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**iPro Solutions Pty Ltd (In Liquidation)
ACN 111 297 315 (the Company)**

Joint and Several Liquidators' Statutory Report to Creditors

Thursday, 2 November 2017

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Introduction

We refer to our initial correspondence to creditors dated 5 July 2017 in which we advised creditors of our appointment as Joint and Several Administrators of the Company. Following the provision of our s439A report a second meeting of creditors was held on 9 August 2017, at which time Cameron Crichton and I were appointed Joint and Several Liquidators of the Company.

The purpose of this report is to:

- Provide creditors with an update on the progress of the liquidation; and
- Advise creditors of the likelihood of a dividend being paid in the liquidation.

As liquidators, Cameron and myself have relied on information provided from numerous sources to prepare this report. These sources include:

- Discussions with the Director (Paul Wilson);
- Discussions with the previous Company director (Troy Thompson);
- Discussions with various clients and vendors of the Company;
- Discussions with trade creditors;
- Discussions with former employees of the Company;
- Information available from public sources, such as, Australian Securities and Investments Commission (ASIC) and the Personal Property Securities Register (PPSR); and
- A review of the Company's books and records provided to date.

Update on the progress of the liquidation

Assets and liabilities

Pursuant to Section 438B(2) of the Act, the Director of the Company is required to complete a statement about the Company's business property, affairs and financial circumstances, also known as the RATA. The RATA is a snapshot in time (as at the date of our appointment) of the assets and liabilities of the Company, disclosing book values and the estimated realisable value ("ERV") for assets.

On 5 July 2017 a written request was issued to the Director to complete the RATA for the Company. A summary of the RATA received from the Director is detailed in **Appendix A**, as well as the Administrators' corresponding ERV.

As detailed in our s439A Report, we provide the following comments with respect to the Director's RATA:

- The Director advised that certain sections of the RATA should be confirmed with the CFO. The CFO subsequently advised she would no longer assist with the Administration and accordingly, due to the inability to confirm these figures they have been left blank;
- An estimate of \$50k advised by management for outstanding Superannuation has been included in the Director's RATA figures. The Administrators' initial review of this figure indicates that the balance is c. \$57k, which has been included for employee entitlements;
- The unsecured creditor's ERV is the Administrators' best estimate of the total amount owing to unsecured creditors, taking into account Proof of Debts received from creditors



as well as trade payables and other loan accounts from management accounts. This figure is subject to change.

- The Director did not include details in his RATA pertaining to the related party loans with iPro Solutions (USA) and iPro Solutions (Europe) being c.\$561k and c.\$488k respectively. Demand letters have been issued to both of these entities seeking the repayment of the entire loan balances. The liquidators understand that these entities do not trade or hold any assets and therefore do not believe that these balances will be recoverable.
- “Other assets” includes IP and software development. In our previous report to creditors as part of the administration process, the ERV of these assets was withheld due to commercial sensitivity and as a sale process was ongoing. As this sale process has concluded, the ERV now includes details of the gross proceeds from the sale of the realisable business assets of the Company, excluding plant and equipment.

Assets and Liabilities Current Position

The Liquidators have now realised all Company assets excluding debtors which we are continuing to pursue. At this stage we are unable to comment on the recoverability of debtor amounts. The following table details asset realisations to date.

	Value (\$)
Cash at bank	30,015.00
Sale of Business (IP)	55,000.00
Sale of PPE	8,106.75
Debtor collections to date	1,940.68
	95,062.43

Please see the below table which details the Company’s current liability position.

	Number	Value (\$)
Priority Creditors (Wages and superannuation inc. SGC)	18	52,021.00
Priority Creditors (Leave of absence)	18	37,620.00
Priority Creditors (Retrenchment)	18	146,173.00
Unsecured creditors	30	8,660,636.00
Secured creditors	-	-
	-	8,896,450.00

Trading outcomes

Upon appointment, the Administrators undertook an urgent viability assessment of the Company’s business. This included a review of the Company’s forecast cash flows and available working capital resources.

As previously advised in our s439A Report to Creditors, it was immediately evident that the business had been operating at a significant monthly cash deficiency with significant overheads which were not supported by trading revenue and that the business had been historically supported by funding from the parent Company. Accordingly, it was not possible to continue in this form going forward. The Administrators therefore undertook actions to preserve the business operations



and value and reduce the cash flow burden while seeking an immediate sale of the going concern and / or business assets, including but not limited to:

- Terminating all staff bar 5 employees necessary to support basic business operations;
- Agreeing an extension of the rent free period with the landlord;
- Communicating to the Company's clients and vendors that customer support would be reduced but a sale of the business was being pursued; and
- Engaging with the Company's primary suppliers to set up administration accounts for trading.

On Monday 10 July 2017, staff which had not yet been terminated either did not turn up for work or did turn up but advised they could no longer assist the administrators. The consequences were that it became effectively impossible for the administrators to operate the business effectively.

Further, the Administrators' attempted to negotiate with key suppliers to set up new accounts to facilitate the business' continued trading. However, this ultimately proved difficult with many overseas based suppliers being inflexible in regards to the Administrators' requests.

Sale of Business

Immediately upon our appointment we considered the prospects of a sale of the business in order to maximise asset realisations and prospects of a return to creditors. While the business was loss making, the indications were that it was saleable as it had a material and high quality client base and a number of enquiries were received from related parties and unsolicited calls from unrelated parties were also received.

In order to elicit further interest, we also advertised the business for sale publicly with an advert in the Australian Financial Review on 13 July 2017.

A total of 22 enquiries were received, with 18 parties executing and returning confidentiality agreements.

While interest in the business was strong, certain issues stifled offers being submitted, including:

- Lack of employee support and the resulting lack of available information;
- Uncertainty as to the ownership of the intellectual property ("IP"); and
- Refusal of the parent entity to agree a sale of any jointly owned IP or IP owned by the parent to help facilitate a sale.

Ultimately, while 4 bids were received for the business, only one offer from the Xperior Group was viable to progress, as:

- All other offers included significant conditions and requirement;
- Warranties were sought regarding the ownership of the IP; and
- Proposed sale prices were not commercially viable;

Detail of sale to Xperior Group (“Xperior”)

Initially, Xperior were seeking to acquire the business as a going concern and following the sales campaign we negotiated with them various strategies to acquire the IP and operations of the Company. Following a number of discussions and negotiations with Xperior, having regard to the limitation within which the Administrators were operating as a result of the abovementioned issues, a sale was agreed for certain business assets including:

- The transfer of certain registered trademarks of the Company;
- The transfer of certain domain names owned by the Company;
- The provision of client information and contracts for certain consenting clients; and
- The provision of client contact details for certain non-objecting clients.

Total sales consideration of \$50,000 plus GST was received.

Ongoing negotiations with Westpac Banking Corporation (“Westpac”)

As discussed in our s439A report, Westpac were the Company’s pre-appointment bank. Please see the below table which indicates the Company’s accounts respective funds held as at the date of our appointment.

Bank Acc	Balance as at 5 July 2017
Working account	\$ 30,015.47
Term Deposit	\$ 20,000.00

Since the date of our appointment until 20 July 2017, the pre-appointment bank account had received the following payments:

	As at 20 July 2017
Vendor payments (post - appointment)	\$ 27,762.37

After 20 July 2017 we no longer had access to the Company’s pre-appointment account. Therefore we are unable to confirm whether more money has been receipted into the bank account. We have since written to Westpac requesting that they provide us access to the account as well as arrange for the account to be closed and all bank statements from the date of our appointment until the closure of the account be forwarded to our office.

Since the date of our appointment, Westpac have remitted c.\$61k to the liquidators’ bank account. We note that this is made up of vendor payments post the date of our appointment as well as a partial payment from Westpac of the term deposit funds held. Westpac have still not released the full balance of term deposit funds on account despite having no debt due from the Company.

We have sought legal advice regarding Westpac’s position and are continuing to liaise with them for the release of the funds.



Receipts and Payments to date

Please see the below summary of receipts and payments (inclusive of GST) for the duration of the administration, being 5 July 2017 to 8 August 2017, and the liquidation from 9 August 2017 until 26 October 2017.

	VA (5/7/17 - 8/8/17)	LIQ (9/8/17 - 26/10/17)	TOTAL
Receipts			
Advance from Bailador Technology Investments	10,000.00	40,000.00	50,000.00
Sale of business	55,000.00	-	55,000.00
Sale of PPE	-	8,106.75	8,106.75
Cash at Bank	-	30,015.47	30,015.47
Unreconciled amount*	27,762.37	3,134.65	30,897.02
Other current assets	-	6,715.25	6,715.25
Total Receipts	92,762.37	87,972.12	180,734.49
Payments			
Advertising	(5,289.90)	-	(5,289.90)
Agent's Fees	-	(2,851.73)	(2,851.73)
Appointee Disbursements	-	(656.02)	(656.02)
Appointee Fees	-	(82,500.00)	(82,500.00)
Courier	-	(1,210.00)	(1,210.00)
GST Control	-	(3,807.00)	(3,807.00)
Insurance	456.97	-	456.97
Repairs & Maintenance	(178.20)	-	(178.20)
Legal Fees	(7,663.24)	(10,154.76)	(17,818.00)
Professional Fees	-	(785.25)	(785.25)
Sundry Costs	-	(2,653.52)	(2,653.52)
Total Payments	(12,674.37)	(104,618.28)	(117,292.65)
Net Receipts / (Payments)	80,088.00	(16,646.16)	63,441.84

NOTE: *Unreconciled amounts relate to post-appointment vendor payments and partial payments from Westpac in relation to the term deposit account held. We have written to all vendors requesting anyone who has made a payment post the date of our appointment to contact us in order to apply for a refund if applicable. For the purpose of this report we are assuming that all post appointment vendor payments received will be refunded.

Investigations and possible recovery actions

Investigations undertaken

I have commenced my initial investigations into the affairs of the Company prior to my appointment and any potential recovery actions that may be available to the Joint and Several Liquidators to pursue.

To date, we have undertaken the following investigations:

- What happened to the business of the Company;
- Insolvent trading review;
- Review of uncommercial transaction regarding a former employee of iPro Solutions Europe and a payment to them from the Company;
- Review of related party loan balances; and
- Review of whether a possible shadow director was in place.



My findings of these investigations are detailed below. Given the limited time that has passed in the liquidation, and that further investigations may be undertaken, the below findings are preliminary and may be subject to change.

What happened to the business of the Company

The Company was incorporated on 1 April 2005 and operated within the Information Technology ("IT") sector from a premises in Milton with clients and vendors/suppliers located nationally.

The Company developed and operated a platform which enabled customers to manage and minimise the compliance risk of their suppliers by supplying real time data to customers on their suppliers' compliance.

A questionnaire which included the issue of why the Company failed was sent to the Director of the Company following the appointment of the Administrators on 5 July 2017.

The Director returned his questionnaire but did not provide any commentary regarding the reasons for the Company's failure. However, the Administrators have had some prior discussions with the Director who indicated the reasons for the Company's failure were:

- Failure to complete development of the Zoetik system within forecasted timeframes; and
- Lack of confidence by the parent company in the Company's ability to meet revised completion deadlines; and
- Ongoing costs associated with continued operations led the parent funder to withdraw further funding support.

My investigations into the affairs of the Company, confirm that the Company's difficulties were brought about by reasons identified by the Director. In addition, I also note the following

- Cost of development of the new Zoetik platform and the inability of the Company to meet forecasted completion dates;
- Significant cost base, including wages and salaries;
- Unsuccessful strategy to increase vendor subscriptions by reducing subscription amounts;
- Ongoing trading losses; and
- Withdrawal of funding from the Company's parent entity, iPro Holdings Pty Ltd, ("Holdings").

Insolvent trading

I have reviewed both the cash flow and balance sheet tests of insolvency and have determined that the Company became insolvent sometime after funding was last provided by the parent entity, based on the following factors:

- The Company typically received funding from the Parent on a periodical basis;
- There was no formal agreement in place that determined when funding was to be received, or how much in total;
- The Company had no confirmation that future funding would be provided; and
- The Administrators were appointed as a result of the parent and funding Companies confirming that they would no longer provide support.

The Company Director as at the date of our appointment, Paul Wilson, is not liable or eligible for an insolvent trading claim as he was appointed Director on the day prior to our appointment. The



previous director of the Company, Troy Thompson, would be liable for any insolvent trading claim for the period of his directorship. The Liquidators have determined that an insolvent trading claim is not likely to be pursued considering the limited funds available for such a claim, the possible defences available to Mr Thompson and the understanding of his financial capacity.

Voidable transactions

My investigations have uncovered a number of potential voidable transactions which are discussed in detail below.

Unfair preference payments

We note that the ATO received a number of recurring payments in the lead up to the Administrators' appointment, totalling c. \$42k, which may constitute a preference payment under s. 588FA.

We note that a payment plan was in place for the Company's outstanding PAYG liabilities and that the ATO may therefore have been reasonably aware of the Company's difficulties and insolvency.

We have since completed a formal submission regarding the potential preference payment and are awaiting a response from the ATO in that regard.

Uncommercial Transactions

On 5 July 2017 Mr Thompson instructed the CFO to complete a redundancy payment of c. \$35k to an employee of iPro Solutions (Europe) Ltd, Joanne Birnbrauer. We note that Ms Birnbrauer was terminated as of 30 June 2017.

The Administrators are advised that Ms Birnbrauer is the ex-partner of Mr Thompson.

As at the date of our s439A Report we advised that Ms Birnbrauer was not an employee of the Company and the commerciality of the payment was subject to further review.

Using the exchange rate at 5 July 2017, we were able to calculate Joanne's employee entitlements as at the date of our appointment.

The Company's Xero account identified a payment of c.\$34k made to iPro Solutions (Europe) on 5 July 2017 (the date of the Administrators appointment). This transaction was coded as a loan to iPro Solutions (Europe) and was instructed by Troy Thompson via email the morning of the Administrator's appointment. It is highly likely that this payment received from iPro Solutions (Europe) was forwarded onto Joanne as her termination payment.

As a result of the above, as the payment was made to iPro Solutions (Europe), it is the only entity to which recovery can be sought. We have since issued a single demand notice to that entity requesting repayment of the entire loan balance which includes the payment of Joanne's termination. As previously noted, the Liquidators do not believe the loan amounts owed by the related parties are recoverable.

Further inquiries to be undertaken

We plan to undertake the following further investigations:

- Progress recovery of potential preference claim;
- Progress and finalise ongoing negotiations with Westpac to release funds due to the Company;
- Finalise investigations and submit report pursuant to s533 to ASIC.



Meetings held

The first meeting of the Company's creditors was held on 17 July 2017 at our offices. At this meeting, the Joint and Several Administrators discussed the process of the administration as well as resolved whether the creditors were to put forward a replacement administrator.

At this meeting, there were no nominations received to replace the Administrator, nor to form a Committee of Creditors. As such, both motions lapsed, and it was deemed that myself and Cameron Crichton would continue to act as Administrators.

The second meeting of the Company's creditors was held on 9 August 2017 at our offices. The purpose of the second meeting was to consider the Administrators' s439A report on the Company's business, property, affairs and financial circumstances and to consider the Administrators' statement of opinion with respect to each of the options available to creditors.

At this meeting the creditors resolved that the Company be placed into liquidation and that myself, Shaun McKinnon and Cameron Crichton be appointed Joint and Several Liquidators.

The creditors also resolved the total remuneration of the Administrators' be capped at \$75,000 (excl. GST and disbursements) whilst the remuneration of the Liquidators' be capped at \$40,000 (excl. GST and disbursements).

Other matters

Matters still outstanding include:

- Collection of Company debtors;
- Pursuit of preference claims;
- Resolve issues with Westpac to collect pre-appointment funds;
- Complete my investigations into the Company's affairs;
- Complete my reporting to the corporate insolvency regulator, ASIC; and
- Complete a distribution to creditors, if possible.

The expected timeframe for completion of the liquidation is within 3 - 6 months of this report.

Likelihood of a dividend

At present, surplus funds held is c.\$63k, of that we note the following liabilities of the liquidation are yet to be paid:

- Post appointment vendor payments c. \$28k to be refunded (potentially);
- Liquidator Fees \$40k; and
- Other costs of the Liquidation, being c. \$5k.

We are unable to provide a dividend estimate of any certainty at this stage of the liquidation until we have resolved the ATO preference action and recovery of funds held by Westpac. If we do declare a dividend, any creditor whose claim has not yet been admitted will be contacted and asked to submit a proof of debt.

Cost of the liquidation

As previously advised in our initial information to creditors, we have estimated that our total remuneration for the liquidation is \$40,000 (excl. GST and disbursements).



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What happens next in the liquidation?

I will proceed with the liquidation, including:

- Collection of Company debtors;
- Distribution to creditors;
- Resolve issues with Westpac;
- Complete my investigations into the Company's affairs; and
- Complete my reporting to the corporate insolvency regulator, ASIC.

I may write to you again with further information on the progress of the liquidation.

I expect to have completed this liquidation within 3 - 6 months.

Compliance with best practice

I confirm that this report complies with the requirements in the Insolvency Practice Rules (IPR), specifically IPR 70-40, as well as the statements of best practice issued by the Australian Restructuring Insolvency and Turnaround Association (ARITA) with regard to content of the Statutory Report by Liquidator.

What to do next

You should now:

- Read my report and attached information.
- Complete and return your Proof of Debt Form to formalise your claim within the Liquidation.

Where can you get more information?

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

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

Should you have any queries with respect to the above, you may also contact Isabel Lutvey of my office on (07) 3222 0375 or via email on isabel.lutvey@au.gt.com. There is also information about this liquidation on <https://www.grantthornton.com.au/creditors-information/>

Dated: Thursday, 2 November 2017

Shaun McKinnon
Joint and Several Liquidator

List of attachments

Appendix A - Assets and Liabilities comparison to RATA

Appendix A

Assets and Liabilities comparison to RATA

	Director's RATA		Liquidators'
	Book Value	ERV	ERV
	\$	\$	\$
Assets			
Interest in land	-	-	-
Sundry Debtors	36,971	14,884	7,500
Cash on Hand	260	260	-
Cash at bank	129,060	129,060	30,015
Stock on hand	-	-	-
Work in progress	-	-	-
Plant and Equipment	-	-	8,107
Other Assets	4,421,177	Withheld	50,000
Sub Total	4,587,468	144,204	95,622
Assets subject to specific charges	-	-	-
Less amounts owing to secured creditors	-	-	-
Total estimated realisable values	4,587,468	144,204	95,622
Liabilities			
Employee Entitlements	(310,000)	(310,000)	(235,814)
Amounts owing to secured creditors	-	-	-
Preferential claims ranked behind secured creditors	-	-	-
Amounts owing to partly secured creditors	-	-	-
Unsecured creditors	(8,162,388)	-	(8,660,636)
Total amounts claimed	(8,472,388)	(310,000)	(8,896,450)
Contingent assets	-	-	-
Contingent liabilities	-	-	-
Estimated surplus/(deficiency)	(3,884,920)	(165,796)	(8,800,828)