leave and long service leave;
- ▲ Up to a maximum of five weeks unpaid payment in lieu of notice; and
- ▲ Up to a maximum of four weeks redundancy entitlement for each completed year of service.

In calculating employee entitlements payable under the scheme, the maximum annual wage applies.

FEG will not cover:

- ▲ Outstanding superannuation entitlements;
- ▲ Entitlements such as rostered days off unless the relevant legislation, award, statutory agreement or written contract of employment provides they are payable upon termination of employment; and
- ▲ Employee entitlements of the Directors and related party Creditors.

Should you wish to obtain further information, the Department may be contacted on 1300 135 040. Alternatively, you may visit their website at: <https://www.employment.gov.au/fair-entitlements-guarantee-feg>.

At this stage, I am aware that four (4) employees have lodged FEG claims in respect of outstanding entitlements, and will be paid shortly. For providing verification services of outstanding employee entitlements, I will be paid a fixed amount (circa \$3K) from the Department.

I note that employees must submit any FEG claims within twelve (12) months of the date of my appointment, i.e. by no later than 10 April 2020.

7.2.2 Secured Creditors

As mentioned above, Westcon Group had a registered security interest, however I have yet to receive any security documentation to evidence their security interest. Accordingly, at this stage, any debt owed to Westcon Group appears to be an unsecured claim against the Company.

I am not aware of any other Secured Creditors.

7.2.3 Unsecured Creditors

Based on the available books and records and Proofs of Debt ("POD") received to date, Unsecured Creditors were owed approximately \$1.33M. A breakdown is below:

Unsecured Creditors	Book Value (\$)	Liquidator's ERV (\$)
Trade Creditors	258,282	320,363
ATO	775,179	719,057
Other Liabilities	1,084	-
Related Party Creditors	290,250	290,250
Total	1,324,794	1,329,670

I provide my commentary as follows:

- The trade creditors balance consists of debts incurred in the normal course of operation. A review of the trade creditors ledger indicates that the ageing of the outstanding debts are largely greater than ninety (90) days, evidencing the Company's difficulties in paying its creditors on time.
- The ATO have lodged a claim in the liquidation for \$719K in relation to outstanding GST and PAYG liabilities. There are minimal lodgements outstanding, however the ATO's debt may increase if outstanding lodgements were completed.
- The management accounts include certain historical accrued liabilities totalling \$1K, which appears to be a reconciliation issue and are not true liabilities.
- The majority of the related party creditor balance relates to \$180K owed to Novo IT in respect of the DOCA contributions that was required to be paid under the DOCA. As a result of the non-payment of the DOCA contributions, I understand that the DOCA for Novo IT has been terminated and the Deed Administrators were appointed as Liquidators.
- The remaining balance of the related party creditors for \$110K is owed to one of the shareholders, DEM Australasia Pty Ltd, appears to relate to professional services provided in assisting the Company with the DOCA proposal for Novo IT.

A POD is attached as **Annexure "1"**, should any creditor wish to lodge a claim.

8 DEFICIENCY STATEMENT

Attached as **Annexure "3"** is a copy of the Deficiency Statement.

I estimate that the net deficiency to creditors to be in the order of \$1.8M, before the costs of the Liquidation. This is represented by the following:

Summary of Deficiency	Amount (\$)
Accumulated Losses	1,089,344
Loss on Realisation of Assets	680,284
Unreported Liabilities	79,166
Estimated Net Deficiency	1,848,794

The majority of the deficiency relates to accumulated losses incurred by the Company at the date of my appointment, reflecting the Company's poor trading performance.

9 INVESTIGATIONS

9.1 BOOKS AND RECORDS (S286)

Section 286 of the Act provides that:

“A company, registered scheme or disclosing entity must keep written financial records that:

- (a) correctly record and explain its transactions and financial position and performance; and
- (b) would enable true and fair financial statements to be prepared and audited.”

The failure to maintain books and records in accordance with Section 286 of the Act may allow a Liquidator to presume the company was insolvent throughout the period the books were not maintained (Section 588E of the Act).

The recent management accounts do not appear to have been reconciled, such that they may be substantially inaccurate. It is my view that this is a function of the business ceasing to trade, however it is likely that accurate financial accounts could be produced from the available records if needed.

As such, despite these deficiencies, it is my preliminary view that the Company has kept sufficient books and records to meet the requirements of Section 286 of the Act.

9.2 RISK OF LITIGATION ACTIONS GENERALLY

Part 5.7B of the Act gives Liquidators the right to commence certain legal proceedings to recover money, property or other benefits for the benefit of the Unsecured Creditors of a company.

Creditors should note that recovery actions:

- have the potential to increase the pool of funds available to Creditors;
- are usually expensive, lengthy and have unpredictable outcomes;
- should not be commenced unless defendants have the financial resources to satisfy any judgement; and
- must be funded out of the Company’s existing assets or, where such assets do not exist, by Creditors or by external litigation funders (who are likely to require a significant share of the proceeds of any judgement as a condition of funding the litigation).

9.3 PROVING INSOLVENCY

Recovery actions under Part 5.7B of the Act, including unfair preferences, uncommercial transactions and insolvent trading, require the Liquidators to demonstrate that the Company was insolvent at the time of the transaction. Proving insolvency may be a complex, lengthy and costly exercise.

9.4 INSOLVENCY ANALYSIS & INSOLVENT TRADING

My assessment has been based on the information available to me from the Company's records, information provided by the Director, Creditors and on the basis of separate investigations of the Company's affairs.

Based on my investigations conducted to date, it is my preliminary view that the Company was insolvent from around November 2017. The reasons for my assessment are as follows:

9.4.1 Working Capital Analysis

- Prima facie, the Company's unadjusted management accounts indicates there has been insufficient working capital from November 2017. A summary is shown below.

	As at 31-Dec-16 (\$)	As at 31-Mar-17 (\$)	As at 30-Jun-17 (\$)	As at 30-Sep-17 (\$)	As at 30-Nov-17 (\$)	As at 31-Dec-17 (\$)	As at 31-Mar-18 (\$)	As at 30-Jun-18 (\$)	As at 30-Sep-18 (\$)	As at 31-Dec-18 (\$)	As at 31-Mar-19 (\$)	As at 10-Apr-19 (\$)
Working Capital Analysis												
Current Assets	-	-	459,068	571,868	439,573	397,852	354,574	423,253	366,794	443,683	374,610	426,598
Current Liabilities	(17,814)	417,115	326,661	514,615	659,635	633,981	931,911	683,831	782,195	560,308	563,953	638,434
Net Working Capital	17,814	(417,115)	132,407	57,253	(220,062)	(236,129)	(577,337)	(260,577)	(415,402)	(116,625)	(189,344)	(211,835)
Current Asset Ratio	-	-	1.41	1.11	0.67	0.63	0.38	0.62	0.47	0.79	0.66	0.67

- However, the Current Assets balance includes a suspense account which does not exist and appears to be an accounting entry only. As such, the suspense account has been removed from the Current Assets balance.
- Below is the result of the abovementioned adjustment:

	As at 31-Dec-16 (\$)	As at 31-Mar-17 (\$)	As at 30-Jun-17 (\$)	As at 30-Sep-17 (\$)	As at 30-Nov-17 (\$)	As at 31-Dec-17 (\$)	As at 31-Mar-18 (\$)	As at 30-Jun-18 (\$)	As at 30-Sep-18 (\$)	As at 31-Dec-18 (\$)	As at 31-Mar-19 (\$)	As at 10-Apr-19 (\$)
Adjusted Working Capital Analysis												
Current Assets	-	-	459,068	571,868	439,573	397,852	354,574	423,253	366,794	443,683	374,610	426,598
Less: Suspense Account	-	-	-	-	-	-	-	(16,955)	(26,377)	(63,850)	(10,406)	(10,406)
Adjusted Current Assets	-	-	459,068	571,868	439,573	397,852	354,574	406,299	340,416	379,834	364,204	416,193
Current Liabilities	(17,814)	417,115	326,661	514,615	659,635	633,981	931,911	683,831	782,195	560,308	563,953	638,434
Adjusted Net Working Capital	17,814	(417,115)	132,407	57,253	(220,062)	(236,129)	(577,337)	(277,532)	(441,779)	(180,474)	(199,749)	(222,241)

- The adjusted working capital analysis supports that working capital deteriorated significantly after November 2017.

9.4.2 Indicators of Insolvency

In addition, I have observed the following indicators of insolvency:

- The Company's trading revenue declined after September 2017, contributing to the accumulated losses of \$1M by the time of my appointment.
- Employment expenses was circa 71% to 81% of total expenses between June 2017 and December 2017, however halved in the quarter ending March 2018, in an attempt to reduce costs.
- The Company has historically been unable to service the debts owed to the ATO and in around April 2018, the Company appears to have established a payment arrangement with the ATO for debts totalling \$358K.

- ▲ The Company wrote-off bad debts between January 2018 and June 2018.
- ▲ In December 2018, DEM Australasia appears to have converted a portion of their Loan Account to equity and effectively, subordinated a portion of their claim behind all other creditors. This did not return the Company to solvency.

9.4.3 Potential Quantum of Claim

Determining the value of an insolvent trading claim will generally involve a forensic review of the debts incurred after the date on which it can be maintained that the Company was insolvent and remains outstanding. For the purposes of this Report, I have prepared a preliminary assessment of the claim, assuming the Company was insolvent since November 2017.

My investigations indicate that an insolvent trading claim may be valued at around \$1M, as detailed below:

Insolvent Trading Claim	Amount (\$)
Creditors	
ATO Debt incurred from November 2017 onwards	717,471
Trade Creditors incurred from November 2017 onwards	236,269
Employee Entitlements - Superannuation	121,249
Insolvent Trading Claim	1,074,988

I note the following in respect of my preliminary assessment:

- ▲ The ATO debt is based on the increase in tax liabilities from November 2017 to our appointment.
- ▲ The trade creditors debt is based on a review of debts incurred after November 2017 in the Company's aged payables report as at my appointment.
- ▲ Superannuation is the small amount of debt accrued shortly prior to the Liquidation commencing.

This is a preliminary calculation and further investigations would be required to determine a final value.

9.4.4 Recovery of Claim

In respect of considering whether an insolvent trading claim could be pursued, a Liquidator would need to have regard to the financial positions of the potential defendants, being the current Director, Mr Robert Kell and the former Directors, Mr Stephen Chapman and Mr Tony Pierro. I note that Mr Chapman and Mr Pierro may only be partly liable for the period of trading whilst they remained a director of the Company.

NSW Land Title searches indicated that the Director (Mr Kell) is the registered joint owner of property located in Mangerton NSW, which is subject to a mortgage with Community Alliance Credit Union Limited. Mr Chapman is the registered joint owner of property located in Farmborough Heights NSW, subject to mortgage with the Commonwealth Bank of Australia and Mr Pierro is the sole registered owner of property located in Mount Pleasant NSW, subject to mortgage with AMP Bank Limited. As the aforementioned properties are mortgaged, the respective equity positions are unknown.

In the event an insolvent trading claim is pursued, I anticipate the costs to commence litigation to be in the order of \$400K (including litigation funding premium and legal costs and my professional fees). However, these claims are speculative and subject to the risks of litigation, and then enforcement. Please refer to **Annexure “4”** for an analysis of the estimated returns that may be available to creditors in the Liquidation.

I note that an insolvent trading claim will require extensive investigations and funding to pursue the claim via litigation. As an alternative, a Liquidator can consider selling the causes of action on a commercial basis, to obtain a return in a quicker timeframe, usually at a substantial discount given the removal of risk. If creditors are interested, please contact Ms Katherine La of this office by close of business 31 July 2019. Absent any funding, I may pursue a commercial settlement.

9.5 VOIDABLE TRANSACTIONS

Voidable transactions include transactions such as unfair preferences, uncommercial transactions, unfair loans, unreasonable director related transactions and circulating security interests created within six (6) months before the relation-back day, which is the date of the filing of the winding up application.

These transactions usually relate to the period six (6) months prior to the date of my appointment however in certain circumstances this period can be extended to four (4) years in relation to transactions with related entities.

9.5.1 Unfair Preferences

An unfair preference results when the Company and a Creditor are parties to a transaction(s) and the Creditor receives more than it would receive if the transaction(s) are set aside, and the Creditor proved for the debt in the winding up. If it is ultimately determined that certain payments are potentially recoverable as unfair preferences, it would be necessary to establish:

- that the Company was insolvent at the time the payments were made; and
- that the recipient had reasonable grounds to suspect that the Company was insolvent at that time or would become insolvent as a result of the payment.

The clawback provisions available to the Liquidator relate only to payments to unrelated parties made within six (6) months from the date of my appointment, if the Company is insolvent at that time, as the Relation Back Period (“RBP”).

I have identified a number of payments to the ATO totalling \$183K during the RBP. Below is a summary of those payments:

Date	Amount (\$)
21-Nov-18	27,549.00
26-Nov-18	50,994.00
30-Nov-18	20,000.00
30-Jan-19	20,000.00
05-Feb-19	20,000.00
11-Feb-19	21,975.00
21-Feb-19	22,879.00
Total	183,397.00

However, it appears that some of the above payments totalling \$50K may have been made in respect of outstanding SGC, which given the priority ranking, may not be recoverable as an unfair preference claim. As such, there may be a potential unfair preference claim of approximately \$133K that could be pursued against the ATO. Further investigations will need to be conducted.

I have not identified any other unfair preference payments.

9.5.2 Uncommercial Transactions (S588FB)

A transaction is considered uncommercial if it is made at a time when the Company is insolvent and it may be expected that a reasonable person in the Company's circumstances would not have entered into the transaction having regard to:

- The benefits or detriment to the Company of entering into the transaction; and
- The prospective benefits to other parties to the transaction.

I have not identified any uncommercial transactions.

9.5.3 Unfair Loans (S588FD)

A loan is unfair if it is made to a Company at extortionate interest rates or the charges in relation to the loan are extortionate. In considering whether interest and charges are extortionate, regard must be had to the following:

- Risk the lender is exposed to;
- Value of the security;
- Term;
- Repayment schedule; and
- Amount of loan.

I have not identified any unfair loans.

9.5.4 Discharge of Related Party Debts (S588FH)

A transaction is considered to have discharged a related party's debt if funds from the Company are used to pay that Creditor which has had the effect of discharging, to the extent of a particular amount, a liability (whether under a guarantee or otherwise) of a related entity the Company.

I have not identified any such payments.

9.5.5 Transactions for the Purpose of Defeating Creditors (S588FE)

Transactions involving the removal or concealment of assets of the Company for the purpose of preventing the Liquidators from realising their value are voidable transactions and are recoverable by Liquidators. These actions may constitute fraud by the director or any other person.

I have not identified any such transactions.

9.5.6 Unreasonable Director Related Transactions (S588FDA)

A transaction is an unreasonable Director-related transaction of the Company if:

- The transaction is a payment, a conveyance, transfer or disposition of property, the issue of securities, or incurring of an obligation to make a payment, disposition or issue by the Company.
- The transaction is to a Director or close associate of the Director or for their benefit.
- A reasonable person in the Company's circumstances would not have entered into the transaction having regard to the benefit or detriment to the Company or other parties involved in the transaction.

I have identified significant payments to the Director and an entity controlled by him, SBMS Pty Ltd, as summarised below:

Related Party	Amount (\$)
Director	32,347.91
SBMS Pty Ltd	40,337.34
Total	72,685.25

The purpose of these payments is unclear from the Company's management accounts, and as such, may be potential unreasonable director-related transactions. Further investigations would be required in order to determine whether these transactions could be pursued. In the alternative, a Liquidator can consider selling the causes of action on a commercial basis, to obtain a return in a quicker timeframe, usually at a substantial discount given the removal of risk. If any creditors are interested in funding or acquiring the causes of action, please contact Ms Katherine La of this office by close of business 31 July 2019. Absent any funding, I may pursue a commercial settlement.

I have not identified any other unreasonable Director-related transactions.

9.5.7 Circulating Security Interests Created Within Six Months before the Relation-Back Day (S588FJ)

A circulating security interest in property of the company created within six months before the relation-back day may be void against a Liquidator. However, circulating security interests that are created within this period for consideration paid at or after the date of creation remains valid.

I have not identified any such security interests that may be void as against a liquidator.

9.6 REPORTING TO ASIC

I am required to complete an investigation into the Company's affairs and, if offences are identified, or if the Company is unable to pay its Creditors more than fifty (50) cents in the dollar, lodge a report with ASIC pursuant to Section 533 of the Act.

In the near term I intend to submit a report to the ASIC pursuant to Section 533(1) of the Act, detailing my investigations into the affairs of the Company and the conduct of the Director.

I intend to report the Director's failure to submit a ROCAP to ASIC, which may result in a prosecution.

10 ESTIMATED RETURN TO CREDITORS

Attached as **Annexure "4"** is an analysis of the estimated returns that may be available to creditors in the Liquidation.

Based on realisations to date, a return to creditors is contingent on pursuing and successfully recovering debtor claims and/or voidable recoveries identified against the Director and related parties. The quantum and timing of any dividend will depend on the abovementioned recoveries and is currently unknown. By way of best estimate, which if required to pursue via litigation, may take one (1) to two (2) years.

In summary, I estimate returns to creditors as follows:

- ▲ Priority Creditors – nil to 100 cents in the dollar; and
- ▲ Unsecured Creditors – nil to 36 cents in the dollar.

Please note these figures are estimates only, and the actual results may vary materially. In particular, subject to available funding and evidence, a commercial settlement may be pursued (generally at a discount), which may produce a "mid-range" result for creditors. Creditors will be kept apprised in future reports.

In the interim, I encourage any creditors who have not already done so, to lodge a POD together with relevant supporting documentation. A copy of the POD is attached as **Annexure "2"**.

11 LIQUIDATOR'S RECEIPTS AND PAYMENTS

Attached as **Annexure "5"** is a summary of receipts and payments during the Liquidation period 10 April 2019 to 7 July 2019.

I am required to lodge a statement of account annually during the Liquidation. To date, I have not lodged same but will proceed to do so in accordance with the statutory timeframe. Creditors may inspect the lodged accounts in due course by contacting this office.

12 LIQUIDATOR'S REMUNERATION

At the meeting of creditors held on 14 May 2019, creditors approved my remuneration in respect of the Liquidation for \$100K. To date, I have incurred professional costs totalling \$107K, of which I have been paid \$63K.

I have undertaken a significant amount of additional work than was originally anticipated. This has been largely driven by the Director's failure to engage with me and providing the relevant reporting information, which has led to delays and additional professional costs. Further, the liquidation efforts has focused on recovery of the debtors, sale of available assets and the completion of a sale agreement.

Moving forward, I anticipate that further professional costs will be incurred in dealing with the Director's non-compliance and pursuing the debtor recoveries and potential voidable recoveries to maximise the funds available for creditors.

Unless I am provided with further substantial information that would impact the liquidation, I estimate the total cost of the administration may be approximately \$150K. However, I note that I am currently without sufficient funds to meet my outstanding professional costs. As such, I do not intend to seek approval from creditors for further remuneration approval at this stage. It is my intention to seek approval once I have achieved meaningful progress in either the debtor recoveries or voidable recoveries.

For Creditors' information, ASIC information sheets that relate to specific circumstances once an insolvency practitioner is appointed to a Company and approval of remuneration can be found at the following websites:

- <https://asic.gov.au/regulatory-resources/insolvency/insolvency-information-for-directors-employees-creditors-and-shareholders/>
- https://www.arita.com.au/ARITA/Insolvency_help/Insolvency-explained.aspx

13 TASKS REQUIRED IN THE LIQUIDATION

As detailed above, I anticipate that the following matters will be dealt with during the Liquidation moving forward, subject to funding and the outcome of recovery actions:

- Continue pursuing debtor recoveries;
- Liaising with the Department regarding FEG claims;
- Consider pursuing potential insolvent trading claim or voidable transactions;
- Lodge and await response from ASIC to my confidential report pursuant to Section 533(1) of the Act;
- Prosecution of Director for breaches of the Act;
- Consider further investigations (if necessary);
- Pay dividend to creditors, subject to available funds;
- Correspondence with creditors and employees;
- Statutory lodgements; and
- Finalisation.

Should any creditor or interested party have any relevant information that they wish to provide me, they are requested to contact my office before 31 July 2019.

If the debtor recoveries and/or voidable recoveries are recovered successfully without litigation, I anticipate that I may be able to finalise the Liquidation within the next nine (9) to twelve (12) months.

However, if litigation is required, the timing for finalisation could be at least eighteen (18) months to twenty-four (24) months.

14 CREDITORS' RIGHTS

Pursuant to Clauses 70-40, 70-45, 75-15, 85-5, 90-24 and 90-35 of the Insolvency Practice Schedule (Corporations) and Rule 70-30 of the Insolvency Practice Rules (Corporations) 2016, I am required to give certain information to creditors as to their rights in the administration.

Accordingly, I attach as **Annexure "6"** further information regarding 'Creditor Rights in Liquidations'.

15 FURTHER INFORMATION

I attached as **Annexure "7"** an ASIC information sheet entitled "Insolvency information for directors, practitioners, employees, creditors and investors". This publication provides basic information about the different types of external administrations, including Liquidation, and reference to further sources of information available on the ASIC website at www.asic.gov.au.

ARITA has issued a creditor information sheet "Offences, Recoverable Transactions and Insolvent Trading" providing further information about voidable transactions. This information sheet is attached as **Annexure "8"**.

Please note that I am not required to publish notices in the print media. ASIC maintains an online notices page for external administrators to publish notices in respect of the Company. Creditors are encouraged to visit <https://insolvencyntices.asic.gov.au> throughout the liquidation to view any notices which may be published by the Liquidator in respect of the Company. These notices include:

- ▲ notices relating to appointments
- ▲ notices of meetings of creditors
- ▲ notices calling for proofs of debt and intention to declare dividends

16 QUERIES

The BRI Ferrier staff member responsible for this matter is as follows:

- ▲ BRI Contact: Ms Katherine La
- ▲ Phone: (02) 8263 2300
- ▲ Email: kla@brifnsw.com.au (preferred)
- ▲ Mailing: GPO Box 7079, Sydney NSW 2001
- ▲ Facsimile: (02) 8263 2399

Yours faithfully,

NOVO PTY LIMITED (IN LIQUIDATION)



PETER KREJCI

Liquidator

The logo for BRI Ferrier, featuring the text "BRI Ferrier" in white on a dark grey background, with a green triangle pointing upwards from the bottom right corner.

BRI Ferrier

**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "1"
Formal Proof of Debt**

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)
NOVO PTY LIMITED (IN LIQUIDATION)
ACN 618 659 377

To the Liquidator of Novo Pty Limited (In Liquidation),

1. This is to state that the Company was, on 10 April 2019 ⁽¹⁾ and still is, justly and truly indebted to⁽²⁾ (full name):

.....
(‘Creditor’)

.....
of (full address)

for \$dollars andcents.

Particulars of the debt are:

Date	Consideration ⁽³⁾ state how the debt arose	Amount \$	GST included \$	Remarks ⁽⁴⁾ include details of voucher substantiating payment

2. To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received any manner of satisfaction or security for the sum or any part of it except for the following:

Insert particulars of all securities held. Where the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, specify them in a schedule in the following form:

Date	Drawer	Acceptor	Amount \$ c	Due Date

I am **not** a related creditor of the Company ⁽⁵⁾

OR

I am a related creditor of the Company ⁽⁵⁾
relationship: _____

3A.^{(6)*} I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

3B.^{(6)*} I am the creditor's agent authorised to make this statement in writing. I know that the debt was incurred and for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

DATED this day of 2019

Signature of Signatory

NAME IN BLOCK LETTERS

Occupation

Address

See Directions overleaf for the completion of this form

OFFICE USE ONLY

POD No:		ADMIT (Voting / Dividend) - Ordinary	\$
Date Received:	/ /	ADMIT (Voting / Dividend) - Preferential	\$
Entered into CORE IPS:		Reject (Voting / Dividend)	\$
Amount per CRA/RATA	\$	Object or H/Over for Consideration	\$
Reason for Admitting / Rejection			
PREP BY/AUTHORISED		TOTAL PROOF	\$
DATE AUTHORISED	/ /		

Proof of Debt Form Directions

- * Strike out whichever is inapplicable.
- (1) Insert date of Court Order in winding up by the Court, or date of resolution to wind up, if a voluntary winding up.
- (2) Insert full name and address (including ABN) of the creditor and, if applicable, the creditor's partners. If prepared by an employee or agent of the creditor, also insert a description of the occupation of the creditor.
- (3) Under "Consideration" state how the debt arose, for example "goods sold and delivered to the company between the dates of", "moneys advanced in respect of the Bill of Exchange".
- (4) Under "Remarks" include details of vouchers substantiating payment.
- (5) Related Party / Entity: Director, relative of Director, related company, beneficiary of a related trust.
- (6) If the Creditor is a natural person and this proof is made by the Creditor personally. In other cases, if, for example, you are the director of a corporate Creditor or the solicitor or accountant of the Creditor, you sign this form as the Creditor's authorised agent (delete item 3A). If you are an authorised employee of the Creditor (credit manager etc), delete item 3B.

Annexures

- A. If space provided for a particular purpose in a form is insufficient to contain all the required information in relation to a particular item, the information must be set out in an annexure.
- B. An annexure to a form must:
 - (a) have an identifying mark;
 - (b) and be endorsed with the words:
 - i) "This is the annexure of *(insert number of pages)* pages marked *(insert an identifying mark)* referred to in the *(insert description of form)* signed by me/us and dated *(insert date of signing)*; and
 - (c) be signed by each person signing the form to which the document is annexed.
- C. The pages in an annexure must be numbered consecutively.
- D. If a form has a document annexed the following particulars of the annexure must be written on the form:
 - (a) the identifying mark; and
 - (b) the number of pages.
- E. A reference to an annexure includes a document that is with a form.

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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "2"
Comparative Financial Statements**

Novo Pty Limited (In Liquidation)
ACN 618 659 377
Comparative Balance Sheet

	As at 31-Dec-16 (\$)	As at 31-Mar-17 (\$)	As at 30-Jun-17 (\$)	As at 30-Sep-17 (\$)	As at 30-Nov-17 (\$)	As at 31-Dec-17 (\$)	As at 31-Mar-18 (\$)	As at 30-Jun-18 (\$)	As at 30-Sep-18 (\$)	As at 31-Dec-18 (\$)	As at 31-Mar-19 (\$)	As at 10-Apr-19 (\$)
ASSETS												
Current Assets												
Cash and Cash Equivalents	-	-	102,827	243,694	171,388	149,744	106,702	73,666	43,695	66,462	61,118	22,452
Trade Debtors	-	-	282,819	220,872	159,975	139,899	144,734	250,963	175,639	233,307	228,216	318,871
Sundry and Other Receivables	-	-	(14,328)	10,573	10,573	10,573	5,502	987	49,615	46,069	(12,570)	(12,570)
Plant and Equipment (WDV)	-	-	87,750	96,729	97,637	97,637	97,637	97,637	97,845	97,845	97,845	97,845
Total Current Assets	-	-	459,068	571,868	439,573	397,852	354,574	423,253	366,794	443,683	374,610	426,598
Non-current Assets												
Related Party Loans	-	-	(34,898)	21,158	26,649	(9,351)	(6,003)	(39,000)	(39,460)	(33,450)	(16,492)	(16,445)
Working Capital Loans	-	-	(15,617)	(47,881)	(47,881)	(47,881)	(31,840)	25,251	32,573	-	-	-
Goodwill	-	443,178	560,086	560,086	560,086	560,086	560,086	560,086	560,086	560,086	560,086	560,086
Total Non-current Assets	-	443,178	509,571	533,363	538,854	502,854	522,242	546,337	553,199	526,636	543,595	543,641
TOTAL ASSETS	-	443,178	968,639	1,105,231	978,427	900,706	876,817	969,591	919,992	970,320	918,204	970,239
LIABILITIES												
Current Liabilities												
Priority Creditors	-	443,178	126,736	162,998	188,453	231,591	301,897	330,124	334,115	261,696	245,060	235,839
Australian Taxation Office	-	(66)	38,979	108,983	191,467	261,322	470,575	122,134	200,330	76,143	126,592	143,229
Trade Creditors	-	724	86,130	102,069	182,858	162,602	195,994	181,314	212,092	168,405	257,292	258,282
Customers	(17,814)	(26,721)	(73,306)	81,288	88,581	(28,988)	(58,403)	5,056	5,056	-	-	-
Other Creditors	-	-	148,123	59,276	8,276	7,455	21,849	45,202	30,602	54,064	(64,990)	1,084
Total Current Liabilities	(17,814)	417,115	326,661	514,615	659,635	633,981	931,911	683,831	782,195	560,308	563,953	638,434
Non-Current Liabilities												
Australian Taxation Office	-	-	-	-	-	-	-	509,050	499,050	631,950	631,950	631,950
Novo IT Pty Limited - Deed	-	-	390,000	341,250	341,250	341,250	301,250	281,250	228,250	196,250	180,250	180,250
DEM Asia - Loan Account	-	-	-	-	-	-	-	-	-	110,000	110,000	110,000
Total Non-Current Liabilities	-	-	390,000	341,250	341,250	341,250	301,250	790,300	727,300	938,200	922,200	922,200
TOTAL LIABILITIES	(17,814)	417,115	716,661	855,865	1,000,885	975,231	1,233,161	1,474,130	1,509,495	1,498,508	1,486,153	1,560,633
NET ASSETS	17,814	26,063	251,978	249,366	(22,458)	(74,526)	(356,344)	(504,540)	(589,503)	(528,188)	(567,949)	(590,394)
EQUITY												
Current Year Earnings	17,814	26,063	1,978	(2,612)	(274,436)	(326,504)	(608,323)	(756,518)	(84,963)	(285,426)	(275,687)	(297,033)
Paid Up Capital	-	-	250,000	250,000	250,000	250,000	250,000	250,000	250,000	549,550	500,050	500,050
Retained Earnings	-	-	-	1,978	1,978	1,978	1,978	1,978	(754,540)	(792,312)	(792,312)	(792,312)
SBMS atf Kell Fam Trust Cap	-	-	-	-	-	-	-	-	-	-	-	(1,100)
TOTAL EQUITY	17,814	26,063	251,978	249,366	(22,458)	(74,526)	(356,344)	(504,540)	(589,503)	(528,188)	(567,949)	(590,394)

Novo Pty Limited (In Liquidation)
ACN 618 659 377
Comparative Profit and Loss Statements

	Quarter Ended 31-Dec-16 (\$)	Quarter Ended 31-Mar-17 (\$)	Quarter Ended 30-Jun-17 (\$)	Quarter Ended 30-Sep-17 (\$)	Quarter Ended 31-Dec-17 (\$)	Quarter Ended 31-Mar-18 (\$)	Quarter Ended 30-Jun-18 (\$)	Quarter Ended 30-Sep-18 (\$)	Quarter Ended 31-Dec-18 (\$)	Quarter Ended 31-Mar-19 (\$)	Month Ended 10-Apr-19 (\$)
Income											
Sales	424	212	244,474	204,930	213,655	178,588	148,422	169,026	158,087	152,277	52,780
Service Revenue	14,930	7,465	424,784	450,925	393,352	373,907	402,625	258,953	285,611	292,463	57,344
Other Income	2,460	1,230	195,041	369,360	190,350	172,315	177,787	172,450	134,103	94,361	15,174
Total Income	17,814	8,907	864,299	1,025,215	797,357	724,810	728,833	600,429	577,801	539,102	125,298
Less: Cost of Sales	-	-	128,497	288,514	372,302	562,541	548,614	456,120	451,480	375,899	126,338
Gross Profit	17,814	8,907	735,802	736,701	425,056	162,269	180,219	144,309	126,321	163,202	(1,040)
Other Income	-	-	480	517	1,202	578	354	234	21	12	-
Expenses											
Rent	-	-	35,518	62,613	57,216	44,880	28,944	22,270	20,740	20,403	4,500
Professional Fees	-	658	36,773	7,688	11,818	964	3,250	13,218	7,850	2,600	-
Employment Expenses	-	-	615,740	568,841	577,938	315,268	156,140	128,039	214,027	64,691	13,515
Marketing Expenses	-	-	-	452	1,182	126	1,850	1,818	-	191	-
Operating Expenses	-	-	18,187	63,443	57,343	41,282	54,998	44,272	72,289	53,171	1,513
Administrative Expenses	-	-	31,609	833	8,616	2,549	1,753	299	168	376	-
Interest and Bank Charges	-	-	155	(813)	65	165	14,064	(851)	(4,145)	460	25
Bad Debt Expenses	-	-	-	-	-	5,715	31,302	-	-	-	-
Motor Vehicle Expenses	-	-	7,521	15,312	14,310	8,994	15,920	10,534	7,257	3,063	818
Insurance	-	-	5,432	10,824	6,379	8,180	8,349	3,965	5,145	5,449	-
Depreciation Expenses	-	-	2,250	-	-	113	-	-	-	-	-
Other Expenses	-	-	7,181	10,636	15,282	16,431	9,827	5,942	3,473	3,069	(64)
Income Tax Expense	-	-	-	-	-	-	2,372	-	-	-	-
Total Expenses	-	658	760,367	739,829	750,149	444,665	328,768	229,506	326,805	153,474	20,306
Net Profit	17,814	8,249	(24,085)	(2,612)	(323,891)	(281,819)	(148,195)	(84,963)	(200,463)	9,739	(21,346)

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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "3"
Deficiency Statement**

Novo Pty Limited (In Liquidation)				
A.C.N. 618 659 377				
Summary of Director's Report on Company Activities and Property				
	Book Value as at 10/04/2019 (\$)	Director's ERV (per ROCAP) (\$)	Liquidator's ERV as at 10/04/2019 (\$)	Deficiency (\$)
Assets				
Cash and Cash Equivalents	22,452	-	11,215	
Trade Debtors	318,871	-	274,415	
Sundry & Other Receivables	(12,570)	-	-	
Plant and Equipment	97,845	-	4,325	
Related Party Loans	(16,445)	-	-	
Goodwill	560,086	-	-	
Total Assets	970,239	-	289,955	
Liabilities				
Priority Creditors	235,839	-	310,129	
Secured Creditors	-	-	-	
Unsecured Creditors				
Trade Creditors	258,282	-	320,363	
ATO	775,179	-	719,057	
Other Liabilities	1,084	-	-	
Related Party Creditors				
DEM Australasia	110,000	-	110,000	
Novo IT	180,250	-	180,250	
Total Liabilities	1,560,633	-	1,639,799	
Estimated Net Asset / (Deficiency)	(590,394)	-	(1,349,844)	1,349,844

Novo Pty Limited (In Liquidation)				
A.C.N. 618 659 377				
Deficiency Statement				
		Amount (\$)	Amount (\$)	
Deficiency of Assets to Liabilities			1,349,844	
Add: Loss of Share Capital		498,950		
Estimated Total Deficiency of Assets to meet Liabilities			1,848,794	
These losses are represented by:				
a) Accumulated Losses				
Accumulated Losses as at 30 June 2018		792,312		
Current Year Loss as at 10 April 2019		297,033		
				1,089,344
b) Estimated Loss on Realisation of Assets disclosed in RATA				
	Book Value as at 10/04/2019 (\$)	Liquidator's ERV as at 10/04/2019 (\$)	Loss on Realisation (\$)	
Asset				
Cash and Cash Equivalents	22,452	11,215	11,237	
Trade Debtors	318,871	274,415	44,456	
Sundry & Other Receivables	(12,570)	-	(12,570)	
Plant and Equipment	97,845	4,325	93,520	
Related Party Loans	(16,445)	-	(16,445)	
Goodwill	560,086	-	560,086	
Total	970,239	289,955	680,284	680,284
c) Increase in Creditor Claims not disclosed in Balance Sheet				
	Book Value as at 10/04/2019 (\$)	Liquidator's ERV as at 10/04/2019 (\$)	Unreported Liabilities (\$)	
Liabilities				
Priority Creditors	235,839	310,129	74,290	
Secured Creditors	-	-	-	
Unsecured Creditors				
Trade Creditors	258,282	320,363	62,081	
ATO	775,179	719,057	(56,122)	
Other Liabilities	1,084	-	(1,084)	
Related Party Creditors	-	-	-	
DEM Australasia	110,000	110,000	-	
Novo IT	180,250	180,250	-	
Total	1,560,633	1,639,799	79,166	79,166
Deficiency as Above				1,848,794

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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "4"
Estimated Outcome Statement**

Novo Pty Limited (In Liquidation)
Estimated Statement of Position

	Book Value as at 10/04/2019 Amount (\$)	Liquidation Scenario High Amount (\$)	Liquidation Scenario Low Amount (\$)
Assets			
Cash and Cash Equivalents	22,452	11,215	11,215
Trade and Other Receivables	318,871	274,415	172,917
Sundry & Other Receivables	(12,570)	-	-
Plant and Equipment	97,845	4,325	4,325
Related Party Loans	(16,445)	-	-
Goodwill	560,086	-	-
Liquidator's Recovery - Insolvent Trading Claim	-	1,075,000	-
Liquidator's Recovery - Voidable Transactions	-	205,000	-
Estimated Fund Available for Creditors	970,239	1,569,955	188,457
Subject to Costs of Administration			
Less: Estimated Costs (Excl. GST)			
Liquidator's Remuneration	-	(250,000)	(150,000)
Liquidator's Expenses	-	(5,000)	(2,000)
Liquidator's Trading Costs	-	(12,017)	(12,017)
Liquidator's Legal Costs	-	(200,000)	(20,000)
Litigation Funder's Premium (35% of Net Recoveries)	-	(290,500)	-
Debt Collector Commission (15%)	-	(27,349)	(12,125)
External Accountant's Costs	-	(15,000)	-
Total Estimated Costs	-	(799,866)	(196,142)
Estimated Net Asset Recoveries	970,239	770,089	(7,684)
Funds Available for Priority Creditors	970,239	770,089	(7,684)
Priority Creditors:			
Wages and Superannuation	(176,860)	(121,249)	(121,249)
Annual Leave and Long Service Leave	(58,979)	(60,778)	(60,778)
PILN and Redundancy	-	(105,097)	(105,097)
Total Priority Claims	(235,839)	(287,124)	(287,124)
Funds Available for Unsecured Creditors	1,206,078	482,965	(294,808)
Unsecured Creditors			
Director-related Employee Entitlements	-	(22,969)	(22,969)
Trade Creditors	(258,282)	(320,363)	(320,363)
Australian Taxation Office	(775,179)	(719,057)	(719,057)
Other Creditors	(1,084)	-	-
Related Party Creditors	(290,250)	(290,250)	(290,250)
Total Unsecured Creditor Claims	(1,324,795)	(1,352,639)	(1,352,639)
Return to Creditors			
Priority Creditors:			
Wages and Superannuation		100	Nil
Annual Leave and Long Service Leave		100	Nil
PILN and Redundancy		100	Nil
Unsecured Creditors		36	Nil

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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "5"
Liquidator's Summary of
Receipts and Payments**

Summarised Receipts & Payments

Novo Pty Limited

(In Liquidation)

Transactions From 10 April 2019 To 07 July 2019

A/C	Account	Net	GST	Gross
72	Sundry Debtors (B)	70,250.53	0.00	70,250.53
74	Cash at Bank	11,214.82	0.00	11,214.82
77	Plant & Equipment	1,597.93	159.79	1,757.72
Total Receipts (inc GST)		\$83,063.28	\$159.79	\$83,223.07
47	Superannuation	1,042.56	0.00	1,042.56
51	Wages & Salaries	10,974.39	0.00	10,974.39
132	Bank Charges	69.93	0.00	69.93
152	Liquidators Remuneration	63,209.00	6,320.90	69,529.90
153	Liquidators Expenses	869.45	86.95	956.40
227	Superannuation Liability	(1,042.56)	0.00	(1,042.56)
234 - 10	Withholding Tax (PAYG) - Lump Sum A	(2,347.00)	0.00	(2,347.00)
Total Payments (inc GST)		\$72,775.77	\$6,407.85	\$79,183.62
Balance in Hand - By Bank Account				
212	Cheque Account			4,026.46
213	Westpac Pre-Appt Account			12.99
				\$4,039.45

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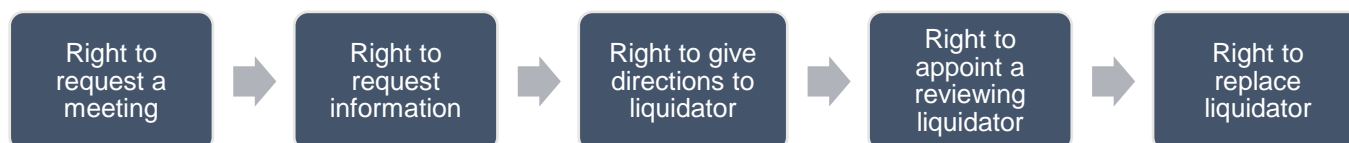
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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "6"
ARITA Information Sheet –
Creditor Rights in Liquidations**

Creditor Rights in Liquidations

As a creditor, you have rights to request meetings and information or take certain actions:



Right to request a meeting

In liquidations, no meetings of creditors are held automatically. However, creditors with claims of a certain value can request in writing that the liquidator hold a meeting of creditors.

A meeting may be requested in the first 20 business days in a creditors' voluntary liquidation by $\geq 5\%$ of the value of the debts held by known creditors who are not a related entity of the company.

Otherwise, meetings can be requested at any other time or in a court liquidation by:

- $> 10\%$ but $< 25\%$ of the known value of creditors on the condition that those creditors provide security for the cost of holding the meeting
- $\geq 25\%$ of the known value of creditors
- creditors by resolution, or
- a Committee of Inspection (this is a smaller group of creditors elected by, and to represent, all the creditors).

If a request complies with these requirements and is 'reasonable', the liquidator must hold a meeting of creditors as soon as reasonably practicable.

Right to request information

Liquidators will communicate important information with creditors as required in a liquidation. In addition to the initial notice, you should receive, at a minimum, a report within the first three months on the likelihood of a dividend being paid.

Additionally, creditors have the right to request information at any time. A liquidator must provide a creditor with the requested information if their request is 'reasonable', the information is relevant to the liquidation, and the provision of the information would not cause the liquidator to breach their duties.

A liquidator must provide this information to a creditor within 5 business days of receiving the request, unless a longer period is agreed. If, due to the nature of the information requested, the liquidator requires more time to comply with the request, they can extend the period by notifying the creditor in writing.

Requests must be reasonable.

They are not reasonable if:

Both meetings and information:

- (a) complying with the request would prejudice the interests of one or more creditors or a third party
- (b) there is not sufficient available property to comply with the request
- (c) the request is vexatious

Meeting requests only:

- (d) a meeting of creditors dealing with the same matters has been held, or will be held within 15 business days

Information requests only:

- (e) the information requested would be privileged from production in legal proceedings
- (f) disclosure would found an action for breach of confidence
- (g) the information has already been provided
- (h) the information is required to be provided under law within 20 business days of the request

If a request is not reasonable due to (b), (d), (g) or (h) above, the liquidator must comply with the request if the creditor meets the cost of complying with the request.

Otherwise, a liquidator must inform a creditor if their meeting or information request is not reasonable and the reason why.

Specific queries about the liquidation should be directed to the liquidator's office.

Right to give directions to liquidator

Creditors, by resolution, may give a liquidator directions in relation to a liquidation. A liquidator must have regard to these directions, but is not required to comply with the directions.

If a liquidator chooses not to comply with a direction given by a resolution of the creditors, they must document their reasons.

An individual creditor cannot provide a direction to a liquidator.

Right to appoint a reviewing liquidator

Creditors, by resolution, may appoint a reviewing liquidator to review a liquidator's remuneration or a cost or expense incurred in a liquidation. The review is limited to:

- remuneration approved within the six months prior to the appointment of the reviewing liquidator, and
- expenses incurred in the 12 months prior to the appointment of the reviewing liquidator.

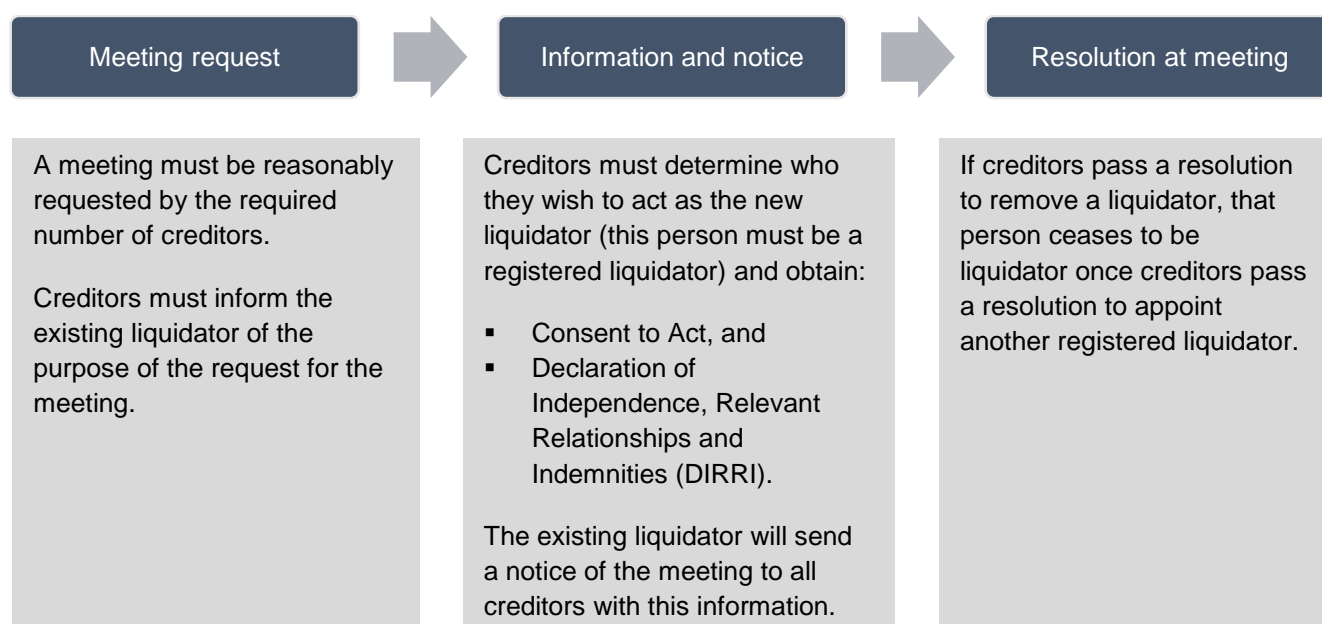
The cost of the reviewing liquidator is paid from the assets of the liquidation, in priority to creditor claims.

An individual creditor can appoint a reviewing liquidator with the liquidator's consent, however the cost of this reviewing liquidator must be met personally by the creditor making the appointment.

Right to replace liquidator

Creditors, by resolution, have the right to remove a liquidator and appoint another registered liquidator.

For this to happen, there are certain requirements that must be complied with:



**For more information, go to www.arita.com.au/creditors.
Specific queries about the liquidation should be directed to the liquidator's office.**

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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "7"
ASIC Information Sheet**



ASIC

Australian Securities & Investments Commission

Insolvency information for directors, employees, creditors and shareholders

This information sheet (INFO 39) lists ASIC's information sheets for directors, employees, creditors and shareholders affected by a company's insolvency.

We have produced these with endorsement from the Australian Restructuring Insolvency & Turnaround Association (ARITA).

The information sheets give a basic understanding of the three most common company insolvency procedures – liquidation, voluntary administration and receivership – as well as the independence requirements for external administrators and approving external administrator remuneration. There is also a glossary of commonly used insolvency terms.

List of information sheets

- [INFO 41](#) Insolvency: A glossary of terms
- [INFO 42](#) Insolvency: A guide for directors
- [INFO 43](#) Insolvency: A guide for shareholders
- [INFO 45](#) Liquidation: A guide for creditors
- [INFO 46](#) Liquidation: A guide for employees
- [INFO 54](#) Receivership: A guide for creditors
- [INFO 55](#) Receivership: A guide for employees
- [INFO 74](#) Voluntary administration: A guide for creditors
- [INFO 75](#) Voluntary administration: A guide for employees
- [INFO 84](#) Independence of external administrators: A guide for creditors
- [INFO 85](#) Approving fees: A guide for creditors

Where can I get more information?

Further information is available from the [ARITA website](#). The ARITA website also contains the [ARITA Code of Professional Practice for Insolvency Practitioners](#).

This is **Information Sheet 39 (INFO 39)** updated on 1 September 2017. Information sheets provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

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**Novo Pty Limited
(In Liquidation)
ACN 618 659 377**

**Annexure "8"
ARITA Information Sheet**

Creditor Information Sheet

Offences, Recoverable Transactions and Insolvent Trading



Offences

A summary of offences under the Corporations Act that may be identified by the administrator:

180	Failure by company officers to exercise a reasonable degree of care and diligence in the exercise of their powers and the discharge of their duties.
181	Failure to act in good faith.
182	Making improper use of their position as an officer or employee, to gain, directly or indirectly, an advantage.
183	Making improper use of information acquired by virtue of the officer's position.
184	Reckless or intentional dishonesty in failing to exercise duties in good faith for a proper purpose. Use of position or information dishonestly to gain advantage or cause detriment. This can be a criminal offence.
198G	Performing or exercising a function or power as an officer while a company is under administration.
206A	Contravening a court order against taking part in the management of a corporation.
206A, B	Taking part in the management of corporation while being an insolvent, for example, while bankrupt.
206A, B	Acting as a director or promoter or taking part in the management of a company within five years after conviction or imprisonment for various offences.
209(3)	Dishonest failure to observe requirements on making loans to directors or related companies.
254T	Paying dividends except out of profits.
286	Failure to keep proper accounting records.
312	Obstruction of an auditor.
314-7	Failure to comply with requirements for the preparation of financial statements.
437D(5)	Unauthorised dealing with company's property during administration.
438B(4)	Failure by directors to assist administrator, deliver records and provide information.
438C(5)	Failure to deliver up books and records to the administrator.
590	Failure to disclose property, concealed or removed property, concealed a debt due to the company, altered books of the company, fraudulently obtained credit on behalf of the company, material omission from Report as to Affairs or false representation to creditors.

Recoverable Transactions

Preferences

A preference is a transaction, such as a payment by the company to a creditor, in which the creditor receiving the payment is preferred over the general body of creditors. The relevant period for the payment commences six months before the commencement of the liquidation. The company must have been insolvent at the time of the transaction, or become insolvent because of the transaction.

Where a creditor receives a preference, the payment is voidable as against a liquidator and is liable to be paid back to the liquidator subject to the creditor being able to successfully maintain any of the defences available to the creditor under the Corporations Act.

Uncommercial Transaction

An uncommercial transaction is one that it may be expected that a reasonable person in the company's circumstances would not have entered into, having regard to:

- the benefit or detriment to the company;
- the respective benefits to other parties; and,
- any other relevant matter.

To be voidable, an uncommercial transaction must have occurred during the two years before the liquidation. However, if a related entity is a party to the transaction, the period is four years and if the intention of the transaction is to defeat creditors, the period is ten years.

The company must have been insolvent at the time of the transaction, or become insolvent because of the transaction.

Unfair Loan

A loan is unfair if and only if the interest was extortionate when the loan was made or has since become extortionate. There is no time limit on unfair loans – they only must be entered into before the winding up began.

Arrangements to avoid employee entitlements

If an employee suffers loss because a person (including a director) enters into an arrangement or transaction to avoid the payment of employee entitlements, the liquidator or the employee may seek to recover compensation from that person. It will only be necessary to satisfy the court that there was a breach on the balance of probabilities. There is no time limit on when the transaction occurred.

Unreasonable payments to directors

Liquidators have the power to reclaim '*unreasonable payments*' made to directors by companies prior to liquidation. The provision relates to payments made to or on behalf of a director or close associate of a director. The transaction must have been unreasonable, and have been entered into during the 4 years leading up to a company's liquidation, regardless of its solvency at the time the transaction occurred.

Voidable charges

Certain charges over company property are voidable by a liquidator:

- circulating security interest created within six months of the liquidation, unless it secures a subsequent advance;
- unregistered security interests;
- security interests in favour of related parties who attempt to enforce the security within six months of its creation.

Insolvent trading

In the following circumstances, directors may be personally liable for insolvent trading by the company:

- a person is a director at the time a company incurs a debt;
- the company is insolvent at the time of incurring the debt or becomes insolvent because of incurring the debt;
- at the time the debt was incurred, there were reasonable grounds to suspect that the company was insolvent;
- the director was aware such grounds for suspicion existed; and
- a reasonable person in a like position would have been so aware.

The law provides that the liquidator, and in certain circumstances the creditor who suffered the loss, may recover from the director, an amount equal to the loss or damage suffered. Similar provisions exist to pursue holding companies for debts incurred by their subsidiaries.

A defence is available under the law where the director can establish:

- there were reasonable grounds to expect that the company was solvent and they did so expect;
- they did not take part in management for illness or some other good reason; or
- they took all reasonable steps to prevent the company incurring the debt.

The proceeds of any recovery for insolvent trading by a liquidator are available for distribution to the unsecured creditors before the secured creditors.

Important note: This information sheet contains a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances.