

30 July 2018

TO THE CREDITOR AS ADDRESSED

Dear Sir/Madam

A.C.N. 069 891 201 Pty Ltd (formerly Plaza Home-Imports Pty Ltd) ACN 069 891 201

A.C.N. 094 719 490 Pty Ltd (formerly Howards Storage World Pty Ltd) ACN 094 719 490

HSW Corp. Pty Ltd ACN 104 435 181

Lealdir Pty Ltd ACN 104 246 433

**(all in liquidation)
(the Companies or HSW Group)**

I refer to the appointment of David Lombe and I as Joint and Several Liquidators of the Companies on 1 May 2017 following our appointment as Administrators on 9 December 2016.

The 12-month anniversary of our appointment as Liquidators has passed. In the interest of minimising cost, I have elected not to convene a meeting of the creditors under Section 508(1)(b)(i) of the Corporations Act 2001 (Cth) (**the Act**). I have however prepared and lodged with ASIC a Report pursuant to Section 508(1)(b)(ii) of the Act setting out the following:

- an account of my acts and dealings and the conduct of the winding up
- a description of the acts and dealings that remain to be carried out in order to complete the winding up, and
- an estimate of when the winding up is likely to be completed.

A copy of this report is attached.

What happens next?

- Please read the report. Any creditor who has any information which would assist our investigation is requested to contact us to provide particulars.
- Our investigations are continuing and we are considering potential recovery actions including insolvent trading. We anticipate a further report to creditors will be issued and will outline the following:
 1. Further information about potential recovery actions
 2. The details of any arrangement to fund the costs of further recovery actions including legal costs
 3. Updated estimate of the likelihood of returns to creditors if certain proceedings are commenced.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network firms (including those operating in Australia).

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Should you require any further information, please contact Soni De Silva of this office on (02) 8260 6633 or by email to sodesilva@deloitte.com.au .

Yours faithfully

A handwritten signature in black ink, appearing to be 'V. Strawbridge', written over a horizontal line.

Vaughan Strawbridge
Liquidator

Encl.

Statutory Report to Creditors dated 30 July 2018

A.C.N. 069 891 201 Pty Ltd
(formerly Plaza Home-Imports Pty Ltd) ACN 069 891 201

A.C.N. 094 719 490 Pty Ltd
(formerly Howards Storage World Pty Ltd) ACN 094 719 490

HSW Corp. Pty Ltd ACN 104 435 181

Lealdir Pty Ltd ACN 104 246 433

(all in liquidation)
(the Companies or HSW Group)

1 Introduction

I refer to the appointment of David Lombe and I as Joint and Several Administrators of the Companies on 9 December 2016 pursuant to Section 436A of the Act. Subsequently, on 1 May 2017 we were appointed as Liquidators to the Companies.

The purpose of this Statutory Report to Creditors is to provide you an annual account of the winding up, a summary of the tasks still to be undertaken, and a summary of our receipts and payments for the period 1 May 2017 to 30 April 2018.

This report should be read in conjunction with our Report to Creditors pursuant to Section 439A of the Act dated 20 April 2017 (**Second Report to Creditors**) which can be found at <https://www2.deloitte.com/au/en/pages/finance/articles/howards-storage-world-pty-ltd.html>.

Throughout this report we will refer to the individual Companies as: A.C.N. 069 891 201 Pty Ltd (formerly Plaza Home-Imports Pty Ltd) as **PHI**; A.C.N. 094 719 490 Pty Ltd (formerly Howards Storage World Pty Ltd) as **HSW**; HSW Corp. Pty Ltd as **HSW Corp**; and Lealdir Pty Ltd as **Lealdir**.

2 Update on actions

Since the Companies were placed into liquidation we have undertaken the following:

- Finalised the trading position of the voluntary administrations including finalising trading payments and expenses and collecting debtors.
- Finalising matters relating to the sale of the business including liaising with the purchaser of the business My Home Storage Pty Ltd (**MHS**) regarding leases and trading matters, and liaising with landlords and MHS regarding the assignment of leases and return of bank guarantees.
- Undertaken the verification of employee entitlements for HSW to facilitate a distribution to employees of \$539,798 under the Fair Entitlements Guarantee Act 2012.

- Conducted further investigations and pursued potential recovery actions. These are discussed in more detail in Section 3 but have included:
 - Drafting a report on the solvency of the Companies prior to the voluntary administration (in preparation to submit as evidence in legal proceedings)
 - Identified and gathered evidence to support potential unfair preference recoveries
 - Commenced legal proceedings against a party in relation to an unfair preference payment
 - Negotiated settlements of unfair preference claims and prepared deeds of settlement
 - Recovered \$720,000 of unfair preference payments in PHI
 - Pursued recovery of related party unfair preference transactions
 - Further investigated potential claims against the Directors for trading the Companies while insolvent and other potentially voidable related party transactions.
- Negotiated a settlement with the secured creditor of the Companies, National Australia Bank (**NAB**) whereby the principal amount owing by the Companies to the secured creditor was paid in full and the secured creditor agreed not to claim residual interest on their outstanding debt.
- Prepared and lodged reports with the Australian Securities and Investments Commission (**ASIC**) concerning the affairs of the Companies and the conduct of the office holders.

3 Further work to be undertaken

3.1 Legal recovery actions

There are a number of possible recovery actions that may be brought by a liquidator under Part 5.7B of the Act which may result in additional funds being available for distribution to creditors. In our Second Report to Creditors we outlined the recovery actions that might be pursued. An update on recoveries to date and further work to be undertaken is detailed below.

3.1.1 Unfair preference payments

In our Second Report to Creditors we outlined a number of possible unfair preference payments that may be pursued for recovery. An unfair preference is a payment which results in the creditor receiving more than the general body of creditors would receive in the liquidation and may be voidable, thus requiring the creditor to repay those unfair preference payments so they can be redistributed equally amongst the creditors in the order that they rank.

We identified transactions with 12 creditors of PHI and 5 creditors of HSW which have the characteristics of voidable unfair preference payments.

To date, \$720,000 has been recovered in PHI through the settlement of three preference claims. Further details of these recoveries are confidential pursuant to separate deeds of settlement agreed in each case.

The gross value of the remaining potential preference recovery actions is \$420,000 in PHI and \$274,000 in HSW before any costs of recovery, and these are in various stages of progress. We will continue to progress these where we believe it is commercial to do so however due to the commercially sensitive nature of ongoing negotiations and potential litigation, an estimated net recovery is not able to be provided at this time. We are also currently exploring whether it is commercial to obtain third party funding to further pursue these claims.

3.1.2 Unreasonable Director-related transactions

Section 8.6.5 of our Second Report to Creditors identified a number of potential Director-related transactions.

We have issued a demand to Pauline Donald, a Director of the Companies, to recover a related party preference in the sum of \$200,000 from Broken Glass Investments (**BGI**). Pauline Donald is a 50% shareholder of BGI. The claim is being defended and we are advised that BGI serves only as a trustee company to a self-managed super fund and has no significant means to meet the claim.

We have also issued demands regarding:

- approximately \$240,000 in payments made by PHI that relate to personal expenses of Director, Dirk Spence and his spouse, Janet Spence
- approximately \$258,000 paid to Janet Spence in relation to her employment with HSW.

We have not received responses to these demands. We are consulting with our legal advisers and considering our next steps in pursuing these claims and the potential defences to these claims.

3.1.3 Insolvent trading claim

In our Second Report to Creditors we identified a potential claim against the Directors for insolvent trading. The amount of the claim is determined by estimating the amount of liabilities incurred by the Companies in the period they traded while they were insolvent. We currently estimate this to be in the vicinity of \$7 million.

We have undertaken significant work in preparing a draft report on the solvency of the Companies prior to the voluntary administrations. This report will also be used in any legal proceedings commenced in respect to the recovery of a claim for insolvent trading as well as in respect to unfair preferences payments.

The next steps in pursuing this claim are:

- Consulting further with our legal advisers on the strength of the claim, the estimated costs and timing of pursuing the claim, and recoverability if successful and return to creditors
- Conducting further investigations to support the claim, including potentially conducting public examinations in court pursuant to Sections 596A and 596B of the Act, of parties that may assist us in our investigations
- Finalising the report on solvency
- Initiating settlement discussions and negotiations, and if unsuccessful, commencing legal proceedings.

We are currently exploring whether it is commercial to obtain third party funding to pursue this claim. Other options also include creditors providing funding or assigning to a third party for an agreed sum the right to sue pursuant to Section 100-5 of the Insolvency Practice Schedule (Corporations). This option enables a liquidator to quickly realise funds for the benefit of creditors without the time and inherent risks of legal action. The assignee then has the right to pursue the legal action and retains all of the proceeds should they be successful.

We anticipate shortly providing a further report to creditors and holding a meeting of creditors to present the options available to pursue this claim and the estimated cost and return of doing so.

3.2 Report to ASIC

We have an obligation to report possible director breaches of duties or likely misconduct that comes to our attention to ASIC. ASIC may, as a consequence of such a report prosecute the Director(s) and a successful prosecution may result in the Director(s) being fined, imprisoned and/or banned from being a director or manager of a corporation for a period of time. However, any action undertaken by ASIC will have no impact on likely dividends to creditors.

We have lodged separate reports with ASIC regarding each of the Companies on 30 June 2017 pursuant to Section 533(1) of the Act.

ASIC subsequently sought further details about possible alleged misconduct relating to the officers of PHI and requested a supplementary report for this Company pursuant to Section 533(2) of the Act. The supplementary report is being finalised for submission to ASIC.

3.3 Next steps

The next step in the liquidations are to continue to pursue potential recovery actions and claims for insolvent trading. This will include:

- Issue further demands for unfair preference payment recoveries, including potential legal proceedings
- Consult with legal advisors regarding claims against the Directors for trading the Companies while insolvent and other potentially voidable Director-related transactions
- Estimate the cost and timing of further recovery actions and investigations, including the cost of:
 - Conducting further investigations through public examinations and insolvent trading litigation
 - Further investigations of the Company's records and accounts management system
 - Commencing legal proceedings.
- Provide a further report to creditors and hold a meeting of creditors regarding options to pursue further legal recoveries.

If legal action is pursued regarding insolvent trading the estimated timing to finalisation of the liquidations would be at least 12 to 24 months. If no claim is pursued we anticipate that the liquidations could be finalised within the next 6 to 12 months.

4 Estimated statement of position (ESOP)

An updated statement of position for the liquidations as at the anniversary of the appointment as Liquidators, 30 April 2018, is presented below, together with actual and estimated transactions as at the date of this report. It is noted that HSW Corp Pty Ltd did not trade or hold any funds.

As at 30 April 2018	Ref.	Position as at 30 April 2018					Post 30 April Transactions	Total
		HSW Corp	HSW	PHI	Lealdir	Total		
Receipts								
Cash at bank	1.	-	1,223,451	4,596,822	567	5,820,841		5,820,841
Bank interest		-	3,597	9,970	29	13,597	945	14,543
Voluntary administration sales/ income	2.	-	15,427	245,401	-	260,828		260,828
Debtors		-	-	3,445	-	3,445		3,445
Miscellaneous income and refunds		-	3,266	4,111	1,306	8,684		8,684
Reimbursements from MHS	3.	-	51	38,320	132,611	170,983		170,983
Preference recoveries	4.	-	-	-	-	-	720,000	720,000
GST payable		-	1,543	27,711	13,355	42,608		42,608
GST clearing account		-	-	76,716	-	76,716	31,469	108,186
Total		-	1,247,335	5,002,497	147,869	6,397,701	752,415	7,150,116
Payments								
Purchases	2.	-	102	187,477	-	187,579		187,579
Other voluntary administration trading costs & payments	2.	-	1,745	204,912	101,763	308,419		308,419
Bank charges		-	125	3,218	-	3,343		3,343
Insurance		-	17,414	33,747	-	51,160	1,000	52,160
Agents/valuers fees		-	-	4,750	-	4,750		4,750
Legal fees	5.	-	101,341	371,016	31,962	504,318	69,724	574,042
Debt recovery fees		-	2,465	4,096	-	6,562	660	7,222
Funds received on behalf of MHS	3.	-	401,030	72,890	-	473,921	7,000	480,921
Administrators' remuneration	6.	-	383,865	1,618,571	-	2,002,436		2,002,436
Administrators' disbursements	6.	-	-	54,390	-	54,390	12,627	67,017
Liquidators' remuneration	6.	-	50,000	-	-	50,000	336,579	386,579
Liquidators' disbursements	6.	-	-	-	-	-	53,561	53,561
Secured creditor	7.	-	-	2,018,000	-	2,018,000		2,018,000
GST receivable		-	55,360	239,753	13,335	308,448		308,448
GST clearing account		-	42,626	-	19	42,645	2,863	45,508
Total		-	1,056,073	4,812,820	147,079	6,015,972	484,014	6,499,985
Balance		-	191,262	189,677	791	381,730	268,401	650,131

The following commentary is provided regarding the larger transaction items:

1. Cash at bank: these sums represent the balance of funds transferred at the conclusion of the voluntary administration once the business had been sold, trading had ceased and the Companies had been placed into liquidation.
2. Voluntary administration income and expenditure: this is the balance of receipts and payments made in the liquidation that principally relate to the trading period during the voluntary administration. All matters relating to the voluntary administration have been finalised with the exception of the transfer of one lease.
3. Reimbursement from/to MHS: post the sale of the business to My Home Storage Pty Ltd (**MHS**) we have received funds from various customers and other parties that have paid incorrectly to one of the Companies' accounts. There remains a balance of approximately \$7,000 to be paid to MHS. This will be paid once the final leases in the name of the Companies are transferred to MHS.
4. Unfair preference recoveries: as stated above, to date we have recovered \$720,000 from three creditors.
5. Legal fees: this includes legal costs incurred for both the voluntary administration and the liquidation. The amount is principally from the provision of legal advice on trading issues and drafting legal documents relating to the sale of the business. During the liquidation we have incurred legal fees relating to the legal recoveries detailed above. Further legal costs will be incurred if action is taken in respect to potential legal recoveries. As stated above we are in the processing of assessing these potential costs.
6. Administrators and Liquidators remuneration and disbursements: these amounts refer to time costs during the voluntary administrations and liquidations which have paid to date and the amount estimated to be paid up to the limit of fees approved at the Second Meeting of Creditors held on 1 May 2017. Further fees have been incurred during the course of the liquidation in addition to what was initially approved. We will be providing a detailed breakdown of these additional fees in our next report to creditors together with an estimate of our future costs.
7. In our Second Report to Creditors we advised NAB had an estimated debt of \$5.245 million and held security over the circulating and non-circulating assets of the Companies with respect to various trading and bank guarantee facilities cross-guaranteed by the each of the Companies. The security position afforded NAB priority over unsecured creditors from realizations of the Companies' assets.

In April 2018 we negotiated a settlement with NAB for a full discharge of their security based on payment of the balance of the principal. NAB agreed to waive the interest owing under the various facilities. The payment amount of \$2.018 million was in addition to \$3 million paid during the voluntary administration from the proceeds of the sale of the business.

5 Receipts and payments

Attached as **Annexure A** is a summary of receipts and payments of the Companies for the period 1 May 2017 to 30 April 2018. Please be advised there are no transactions for HSW Corp Pty Ltd.

6 The likelihood of a distribution to creditors

The books and records and claims submitted by creditors record the following balance owed to each class of creditor:

Creditor claims	HSW Corp	HSW	PHI	Lealdir
Secured creditor	-	-	-	-
Priority creditors	-	623,105	-	-
Related creditors	3,974,269	14,191,680	2,901,748	1,206,960
Unsecured creditors	2,031,774	1,201,021	6,825,445	700,451
Total	6,006,042	16,015,807	9,727,194	1,907,410

The following comments are made in regard to the balances above:

- Secured creditor: as stated above, the secured creditor claim has been finalised and there are no further amounts owing.
- Priority creditors: HSW and PHI were the only employing entities of the HSW Group. PHI priority creditors consisted of employee claims and these were all paid in full from the proceeds of sale during the voluntary administration.

Priority creditors in HSW consist of outstanding superannuation in the amount of \$83,307 and \$539,798.39 owed to the Commonwealth Department of Jobs and Small Business for amounts advanced under the Fair Entitlements Guarantee Act 2012. FEG has a right of subrogation in the winding up pursuant to Section 560 of the Act for amounts paid to priority (employees) creditors for outstanding entitlements.

- Related creditors: These amounts include intercompany debts between the Companies in addition to amounts claimed by Directors. The Directors have lodged the same claim against a number of the Companies and there may be an element of double counting in these figures. These amounts have not been reviewed or adjudicated as an admissible claim in the liquidation of the Companies.
- Unsecured unrelated creditors: These claims represent either amounts recorded as owing in the books and records of the Companies or, if a claim has been received from a creditor, the amount of that claim. These amounts have not been reviewed or adjudicated as an admissible claim in the liquidation of the Companies.

We are unable to reliably estimate the likelihood of a distribution to creditors at this time because we are currently assessing our current and future costs and recoveries and how these recoveries may flow through to each entity. Once we have received further information on the legal recoveries discussed above, the estimated costs of undertaking these recoveries and funding options available, we will be able to provide creditors with the likelihood of an estimated distribution, if any.

Should you have any queries in relation to this matter, please contact Soni De Silva of this office on (02) 8620 6633 or by email on hsw@deloitte.com.au.

Dated this 30th day of July 2018



Vaughan Strawbridge
Liquidator

Annexure:

- A Summary of Receipts & Payments

Summary of receipts and payments as at 30 April 2018

A.C.N. 094 719 490 Pty Ltd (formerly Howards Storage World Pty Ltd)

Receipts and Payments as at 30 April 2018	\$
Receipts	
Cash at bank	1,223,451.25
Bank interest	3,597.49
Franchise fees	15,426.51
Donations received	180.00
Payroll tax	2,062.22
Reimbursements from MHS	50.90
Miscellaneous refunds	1,023.99
GST Payable	1,542.65
Total Receipts	1,247,335.01
Payments	
Purchases	101.95
Advertising	478.22
Bank charges	125.00
Insurance	17,413.78
Software and IT support	334.09
Legal fees	101,340.93
Administrators' remuneration	383,865.08
Liquidators' remuneration	50,000.00
Debt recovery fees	2,465.36
Intercompany transactions with Plaza Home Imports	745.06
Bear Cottage charity funds	187.23
MHS Sales	401,030.39
GST receivable	55,359.80
GST clearing account	42,626.00
Total Payments	1,056,072.89
Cash at Bank	191,262.12

A.C.N. 069 891 201 Pty Ltd (formerly Plaza Home-Imports Pty Ltd)

Receipts and Payments as at 30 April 2018		\$
Receipts		
Cash at Bank		4,596,822.12
Bank Interest		9,970.46
Sales		245,378.27
Gift cards income		22.94
Sundry debtors		3,444.92
Reimbursements from MHS		38,320.32
Miscellaneous refunds		3,269.29
Intercompany transactions with Howard Storage World		745.06
Intercompany transactions with Lealdir Pty Ltd		97.00
GST Payable		27,710.51
GST Clearing Account		76,716.14
Total Receipts		5,002,497.03
Payments		
Inventory purchases		186,702.22
Purchases		775.00
Gift cards		27,985.46
Inter-company services		1,015.82
Bank charges		3,218.36
Electricity		61,471.90
Hire of equipment		1,305.07
Insurance		33,746.64
Lease payments		5,089.25
Sundry expenses		238.56
Telephone & fax		26,307.39
Transport / courier		16,348.85
Stamp duty		132.55
Software and IT support		834.71
Labour hire		3,673.50
Payroll tax		42,412.72
Agents/ valuers fees		4,750.00
Legal Fees		371,015.61
Data room		8,316.66
Postage		1,191.26
Stationery & printing		8,588.64
Debt recovery fees		4,096.18
Administrators' remuneration		1,618,571.38
Administrators' disbursements		54,389.61
MHS sales		72,890.48
Debenture holder		2,018,000.00
GST receivable		239,752.54
Total Payments		4,812,820.36
Cash at Bank		189,676.67

Lealdir Pty Ltd

Receipts and Payments as at 30 April 2018		\$
Receipts		
Cash at Bank		567.35
Bank interest		29.45
Intercompany services provided		1,015.82
Reimbursements from MHS		132,611.34
Miscellaneous refunds		97.00
Lease outgoings adjustments		193.59
GST payable		13,354.80
Total Receipts		147,869.35
Payments		
Rent outgoings		5,884.51
Rent paid (commercial)		95,508.44
Stamp duty		272.60
Legal fees		31,961.61
Intercompany transactions with Plaza Home Imports		97.00
GST receivable		13,335.44
GST clearing account		19.00
Total Payments		147,078.60
Cash at Bank		790.75