



Tandem Corp Pty Ltd ACN 612 789 983
Tandem Digital Services Pty Ltd ACN 625 476 897
Infrastructure Services Group (Aust) Pty Ltd ACN 142 331 717
ISGA FinCo Pty Ltd ACN 612 825 797
ISGM Consulting Pty Ltd ACN 142 331 735
Tandem Property Works Pty Ltd ACN 600 211 603
ISG Management Pty Ltd ACN 142 916 970
(all Administrators Appointed)

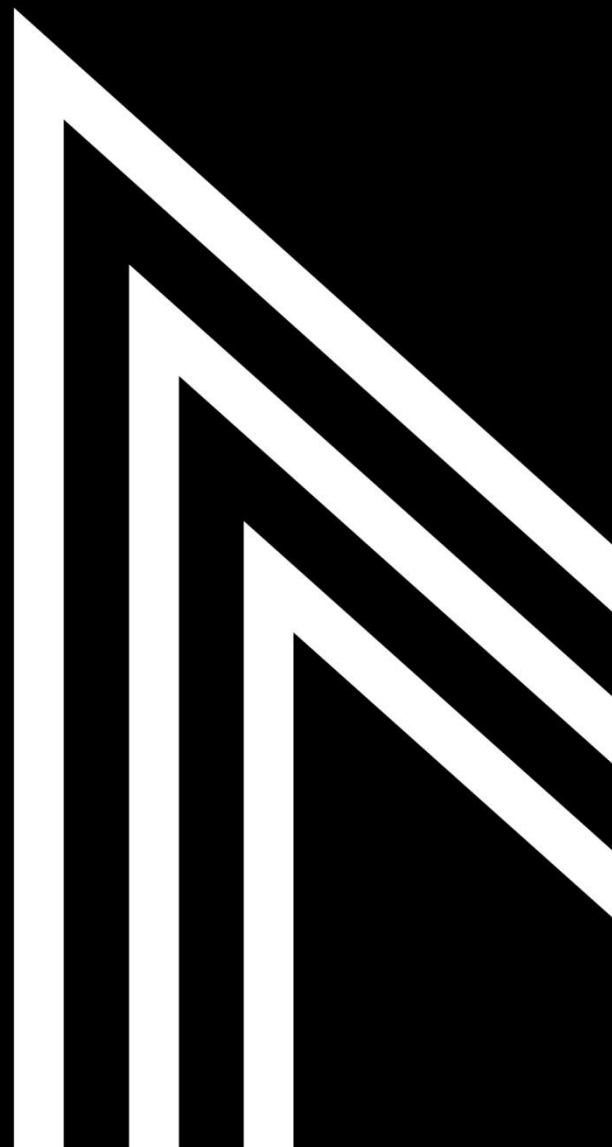
(collectively, “the Insolvent Companies” or “the Insolvent Group”)

Administrators’ report to creditors pursuant to section 75-225 of the
Insolvency Practice Rules (Corporations) 2016

29 July 2021



McGrathNicol



Contents

1	Executive summary.....	6
2	Introduction	12
3	Administrators' prior involvement	15
4	Background and statutory information.....	17
5	Recent financial information.....	26
6	Administrators' actions to date.....	30
7	Sale of business	33
8	Explanations for the Insolvent Companies' difficulties.....	34
9	Administrators' investigations and potential avenues for recovery.....	37
10	Anticipated return to creditors.....	54
11	Options available to creditors	55
12	Receipts and payments.....	56
13	Other matters for consideration.....	56
14	Second Meetings of Creditors.....	57
15	Contact.....	57
	APPENDIX A Statutory and other information by entity.....	58
	APPENDIX B ARITA information sheets	71

Defined terms

Report Glossary	
Act	<i>Corporations Act 2001</i> (Cth)
Administrators	Keith Crawford and Matthew Caddy of McGrathNicol
AEST	Australian Eastern Standard Time
Appointment Date or Appointment	Being 1 July 2021, the day that Keith Crawford and Matthew Caddy were appointed Voluntary Administrators
ARITA	Australian Restructuring, Insolvency and Turnaround Association
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
Board	The boards of Directors of the Insolvent Companies
BU	Business unit
BV	Book value
Capex	Capital expenditure
Class Action	Class action filed by Shine Lawyers Pty Ltd against ISGM in November 2018 on behalf of workers who had entered into sub-contracting arrangements with ISGM
Core BUs	Collectively the Digital, Mobiles and Networks business units
COI	Committee of Inspection
COVID-19	The Coronavirus
Digital	Core business unit comprising Tandem Digital International, Tandem Digital Services and Tandem Digital Solutions
Directors	Stuart Wardman-Browne, Joseph Caporale, Adrian Field and David Odgers, each a director of at least one of the Insolvent Companies at Appointment
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
DXG or "Deed of Cross Guarantee"	ASIC Deed of Cross Guarantee dated 29 June 2016 pursuant to ASIC Class Order 98/1418 which each of the Insolvent Companies are a party to
DXG Group	Entities party to the Deed of Cross Guarantee (i.e. the Insolvent Group entities)
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FEG	Commonwealth Government Fair Entitlements Guarantee Scheme
First Meetings of Creditors	First statutory meetings of creditors of the Insolvent Companies held on 13 July 2021 in accordance with section 436E of the Act
Former CEO	Matt Caulfield, who resigned as CEO on 5 July 2021
Former CFO	Scott Rathgen, who resigned as CFO on 30 June 2021
FYXX	Financial year for the period 1 July 20XX to 30 June 20XX
GSA	General Security Agreement
GST	Goods and Services Tax

Report Glossary	
IFM	IFM Investors Pty Ltd
IPR	<i>Insolvency Practice Rules (Corporations) 2016</i>
ISGA or "ISG Aust"	Infrastructure Services Group (Aust) Pty Ltd ACN 142 331 717
ISGA FinCo	ISGA FinCo Pty Ltd ACN 612 825 797
ISGM or "ISG Management"	ISG Management Pty Ltd ACN 142 916 970
ISGM Consulting	ISGM Consulting Pty Ltd ACN 142 331 735
Management	The Directors, and senior employees of the Insolvent Companies
Metasite	Metasite Pty Ltd ACN 145 899 458
Mobiles	Core business unit comprising Metasite
MV	Motor vehicle
NAB or the "Secured Creditor"	National Australia Bank Limited
NBIO	Non-Binding Indicative Offer
Networks	Core business unit comprising Tandem Networks and ISGM
non-VA entities	Tandem Digital International, Tandem Digital Solutions, Tandem Networks, Tandem Property Services and Metasite
PAYG	Pay As You Go withholding tax
PMSI	Purchase Money Security Interest
POD	Proof of Debt
PP&E	Property, Plant and Equipment
PPSR	Personal Property Securities Register
Insurance	Core business unit comprising Tandem Property Services
Relation Back Day	The date the Administrators were appointed, being 1 July 2021
ROCAP	Report On Company Activities and Property
Second Meetings of Creditors or "Second Meetings"	Second statutory meetings of creditors of the Insolvent Companies convened for 5 August 2021 in accordance with section 439A of the Act
Secured Debt	Debt due by the Tandem Group to NAB on the Administrators' appointment
STCFF	Short term cash flow forecast
Tandem Corp	Tandem Corp Pty Ltd ACN 612 789 983
Tandem Digital Services	Tandem Digital Services Pty Ltd ACN 625 476 897
Tandem Digital Solutions	Tandem Digital Solutions Pty Ltd ACN 628 166 450
Tandem Digital International	Tandem Digital International Pty Ltd ACN 639 350 922
Tandem Networks	Tandem Networks Pty Ltd ACN 636 625 271
Tandem Property Services	Tandem Property Services Pty Ltd ACN 614 835 415
Tandem Property Works	Tandem Property Works Pty Ltd ACN 600 211 603
the Act	<i>Corporations Act 2001</i>

Report Glossary	
the Administrators' Report or this Report	Report to creditors prepared by the Administrators, pursuant to section 75-225 of the Insolvent Practice Rules (Corporations) 2016, dated 29 July 2021
the Court	Federal Court of Australia
Each a Company, and collectively the Insolvent Companies or "the Insolvent Group"	Tandem Corp, Tandem Digital Services, ISGA, ISGA FinCo, ISGM Consulting, Tandem Property Works and ISGM
the Tandem Group or "Tandem" or "the Group"	Collectively the Insolvent Companies and non-VA entities
VA	Voluntary Administration

Listing of tables

Table 1: Tandem Group business unit summary	20
Table 2: Timeline of key events.....	20
Table 3: Directors and officers as at Appointment Date	22
Table 4: NAB exposure on Appointment.....	22
Table 5: Summary of PPSR registrations against the Insolvent Group.....	23
Table 6: PPSR registrations by Insolvent Group entity	23
Table 7: Employees.....	24
Table 8: Unsecured creditors	25
Table 9: Statement of financial performance	26
Table 10: Statement of financial position.....	27
Table 11: Statement of cash flows.....	28
Table 12: Underlying summary financial performance	35
Table 13: Indicators of insolvency.....	38
Table 14: Tandem Group working capital – July 2020 to June 2021	44
Table 15: Amounts due to statutory authorities at Appointment.....	45
Table 16: ATO payment plans.....	46

Listing of figures

Figure 1: Corporate structure	17
Figure 2: Tandem Group locations	19
Figure 3: Tandem Group business units	19
Figure 4: Tandem Group revenue – FY19 to FY21.....	34
Figure 5: Tandem Group FY21 cumulative EBITDA (reported and underlying).....	35
Figure 6: Tandem Group closing cash balance – December 2019 to July 2021.....	43
Figure 7: Tandem Group working capital – July 2020 to June 2021	44
Figure 8: Trade creditor ageing.....	44
Figure 9: ATO running account	45

1 Executive summary

This section aims to provide creditors with answers to key questions they may have in relation to the administration, the Administrators' findings and other contents of this Report.

1.1 Key questions and answers

Question	Answer
Why am I receiving this Report?	Keith Crawford and Matthew Caddy were appointed Voluntary Administrators (Administrators) of the Insolvent Companies on 1 July 2021. Company books and records indicate that you may be a creditor of the Insolvent Companies.
What is the purpose of this Report?	<p>This Report provides creditors with details of the business, property, affairs and financial circumstances of the Insolvent Companies in preparation for the Second Meetings of Creditors.</p> <p>This Report also informs creditors about the investigations undertaken by the Administrators to date, and the Administrators' opinion and recommendation regarding each of the options available to creditors to vote on at the Second Meetings of Creditors.</p>
What is the Second Meetings of Creditors?	<p>At the Second Meetings of Creditors, creditors decide the future of the Insolvent Companies.</p> <p>The options available for creditors to vote on are whether the Insolvent Group entities should be returned to control of their Directors or enter into liquidation. The Administrators note that, as at the date of this Report, no Deed of Company Arrangement (DOCA) has been proposed. A DOCA could technically be proposed prior to the Second Meetings of Creditors, although we regard this as unlikely.</p>
Where and when are the Second Meetings of Creditors?	<p>The Second Meetings of Creditors of the Insolvent Companies has been convened to be held at 2:00pm (AEST) on Thursday, 5 August 2021.</p> <p>The meetings will be held virtually using online video conferencing on Zoom. The online video conference can be joined from a computer (preferred) or telephone.</p>
What do I need to do if I want to attend the meetings?	<p>Creditors wishing to attend the meetings need to submit a Proof of Debt (POD) and either attend, by teleconference, or appoint a proxy to attend on their behalf. Creditors who have already lodged a POD do not need to complete a new form.</p> <p>Creditors planning on attending should register their intention to do so with the Administrators (tandemcreditors@mcgrathnicol.com) and provide a correctly completed POD and proxy form (if applicable) by 4:00pm (AEST) on Wednesday, 4 August 2021 and you will be provided with a link to join.</p> <p>Observers are able to attend the meetings, however will not be entitled to participate, either by voting or by asking questions.</p>
What does the Tandem Group do?	<p>The Tandem Group provides workforce contract management and consulting services to the telecommunications, utilities and insurance sectors via four core business units:</p> <ul style="list-style-type: none">▪ Networks, the largest business unit by revenue servicing customers such as Telstra and JB Hi-Fi;▪ Digital, servicing customers such as nbn co and Foxtel;

Question	Answer
	<ul style="list-style-type: none"> ▪ Mobiles, servicing infrastructure and telecommunication customers focusing on wireless, 5G and mobile device products; and ▪ Insurance, servicing the insurance sector via a contract with Insurance Australia Group Limited (IAG).
<p>Why are only certain entities within the Tandem Group in Administration?</p>	<p>The entities within the Tandem Group that are in Administration (the Insolvent Companies or Insolvent Group) are those which are party to an ASIC Deed of Cross Guarantee (DXG). The effect of the DXG is that each Company within the Insolvent Group guarantees the payment of each debt owed to creditors by any other Company within the Insolvent Group which enters liquidation.</p> <p>Entities within the Tandem Group that are not in Administration (non-VA entities) are those which are not party to the DXG. The non-VA entities remain under the control of their directors.</p>
<p>What is the structure of the Tandem Group and which entities are in Administration?</p>	<p>The corporate structure of the Tandem Group as at the Appointment Date consists of a holding company and 11 subsidiaries.</p> <p>The Administrators' appointment relates only to the seven entities within the Tandem Group that are party to the DXG.</p> <p>Entities subject to the Administrators' appointment:</p> <ul style="list-style-type: none"> ▪ Tandem Corp, Tandem Group holding company; ▪ ISG (Aust), which operates the Tandem Group's corporate services function; ▪ ISGM, an operating entity within the Networks BU; ▪ ISGA FinCo, the primary borrower of the Tandem Group's Secured Debt which is guaranteed by and cross-collateralised with other Tandem Group entities except Tandem Digital International; ▪ ISGM Consulting, a dormant entity; ▪ Tandem Digital Services, an operating entity within the Digital BU; and ▪ Tandem Property Works, a dormant entity. <p>The remaining five entities within the Tandem Group not party to the DXG are not subject to the Administrators' appointment and are controlled by their directors.</p> <p>Non-VA entities:</p> <ul style="list-style-type: none"> ▪ Tandem Digital International, an operating entity within the Digital BU; ▪ Tandem Digital Solutions, an operating entity within the Digital BU; ▪ Tandem Networks, an operating entity within the Networks BU; ▪ Tandem Property Services, an operating entity within the Insurance BU; and ▪ Metasite, an operating entity within the Mobiles BU.
<p>What were the key events leading to the appointment of Administrators?</p>	<p>The Tandem Group's track record of profitability over the past four years has been somewhat mixed and from late 2020 its cash reserves began to more rapidly decline as a result of:</p> <ul style="list-style-type: none"> ▪ an approximate 40% reduction in Networks BU customer volumes from June 2020 to July 2021;

Question	Answer
	<ul style="list-style-type: none"> ▪ a material change to the terms of Tandem Property Services' core IAG contract which, coupled with reduced volumes, exposed the Tandem Group to material underlying losses associated with unrecoverable overhead expenditure; ▪ ongoing legal costs associated with the defence of a class action filed by Shine Lawyers Pty Ltd against ISGM in November 2018 in relation to alleged financial losses of workers who had entered into sub-contracting arrangements with ISGM (Class Action); ▪ scheduled amortisation repayments of secured debt owed to NAB; and ▪ payment of tax arrears to the ATO including an upfront payment of approximately \$1.9m and monthly instalments of approximately \$0.9m from October 2020 onwards, in accordance with two ATO payment plans. <p>In the months immediately prior to the Administrators' appointment the Directors were preparing to wind down the no longer viable Insurance business unit while pursuing a sale of remaining core business units (Networks, Mobile and Digital).</p> <p>During June 2021, a Tandem Group short-term funding requirement of approximately \$12.7m was identified, driven by:</p> <ul style="list-style-type: none"> ▪ continued customer volume contraction and related underlying trading losses; ▪ scheduled debt repayments and trade finance facility limit reduction in line with working capital contraction; ▪ redundancy and other cost base restructuring costs; ▪ payments of historical PAYG tax arrears; and ▪ prepayment of annual insurance and IT licence renewals. <p>The Tandem Group was unable to secure additional funding sufficient to bridge its short-term funding requirement and, as a result, the Boards of Directors formed the view that the Insolvent Companies were each either insolvent or likely to become insolvent and resolved to appoint the Administrators on 1 July 2021.</p>
<p>Why do the Administrators believe the Insolvent Companies failed?</p>	<p>The Administrators do not dispute the Directors' views in relation to the reasons for the Insolvent Companies' failure (refer to section 8.1). However, the Administrators also note that the ultimately insurmountable liquidity challenges facing the Insolvent Companies were compounded by:</p> <ol style="list-style-type: none"> a) shareholder dividends paid during FY18 totalling \$31.0m; and b) the debt repayment obligations associated with a refinancing in January 2021 of a secured shareholder loan totalling \$8.8m (including capitalised interest). <p>The liquidators will further investigate the circumstances which gave rise to these transactions if the Insolvent Companies are placed into liquidation as is recommended.</p> <p>Refer to section 8 for further details.</p>
<p>What actions have the Administrators taken to date?</p>	<p>Since the Appointment Date, the Administrators and their staff have:</p> <ul style="list-style-type: none"> ▪ worked with Management to understand the Insolvent Companies' financial position and critical operating requirements; ▪ worked to stabilise operations and rationalise operating activities where appropriate to maximise the prospective return to creditors; ▪ held virtual briefings with employees and Management immediately following Appointment;

Question	Answer
	<ul style="list-style-type: none"> ▪ communicated with a significant number of creditors; ▪ prepared detailed cash flow forecasts for the initial period of the Administration, to maintain and preserve assets for the benefit of creditors; ▪ expedited the sale processes involving entities within the Insolvent Group and non-VA entities, dealt with interested parties as appropriate and negotiated related agreements (refer section 7 for further details); ▪ liaised with employees and calculated and communicated estimated employee entitlements; ▪ communicated with key stakeholders, suppliers and PPSR interest holders; ▪ undertaken a detailed review of operational requirements and available assets; ▪ conducted preliminary investigations into the affairs of the Insolvent Companies; ▪ complied with statutory obligations; ▪ held the first meetings of creditors on 13 July 2021 and convened the second statutory meetings of creditors; and ▪ prepared this Report.
<p>What was the sale process that the Administrators were involved in and what was the outcome?</p>	<p>The Administrators and the directors of certain relevant non-VA entities have entered into a binding asset sale agreement with ASX listed GenusPlus Group Ltd (GenusPlus) to sell selected business assets of the Tandem Group's Networks, Mobiles and Digital business units. This transaction has a headline price of \$3.4m which is subject to various customary adjustments and is expected complete before the Second Meetings of Creditors.</p> <p>As at the date of this Report the Administrators are in the advanced stages of negotiating a separate sale of selected business assets associated with ISGM's audio visual installation services business supporting JB Hi-Fi. The Administrators expect to also complete this transaction ahead of the Second Meetings of Creditors.</p> <p>In addition to the share of net sale proceeds referable to the Insolvent Companies, the above transactions offer additional benefits, including:</p> <ul style="list-style-type: none"> - transfer of employment for approximately 37 employees of Insolvent Companies reducing residual Priority Creditor claims against Insolvent Companies by up to \$1.6m; - an opportunity for the secured creditor (NAB) to access further recoveries from non-VA entities and commensurately improve unsecured creditor recovery prospects; - transfer of employment for approximately 100 employees of non-VA entities; and - an opportunity for approximately 470 sub-contractors to benefit from service continuity with new, well capitalised, counterparties. <p>The Administrators will provide a further update in relation to these transactions at the Second Meetings of Creditors by which time each transaction is expected to have completed.</p>
<p>What was the date of insolvency?</p>	<p>Based on the Administrators' preliminary investigations (refer section 9), the Administrators consider that the Insolvent Group was likely insolvent from at least mid to late June 2021. Additional work will be performed by a liquidator (if appointed) to form a more definitive view regarding the date of insolvency.</p>

Question	Answer
<p>What investigations have been undertaken?</p>	<p>The Administrators have conducted preliminary investigations in relation to the Insolvent Companies, the conduct of the Directors and other parties, and considered whether there are any amounts that could be recovered in a liquidation of the Insolvent Companies. Details of those investigations are set out in this Report, however further investigations will be required if the Insolvent Companies are wound up, including a commercial assessment of the merits and likelihood of recovery from pursuing any potential claims identified.</p> <p>The Administrators are aware that shortly prior to their appointment a number of employees (and their respective employee entitlements) were transferred from certain of the Insolvent Companies to Tandem Networks, one of the non-VA entities. At this stage the Administrators do not have any specific concerns regarding these matters. However, further investigations will be conducted by the liquidators, if appointed, to determine whether any related claims should be pursued and/or any reportable offences were committed by the relevant directors.</p>
<p>What claims have the Administrators identified that may be available to a Liquidator?</p>	<p>Potential claims available to a liquidator may include voidable transactions in the form of unfair preference payments and/or unreasonable director related transactions, in addition to claims for other offences such as breach of directors' duties. There may also be claims against the Tandem Group's auditor.</p> <p>Whilst the Administrators have considered the underlying causes of the Insolvent Group's failure, their investigations into claims arising from those matters are at an early stage.</p> <p>Based on the Administrators' preliminary view regarding the likely date of insolvency (refer section 9) payments of at least \$0.9m to the ATO may be recoverable as voidable unfair preference payments (split \$0.66m for ISGM and \$0.24m for ISG (Aust) respectively).</p> <p>Additional amounts may be recoverable if the date of insolvency is determined to be earlier than June 2021.</p>
<p>Has a DOCA been proposed?</p>	<p>At the date of this Report, no DOCA has been proposed and, based on the information presently available to the Administrators, a DOCA proposal is considered unlikely.</p>
<p>Will the Secured Creditor be repaid their debt?</p>	<p>The secured creditor (NAB) is estimated to have claims of up to \$17.6m and may receive potential distributions from the Insolvent Companies of up to \$1.5m (refer section 10.1). Accordingly, there is likely to be a significant deficiency to NAB's claims.</p>

Question	Answer
<p>Will employees be paid their outstanding entitlements?</p>	<p>A selection of current employees within the Insolvent Group have been offered ongoing employment as part of the asset sale processes, and if offers are accepted these employees will have their entitlements transferred to the buyer.</p> <p>Non-continuing employees who were made redundant during the Administration or who are otherwise owed entitlements as at the Administrators' Appointment are priority creditors and rank ahead of secured and unsecured creditors for dividend purposes against the net proceeds of realisations from circulating assets of their employing entity. Circulating assets are assets which are continually changing within the business such as stock, work in progress and debtors.</p> <p>Certain entities within the Insolvent Group may realise sufficient circulating assets to provide a dividend to non-continuing employees (in full or in part), whereas others may not. The characterisation of assets and the associated costs of realising these assets as circulating and non-circulating can be complex. The Administrators may be required to take advice on this and/or may seek court directions to make a final determination.</p> <p>At this stage the Administrators anticipate a return from the realisation of circulating assets of up to \$1.5m may be available to the priority employee creditors of ISGM but no such return is anticipated for priority employee creditors of other entities within the Insolvent Group (refer section 10.1).</p> <p>Additional recoveries from voidable transactions may also be available to priority employee creditors. Based on our preliminary investigations in this regard we have identified payments to the ATO of at least \$0.9m (split \$0.66m for ISGM and \$0.24m for ISG (Aust)) which may be voidable as unfair preferences (refer section 9.9.2).</p> <p>The percentage return to non-continuing employees will also depend on the extent to which employee liabilities transfer as part of the sale transactions.</p> <p>The quantum and timing of any prospective dividend to non-continuing employees will not be known as at the Second Meetings of Creditors. If the employing entities of non-continuing employees are placed into liquidation at the Second Meetings, eligible employees would be entitled to claim their entitlements through the Fair Entitlements Guarantee scheme (FEG), a government funded compensation scheme administered by the Attorney-General's Department that assists employees of companies that are being wound up. Outstanding superannuation contributions are not covered by FEG and FEG assistance is not available to non-Australian resident employees. Certain other caps also apply. FEG payments can take several months to be processed, depending on the circumstances, but in our experience usually take between 8 and 16 weeks.</p>
<p>Will unsecured creditors be paid a dividend?</p>	<p>Based on the quantum of debt owed to the Secured Creditor and employees, and absent any potential material recoveries by a liquidator (if appointed) in respect of insolvent trading or antecedent transactions, it is likely that there will be no distribution paid to unsecured creditors.</p>
<p>Which option do the Administrators recommend creditors vote for at the Second Meetings of Creditors and why?</p>	<p>The Administrators recommend creditors vote in favour of the Insolvent Companies entering creditors' voluntary liquidation. No DOCA has yet been proposed so, therefore, this option is not available for consideration. Noting that the operating businesses within the Insolvent Group are expected to be sold or have ceased to trade, and the Insolvent Companies remain insolvent, it would not be appropriate for control of the Insolvent Group to be returned to their Boards of Directors.</p>
<p>Where can I get more information?</p>	<p>Creditors requiring further information should refer to the McGrathNicol website www.mcgrathnicol.com/creditors/tandem-group or email tandemcreditors@mcgrathnicol.com.</p>

2 Introduction

This section outlines the statutory details regarding the Administrators' Appointment, the details of the First and Second Meetings of Creditors, and the purpose and content of this Report.

2.1 Appointment

Keith Crawford and Matthew Caddy (**Administrators**) were appointed Joint and Several Voluntary Administrators of certain entities of the Tandem Group listed in the accompanying circular to this Report (each a **Company** and collectively, **the Insolvent Companies** or **Insolvent Group**) on 1 July 2021 (**Appointment Date** or **Appointment**) by resolution of the Board of Directors of each of the Insolvent Companies, pursuant to Section 436A of the *Corporations Act 2001 (Cth)* (**Act**).

2.2 Object of administration

In an administration, administrators are empowered by the Act to assume control of an insolvent company, superseding the powers of the company's directors and officers, to manage the company's affairs and deal with its assets in the interests of its creditors.

The objective of a voluntary administration is to maximise the prospects of a company continuing in existence (in whole or in part) or, if that is not possible, to achieve a better return to creditors than would be achieved by the immediate liquidation of the company. During an administration, there is a moratorium (i.e. a freeze) over most pre-administration creditor claims.

Administrators are required to investigate the company's affairs and report to creditors on the Administrators' opinion as to which outcome of the administration process is in the creditors' best interests, in order to inform and assist creditors prior to voting at the second meeting of creditors.

2.3 First Meetings of Creditors

Section 436E of the Act requires the Administrators to convene a first meeting of creditors within eight business days of being appointed.

The first meetings of creditors of the Insolvent Group were held on 13 July 2021 (**First Meetings of Creditors**), at which there were no nominations to appoint an alternative administrator for any of the Insolvent Companies.

Creditors resolved at the First Meetings of Creditors to appoint a Committee of Inspection (**COI**) to the Insolvent Group companies. Details of the members of the COI are available in the minutes of the First Meetings of Creditors.

2.4 Second Meetings of Creditors

The purpose of the second meetings of creditors is for creditors to:

- decide on the future of the Insolvent Group, with the options available to creditors being whether each of the Insolvent Companies should:
 - be returned to the control of their Directors;
 - enter into liquidation; or
 - enter into a Deed of Company Arrangement (**DOCA**) (although, at the date of this Report, a DOCA has not been proposed);
- if creditors resolve that the Insolvent Group should enter liquidation:
 - consider the appointment of a COI (for the purposes of a liquidation);
 - consider authorising the liquidators to compromise debts of the Insolvent Companies pursuant to section 477(2A) of the Act; and
 - consider authorising the liquidators to enter into agreements that may take longer than three months to complete under section 477(2B) of the Act.

If creditors do not wish to make an immediate decision, they may also resolve to adjourn the meeting for a period of up to 45 business days.

The second meetings of creditors of the Insolvent Companies have been convened to be held at 2:00pm (AEST) on Thursday, 5 August 2021 (**Second Meetings of Creditors**). The meetings will be held virtually using online video conferencing on Zoom. The video conference can be joined from a computer (preferred) or telephone.

Observers are able to attend the meetings, however will not be entitled to participate, either by voting or by asking questions.

Further details of the Second Meetings of Creditors can be found at section 14 of this Report. The official notice of meeting is appended to the Circular to Creditors, together with this Report.

2.5 Purpose of this Report

Section 75-225 of the *Insolvency Practice Rules (Corporations) 2016 (IPR)* requires an administrator to provide a report to creditors ahead of the second meeting of creditors in an administration, containing:

- details about the business, property, affairs and financial circumstances of the entity under administration;
- if a DOCA is proposed, the details of the DOCA; and
- details regarding the investigations undertaken by the administrator, and the administrator's opinion about each of the options available to creditors, and the course of action that the administrator recommends is in creditors' best interests.

The purpose of this report is to therefore provide creditors with these details in preparation for the upcoming Second Meetings of Creditors.

2.6 Group structure and VA appointments

Administrators were only appointed to seven of the 12 companies of the Tandem Group (see section 4.2 for details of the Tandem Group's corporate structure).

Whilst the Tandem Group consisted of 12 companies, the business and affairs of each company were operated as a group. Specifically;

- the Senior Management team was responsible for the operations and strategic direction of each company;
- the Tandem Group operated a shared corporate services function which provided finance, legal, human resources, payroll and IT services to each company;
- assets and staff were shared between companies;
- financial reports including cash flow forecasts were prepared on a consolidated Tandem Group basis; and
- funds were moved around the Tandem Group as required.

Creditors of the Insolvent Companies therefore need to understand the background, key events, financial performance and financial position of the Tandem Group to fully understand the reasons for the appointment of Administrators. Accordingly, this report provides information at a Group level but also at a Company level where relevant.

2.7 Context of this Report

In reading this Report, creditors should note the following:

- This Report and the statements herein are based on the Administrators' preliminary investigations of the Insolvent Companies' affairs. The investigations have been undertaken from available books and records, as well as information provided by the Insolvent Companies' officers including their management, employees, where applicable, and from the Administrators' own enquiries.
- The statements and opinions in this Report are given in good faith and, whilst the Administrators have no reason to doubt any information contained in this Report, the Administrators reserve the right to alter their conclusions if the underlying information proves to be inaccurate or materially changes after the date of this Report.

- If, after issuing this Report, the Administrators become aware of any additional information which may assist creditors in determining how to vote at the Second Meetings of Creditors, the Administrators may make the additional information the subject of a further written report and/or table the information at the Second Meetings of Creditors.
- In considering the options available to creditors and formulating their recommendation to creditors, the Administrators have made preliminary considerations as to the quantum of potential asset realisations and recoveries which may be available to creditors and the total value of creditors. These estimates are subject to change as asset realisations and recoveries progress and claims are received from creditors and are adjudicated upon. Whilst the estimates are the Administrators' best assessment in the circumstances, creditors should note that the ultimate outcome for creditors may differ from the information provided in this Report. Refer to section 10 for further details.
- The assessment of potential claims in this Report has been performed on a preliminary basis, based on information available to the Administrators at the time of completion of this Report. As a consequence, the Administrators reserve their rights to alter their assessment, if further relevant information is provided after the date of this Report or as a consequence of further investigations.

3 Administrators' prior involvement

This section of the Report provides creditors with details regarding any involvement the Administrators had with the Insolvent Companies prior to their Appointment as Administrators. The section also outlines any indemnities and/or upfront payments that the Administrators received in connection with their Appointment.

3.1 Declaration of Independence, Relevant Relationships and Indemnities

In accordance with section 436DA of the Act and the Australian Restructuring, Insolvency and Turnaround Association (ARITA) Code of Professional Practice, a Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) was enclosed with the Administrators' first communication to creditors and tabled at the First Meetings of Creditors.

The DIRRI disclosed information regarding the Administrators' independence, prior personal or professional relationships with the Insolvent Companies, or related parties and any indemnities received in relation to our appointment.

Under the Act and the ARITA Code of Professional Practice, if circumstances change or new information is identified, the Administrators are required to update the DIRRI and provide a copy to creditors with their next communication, as well as table a copy of the replacement DIRRI at the next meeting of creditors. There have not been any additional circumstances that require an updated DIRRI.

For the convenience of creditors, the declaration has been summarised and restated below.

3.1.1 Background

A brief background to the appointment is as follows:

- The Administrators were appointed pursuant to a request for a consent to act made by Stuart Wardman-Browne, a director of Tandem Corp Pty Ltd (and other entities within the Tandem Group). Mr Wardman-Browne was introduced to McGrathNicol partner Keith Crawford in the course of McGrathNicol undertaking an engagement for the National Australia Bank (NAB), which commenced on 6 June 2021.
- The purpose of McGrathNicol's appointment by the NAB was to assist with reviewing the Tandem Group's short-term cash flow forecast and strategy for dealing with its financial challenges. The scope of the appointment, which was in the nature of an Independent Business Review (IBR), was restricted to forming an understanding of the Tandem Group's financial position, reviewing its cash flow and commenting on its various proposals to the NAB.
- Mr Crawford had a series of communications and virtual meetings with senior staff of the Tandem Group and Mr Wardman-Browne during the period 6 June 2021 to 25 June 2021 in relation to the IBR.
- During the period 28 June 2021 to 30 June 2021:
 - Mr Wardman-Browne requested if Mr Crawford would consent to act as Administrator if the Boards of the Insolvent Companies determined it was necessary to appoint Administrators. Mr Crawford confirmed he would consent to act.
 - Matthew Caddy met with the Tandem Group's senior staff to gain a greater understanding of the Tandem Group's operations and outline the particulars of the voluntary administration regime.
- No remuneration was received for advice provided in relation to the potential appointment of the Administrators. On 30 June 2021, the Boards of the Insolvent Companies resolved to appoint Mr Crawford and Mr Caddy as voluntary administrators, effective at 9am on 1 July 2021.

3.1.2 Independence

The Administrators undertook a proper assessment of the risks to our independence prior to accepting the appointment as Administrators of the Insolvent Companies, in accordance with the law and applicable professional standards. This assessment identified no real or potential risks to the Administrators' independence. The Administrators are not aware of any reasons that would prevent us from acting as Administrators.

3.1.3 Indemnities and up-front payments

In addition to any statutory indemnities to which an administrator is entitled, the Administrators have been provided with an up-front payment of \$1.0m from Tandem Corp, an entity within the Insolvent Group, to cover the Administrators' fees

and operating costs incurred in the conduct of the Administration. The up-front payment is unconditional, and any funds utilised for payment of the Administrators' remuneration will require creditors' approval before these funds can be accessed.

3.2 Ongoing assessment

Since the Appointment Date, the Administrators have continued to assess whether any potential conflict of interest issues have developed. At the date of this Report, the opinion as to the Administrators' independence has not changed. The Administrators remain of the view that our prior professional interactions as outlined in the DIRRI do not create or give rise to any conflict of interest.

4 Background and statutory information

This section of the Report provides creditors with details regarding the circumstances leading to the Administrators' Appointment to the Insolvent Group, together with statutory details regarding the Insolvent Companies, their Boards of Directors, shareholders and other information.

4.1 Background

The Tandem Group provides workforce contract management services to the telecommunications, utilities and insurance sectors, with its head office in Melbourne and operations located throughout Australia under three core business units, Digital, Networks and Mobiles. A fourth business unit, Insurance, was being wound down at the Appointment Date.

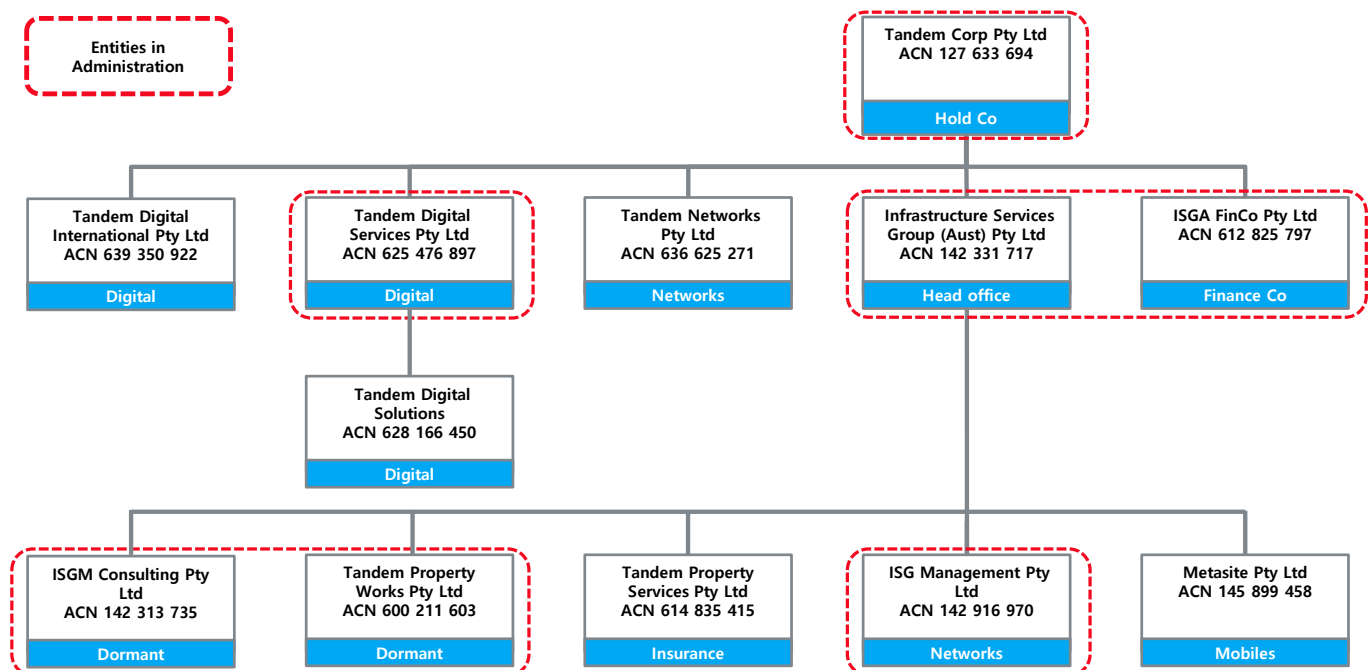
The Tandem Group was founded in 2010 and operated under the ISGM brand following the acquisition of labour hire business BDS People. From 2010 to 2016 the Tandem Group rapidly expanded, entering into various contracts with Telstra, Foxtel and NBN Co Limited (**nbn co**), growing to 750 employees and partnering with IFM in 2016. In 2017 the Tandem Group rebranded to Tandem and during the period to 2019 expanded into the insurance sector with Insurance Australia Group Limited (**IAG**), acquired mobile telecom consultancy company Metasite and entered into a national service agreement with JB Hi Fi.

At the Appointment Date the Tandem Group comprised of 12 entities, of which the Administrators were appointed over seven as outlined in section 2.1 of this Report and detailed below.

4.2 Corporate structure

The corporate structure of the Tandem Group at the Appointment Date is set out below.

Figure 1: Corporate structure



The Administrators note the following in relation to the corporate structure:

- The Administrators are appointed to seven companies (collectively **the Insolvent Companies** or **Insolvent Group**) within the Tandem Group:
 - **Tandem Corp**, Tandem Group holding company;
 - **ISG (Aust)**, operates the Tandem Group's corporate services function;
 - **ISGM**, an operating entity within the Networks BU;
 - **ISGA FinCo**, primary borrower of the Tandem Group's Secured Debt which is cross-collateralised with other Tandem Group entities except Tandem Digital International;

- **ISGM Consulting**, a dormant entity
 - **Tandem Digital Services**, an operating entity within the Digital BU; and
 - **Tandem Property Works**, a dormant entity.
- The Insolvent Companies which employed staff at the Appointment Date were ISG Aust (64), ISGM (109) and Tandem Digital Services (8).
 - The main trading entities within the Insolvent Group are ISG (Aust), ISGM and Tandem Digital Services.
 - Appendix A contains the statutory details (e.g. date of incorporation, registered office, shareholders) as well as other financial information for each individual entity of the Insolvent Group as at the Appointment Date.
 - The remaining five entities within the Tandem Group not subject to the Administrator's appointment (**non-VA entities**) remain under the control of their own directors:
 - **Tandem Digital International**, an operating entity within the Digital BU;
 - **Tandem Digital Solutions**, an operating entity within the Digital BU;
 - **Tandem Networks**, an operating entity within the Networks BU;
 - **Tandem Property Services**, an operating entity within the Insurance BU which is expected to wind down all operations by the end of August 2021; and
 - **Metasite**, an operating entity within the Mobiles BU.

4.2.1 Deed of Cross Guarantee

The Insolvent Group entities entered into a Deed of Cross Guarantee on 29 June 2016 pursuant to ASIC Class Order 98/1418 (**Deed of Cross Guarantee**).

The effect of a DXG is that in the event of a liquidation of any entity within the DXG Group, each of the other entities within the DXG Group guarantees the debts of the entity in liquidation. Hence, each entity is contingently liable for the debts of each other entity and the assets of all entities are ultimately available to meet those debts (subject to security interests and the interests of priority creditors).

Each of the entities within the Insolvent Group is a party to the Deed of Cross Guarantee. The non-VA entities are **not** parties to the Deed of Cross Guarantee.

At the Second Meetings of Creditors, creditors of the Insolvent Group are permitted to prove as creditors for voting purposes in the entity in which they are a creditor, and will be admitted as contingent unsecured creditors in all other entities within the Insolvent Group by virtue of the Deed of Cross Guarantee.

4.2.2 Class action

On 21 November 2018, Shine Lawyers filed class action proceedings against ISGM in the Federal Court of Australia on behalf of telecommunications workers, to be funded by Litigation Lending Services (**the Class Action**).

The class action is for the benefit of individuals who provided telecommunication technician services to ISGM since at least 2011, on the basis these workers were hired as subcontractors when they should have allegedly been hired as employees. The class action seeks compensation for these individuals (**Class Members**) in an amount that would put them in the position they would be in had they been treated as employees.

ISGM has filed cross-claims against Class Members which arise if, and only if, the Court decides that Class Members were employees or independent contractors engaged personally by ISGM. ISGM's cross-claims seek repayment of amounts previously paid to Class Members as subcontractors and compensation.

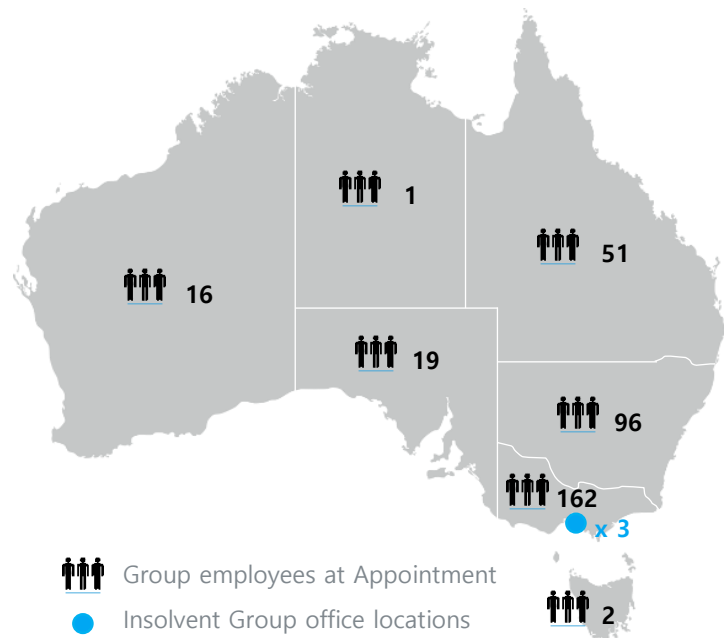
Other individuals and third parties may bring further legal claims against ISGM or other entities within the Insolvent Group. In liquidation, claims against ISGM and entities within the Insolvent Group cannot proceed without leave of the Court.

4.3 Trading activities and operations

4.3.1 Operating locations

The Tandem Group’s primary areas of activity are located in Victoria, New South Wales and Queensland, with an operating presence also in South Australia, Western Australia, Tasmania and the Northern Territory.

Figure 2: Tandem Group locations



The Insolvent Group leased three offices in metropolitan Melbourne at the Appointment Date. Due to the nature of its workforce management services, the Insolvent Group did not maintain fixed offices or branch locations in other states or territories.

4.3.2 Business unit summary

Set out below is a summary of the Tandem Group’s key business units for financial reporting in FY21, being Networks, Digital, Mobiles and Insurance.

Figure 3: Tandem Group business units

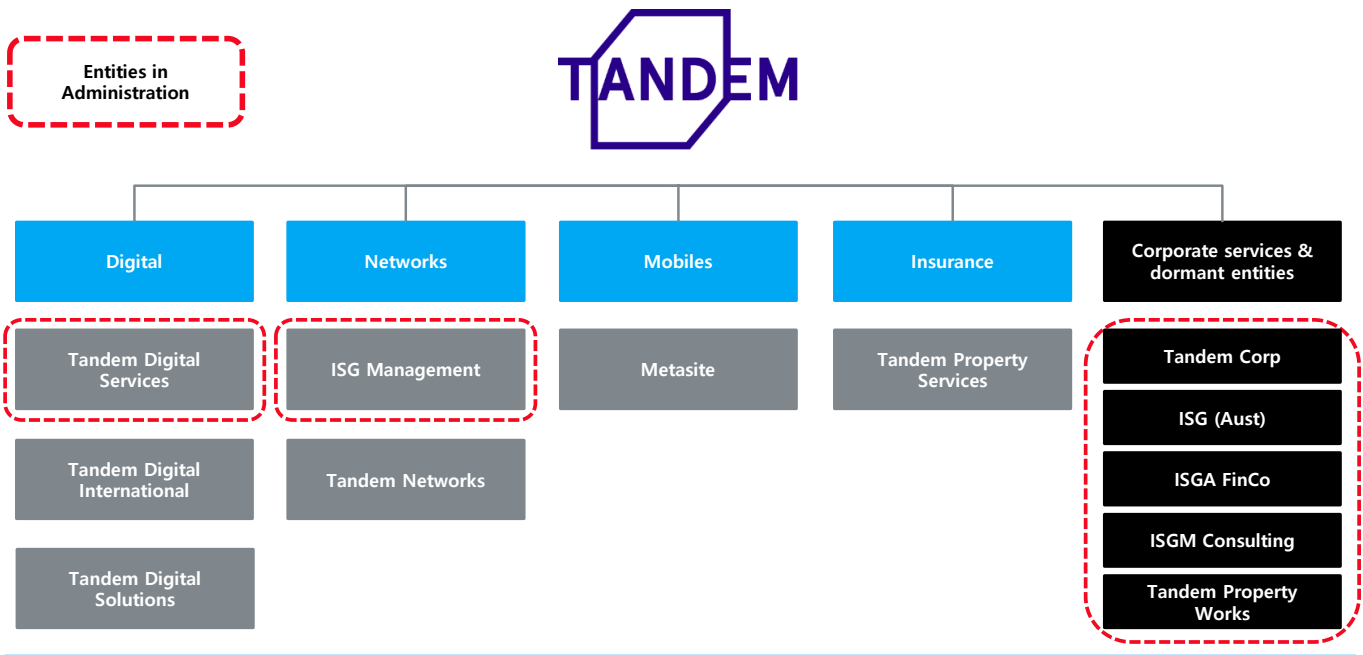


Table 1: Tandem Group business unit summary

Business unit	Description	Tandem Group FY21 reported metrics
Digital	<p>Provides a variety of services to nbn co (multi dwelling unit, field services delivery and Multi-technology Integrated Master Agreement rollout) and installation and maintenance services to Foxtel.</p> <p>Reported revenue declined approximately 92% from FY20 to FY21, attributed in Board reports as being due to delays caused by the impact of COVID-19 and expiry of contracts.</p>	<p>FY21 sales: \$570k</p> <p>FY21 EBITDA: (\$12k)</p> <p>Insolvent Group employees at Appointment: 8 (Tandem Digital Services)</p>
Networks	<p>Provides a variety of telecommunications services to customers such as Telstra (c. 70% of Tandem Group revenue) and audio-visual installation services with JB Hi-Fi.</p> <p>Reported revenue declined approximately 54% from FY20 to FY21, with customer volumes declining approximately 40% from June 2020 to July 2021.</p>	<p>FY21 sales: \$190.8m</p> <p>FY21 EBITDA: \$10.6m</p> <p>Insolvent Group employees at Appointment: 109 (ISG Management)</p>
Mobiles	<p>Provides consultancy services for major infrastructure and wireless telecommunications customers, focusing on the wireless, 5G and mobile device sectors.</p> <p>Mobiles is operated by Metasite (a non-VA entity) which was acquired by the Tandem Group in September 2018. Reported revenue declined approximately 35% from FY20 to FY21, driven by a reduction in customer volumes and unsustainable labour costs which also contributed to the business unit recording a loss for the year.</p>	<p>FY21 sales: \$5.0m</p> <p>FY21 EBITDA: (\$2.7m)</p> <p>Insolvent Group employees at Appointment: Not applicable.</p>
Insurance	<p>The Tandem Group provided a range of trade related property services to the insurance industry, with IAG being its main customer.</p> <p>These services were provided by Tandem Property Services (a non-VA entity) via a contract with IAG that was ending as at the Appointment Date, with Tandem Property Services expected to wind down all operations by the end of August 2021.</p>	<p>FY21 sales: \$102.7m</p> <p>FY21 EBITDA (reported): \$7.1m</p> <p>FY21 EBITDA (underlying loss): c.(\$10.0m)</p> <p>Insolvent Group employees at Appointment: Not applicable.</p>

4.4 Timeline of key events

Based on Company records and information provided by Management, outlined below is a timeline of key events prior to the appointment of the Administrators.

Table 2: Timeline of key events

Date	Event
2010	ISGM (the former name of the Tandem Group) was established in Melbourne, Victoria.
2011 - 2015	<p>ISGM acquired labour hire business BDS People.</p> <p>ISGM signed various contracts with Telstra, nbn co and Foxtel to provide a variety of workforce management services.</p>

Date	Event
June 2016	ISGM (via ISGA FinCo) obtained c. \$57.0m of secured facilities from NAB including bank guarantees, a term loan and multi-option facility agreement. IFM partnered with ISGM as the Tandem Group's 50% shareholder.
2017	Tandem Corp was established and ISGM rebrands as the Tandem Group. Tandem signed contract with IAG to provide property services to the insurance sector and continues to expand services provided to Telstra, nbn co and Foxtel.
July 2017	Tandem Corp declared a fully franked dividend of \$5.0m on 27 July 2017 which was paid on 11 August 2017.
January 2018	Tandem Corp declared a fully franked dividend of \$10.0m on 3 January 2018 which was paid on 5 January 2018.
February 2018	Tandem Corp declared a fully franked dividend of \$16.0m on 22 February 2018 which was paid on 28 February 2018.
September 2018	Tandem acquired Metasite, expanding the Tandem Group's service offering to infrastructure and wireless telecommunications customers.
November 2018	Shine Lawyers filed class action against ISGM on behalf of telecommunications workers.
May 2019	Constraints to Tandem's liquidity emerged, primarily due to delays in completion and billing of nbn co related work.
December 2019	IFM Investors provided a \$7.5m shareholder loan to Tandem to ease liquidity constraints.
July 2020	Tandem unsuccessfully approached major Australian banks to refinance its facilities with NAB with \$120.0m of new funding.
August 2020	Key customer IAG imposed new contract terms unfavourably impacting both underlying earnings and working capital requirements for Tandem Property Services. IAG compensated Tandem Group with an upfront 'transition' payment of circa \$10m intended to facilitate a cost base restructure.
September 2020	Tandem made the final repayment toward NAB secured term loan facility obtained in June 2016.
October 2020	ISGM and ISG (Aust) entered into payment arrangements with the ATO for \$12.6m outstanding tax liabilities, which comprised an upfront payment of \$1.9m and the \$10.7m balance to be paid in monthly instalments over 12 months.
December 2020	Tandem restructured its facilities with NAB to include a \$35.0m trade finance facility and a new \$8.8m term loan facility amortising at \$2.2m per quarter.
January 2021	New term loan obtained from NAB used to refinance IFM's secured shareholder loan in full, an amount of \$7.5m principal plus capitalised interest of \$1.3m (interest on IFM's loan was scheduled to increase from 12% to 25% p.a. from January 2021). Tandem engaged in sale discussions with parties interested in the Networks business unit and began planning for an orderly wind down of Tandem Property Services.
April 2021	Tandem engaged KordaMentha to review the ability of the Tandem Group's Directors to rely on 'Safe Harbour' protections under section 588GA of the Act. Tandem requested NAB defer initial \$2.2m quarterly repayment on the term loan facility due in April 2021 due to constrained liquidity. NAB approved request and deferred repayment to June 2021.
June 2021	Management identify a material short term funding shortfall of approximately \$12.7m and engage in discussions with NAB regarding options to resolve.
1 July 2021	Voluntary administrators were appointed to the Insolvent Group.

4.5 Statutory details

Appendix A contains the statutory details (e.g. incorporation details, current and former officeholders, shareholders and security registrations) as well as other financial information for each individual entity of the Insolvent Group as at the Appointment Date.

The directors and officers of the Insolvent Companies as at the Appointment Date are summarised below.

Table 3: Directors and officers as at Appointment Date

Directors and officers					
	Stuart Wardman-Browne	Adrian Field	Joseph Caporale	David Odgers	Kirsteen Clarke
	Director	Director	Director	Director	Secretary
Tandem Corp	✓	-	-	✓	✓
ISG (Aust)	✓	-	-	-	✓
ISGM	✓	-	-	-	✓
ISGA FinCo	✓	✓	-	-	✓
ISGM Consulting	-	✓	✓	-	✓
Tandem Digital Services	✓	✓	✓	-	✓
Tandem Property Works	-	✓	✓	-	✓

Source: ASIC records

4.6 Secured creditors

4.6.1 NAB (Secured Creditor)

On the Appointment Date, NAB held all present and after-acquired property (referred to as "all PAP") security interests in the Insolvent Group, allowing them to recover fixed (non-circulating) assets in priority to other creditor classes of the Insolvent Group.

NAB's security was in relation to five facilities totalling \$17.6m extended primarily to ISGA FinCo and ISGM and guaranteed by remaining Tandem Group entities (other than Tandem Digital International). NAB's facilities as at 30 June 2021 are summarised below.

Table 4: NAB exposure on Appointment

NAB facilities as at 30 June 2021		
Entity	Facility Type	Amount (\$)
ISGA FinCo	Trade Finance	7,151,038
ISGA FinCo	Bank Guarantees	1,880,488
ISGA FinCo	Term Loan	6,555,377
ISGM	Bank Guarantees	2,053,700
Tandem Corp	Purchasing (Credit) Cards	1,886
Total		17,642,490

Source: NAB Proof of Debt lodged with the Administrators

As at the date of this Report NAB has not extended any additional funding to the Insolvent Group in the Administration.

4.6.2 Security interests

A search of the Personal Property Securities Register (PPSR) at the Appointment Date revealed numerous registered security interests held against the Insolvent Companies, as summarised in the table below.

Table 5: Summary of PPSR registrations against the Insolvent Group

PPSR Registrations against the Insolvent Group			
Creditor Group	Secured Party	Collateral class	Number
Secured creditor	National Australia Bank Limited	All PAP	6
Secured creditor	National Australia Bank Limited	All PAP with exception	1
Secured creditor	National Australia Bank Limited	General Intangible	7
Motor vehicle	Interleasing (Australia) Limited	Motor vehicle	78
Motor vehicle	Various	Motor vehicle	8
Suppliers	Various	Other goods	15
Total			115

Source: PPSR searches undertaken on 1 July 2021

PPSR registrations by each entity in the Insolvent Group have also been included below.

Table 6: PPSR registrations by Insolvent Group entity

PPSR Registrations by Insolvent Group entity	
Entity	Number
Tandem Corp	3
ISG (Aust)	8
ISGM	96
ISGA FinCo	2
ISGM Consulting	2
Tandem Digital Services	2
Tandem Property Works	2
Total	115

Source: PPSR searches undertaken on 1 July 2021

Key points:

- As the Insolvent Group's primary financier, NAB is the only secured creditor to hold "all PAP" registrations against each entity within the Insolvent Group. NAB also holds "general intangible" registrations as security over all bank accounts the Insolvent Group entities hold with NAB.
- On Appointment, there were 86 PPSR registrations against motor vehicles. These were primarily registered to Interleasing (Australia) Limited (76) which had provided vehicles to ISGM. .
- Additionally, there were 15 PPSR registrations from various suppliers over other goods relating to the general operations of the business. These include registrations over pieces of inventory, equipment and in respect of goods and services provided in the ordinary course of business.

4.7 Employees

At Appointment, the Insolvent Group employed 180 employees, comprising 167 full time employees, 7 part time employees and 6 casual employees. Provided below is a summary of employees and the estimated total value of employee entitlements (including annual leave, long service leave and estimated redundancy) by entity as at Appointment.

Table 7: Employees

Employees by entity					
Employing Entity	Full time	Part time	Casual	Total	Amount (\$)
Tandem Corp	-	-	-	-	-
ISG (Aust)	57	4	2	63	3,548,206
ISGM	102	3	4	109	4,725,967
ISGA FinCo	-	-	-	-	-
ISGM Consulting	-	-	-	-	-
Tandem Digital Services	8	-	-	8	108,768
Tandem Property Works	-	-	-	-	-
Total	167	7	6	180	8,382,941

Source: Insolvent Group books and records and Administrators' estimates

Key points:

- As at the date of this Report the Insolvent Group's employee base has been rationalised with 108 employees made redundant by the Administrators to preserve value for the benefit of all creditors. The Administrators, with Management's input, retained employees (i) who were deemed necessary for the successful completion of remaining projects that would add to the pool of funds available to creditors, and/or (ii) who would be required as part of any business sales or to support those business sales.

4.8 Unsecured creditors

4.8.1 Trade and other creditors

The Insolvent Companies' books and records at the Appointment Date and proofs of debt received during the Administration indicate that the Insolvent Group had in excess of 500 trade and other unsecured creditors collectively owed an estimated \$5.4m, as set out in the table below.

Table 8: Unsecured creditors

Insolvent Group unsecured creditor summary		
Unsecured creditor Profile	No. of creditors	Value (\$)
Tandem Corp	4	62,291
ISG (Aust)	10	1,038,509
ISGM	>500	4,283,227
ISGA FinCo	-	-
ISGM Consulting	-	-
Tandem Digital Services	1	33,719
Tandem Property Works	-	-
Total	>515	5,417,745

Source: Directors' ROCAP as at 30 June 2021

Note 1: Intercompany loans between entities within the Insolvent Group are nil on a consolidated basis and have been eliminated accordingly

Key points:

- As the main trading entity in the Insolvent Group, ISGM accounts for the vast majority of trade creditors by number and value. ISGM's trade creditors are primarily subcontractors who are owed, in the main, amounts for services performed in the two weeks prior to the Appointment Date. ISGM appears to have maintained a regular payment cycle to suppliers.
- ISGM and ISG (Aust) were subject to payment plans with the ATO for outstanding tax liabilities, owing \$1.9m and \$700k respectively as at the Appointment Date which is consistent with the amounts reported in the Directors' ROCAP. The Administrators note that these amounts are greater than the value of proofs of debt submitted by the ATO for ISGM (\$244k) and ISG (Aust) (\$453k). The Administrators are in the process of confirming the amount owed and have recorded the value in the Directors' ROCAP in the above table in the interim.
- In addition to amounts recorded in the Insolvent Group's books and records, the Administrators have received a significant number of proof of debt forms, including from creditors not recorded in the Insolvent Group's books and records, and a contingent liability may exist in relation to the Class Action. The Administrators are in the process of adjudicating the proofs of debt received in relation to claims, for the purposes of voting at the Second Meetings of Creditors.
- A formal adjudication process for dividend purposes will only be performed if sufficient recoveries are made to enable a distribution to unsecured creditors.

5 Recent financial information

This section of the Report sets out historical financial information for the Group and provides commentary on the key drivers of the reported results.

5.1 Background

The Tandem Group prepared financial accounts on a consolidated basis.

The Administrators have been provided with audited accounts for the financial years ended 30 June 2018 (**FY18**), 30 June 2019 (**FY19**) and 30 June 2020 (**FY20**), and management accounts for the financial year ended 30 June 2021 (**FY21**). Consistent with the terms of the DXG, financial accounts were not prepared on a stand-alone basis for the individual entities of the Insolvent Group.

In this section, the Administrators have presented the Tandem Group's consolidated audited accounts for FY18, FY19 and FY20, and the consolidated management accounts for FY21. The Administrators have not carried out an audit or verified the financial information presented in this section of the Report.

5.2 FY18 dividends and FY19 impairment adjustment

The Administrators have held preliminary discussions with key personnel regarding the FY18 and FY19 audited financial accounts based on which we understand:

- In FY18 fully franked dividends totalling \$31.0m were paid in three tranches to shareholders on the basis of an assessment by directors of there being adequate supporting cash reserves, net assets, retained profits and franking credits at that time.
- In FY19 a circa \$26m impairment adjustment was recognised against a customer contract intangible asset to better reflect underlying profitability. It is not yet clear to the Administrators whether this impairment was recognised on a timely basis or whether there are any related concerns regarding the quantum or timing of the abovementioned dividends.
- Payment of the FY18 dividends materially impacted the Tandem Group's liquidity in subsequent years, leaving the Tandem Group more vulnerable to customer volume contraction and increasingly reliant on external borrowings, continuity of favourable working capital terms, and more recently, one-off cash injections (such as JobKeeper, IAG transition support payments, and ATO payment deferral).

5.3 Financial performance

A summary of the Tandem Group's Statements of Financial Performance is set out below.

Table 9: Statement of financial performance

Summary of financial performance				
\$'000	FY18	FY19	FY20	FY21
Revenue	640,265	534,533	511,326	300,959
Cost of goods sold	(493,407)	(433,058)	(372,329)	(216,330)
Gross profit	146,858	101,475	138,997	84,629
<i>Gross margin</i>	<i>22.9%</i>	<i>19.0%</i>	<i>27.2%</i>	<i>28.1%</i>
Operating costs	(110,731)	(101,937)	(113,239)	(68,147)
EBITDA	36,127	(462)	25,758	16,482
Extraordinary items	-	(1,439)	(4,699)	(5,457)
Depreciation & amortisation	(8,357)	(34,730)	(11,607)	(11,762)
EBIT	27,770	(36,631)	9,452	(737)
Interest & finance expense	(479)	(1,409)	(2,219)	(2,475)
Net profit before tax	27,291	(38,040)	7,233	(3,212)
Income tax expense	(8,473)	12,037	(2,772)	1,126
Net profit after tax	18,818	(26,003)	4,461	(2,086)

Source: FY18, FY19 and FY20 audited accounts, FY21 management accounts

Key points

- Tandem Group revenue declined by more than 50% across the four-year period to June 2021 but this decline was most pronounced (c. 40%) in FY21.
- Reported net profit before tax was broadly break-even across the four-year period (noting the FY19 impairment described above at section 5.2).
- The results reported for FY21 include circa \$21.3m of one-off IAG transition support and JobKeeper income (and related adjustments) such that we estimate an underlying FY21 EBITDA loss (before extraordinary items) of approximately \$4.8m (refer section 8.2.2).
- We understand extraordinary items predominately relate to Class Action defence legal costs, restructuring and retrenchment costs as the Tandem Group progressively scaled back operations, and property lease exit costs.

5.4 Financial position

A summary of the Tandem Group's Statements of Financial Position is set out below.

Table 10: Statement of financial position

Summary of financial position				
\$'000	Jun-18	Jun-19	Jun-20	Jun-21
Cash and cash equivalents	36,496	8,316	21,139	2,829
Trade and other receivables	2,704	5,591	5,448	1,161
Accrued revenue	31,329	36,204	43,028	11,589
Current tax assets	-	5,457	3,530	4,291
Other current assets	1,224	1,569	1,839	1,662
Total current assets	71,753	57,137	74,984	21,533
Property, plant and equipment	1,082	2,533	12,257	2,965
Deferred tax assets	-	2,333	-	-
Goodwill and other intangible assets	111,093	85,487	79,570	75,486
Total non-current assets	112,175	90,353	91,827	78,450
Total assets	183,928	147,490	166,811	99,983
Trade and other payables	(30,430)	(38,589)	(44,966)	(16,762)
Unearned revenue	(21,972)	(12,855)	(24,353)	(8,888)
Secured NAB borrowings	(9,851)	(33,826)	(19,339)	(6,274)
Shareholder loan	-	-	(8,228)	-
Current tax liabilities	(7,720)	-	-	-
Provisions for employee entitlements	(11,924)	(10,827)	(6,806)	(10,941)
Lease liabilities	-	-	(2,433)	-
Total current liabilities	(81,897)	(96,097)	(106,125)	(42,865)
Secured NAB borrowings	(16,326)	-	-	(7,010)
Deferred tax liabilities	(8,908)	-	(846)	(846)
Provisions for employee entitlements	(2,513)	(3,068)	(1,357)	(852)
Lease liabilities	-	-	(6,004)	-
Total non-current liabilities	(27,747)	(3,068)	(8,207)	(8,707)
Total liabilities	(109,644)	(99,165)	(114,332)	(51,572)
Net assets	74,284	48,325	52,479	48,411

Source: FY18, FY19 and FY20 audited accounts, FY21 management accounts

Key points

- Current assets and liabilities (generally working capital related balances) declined considerably in the 12 months to June 2021 reflecting the abovementioned decline in customer volumes.
- At all times during the four-year period the Tandem Group reported a net tangible asset deficiency.
- Goodwill and other intangibles accounted for the majority of total asset value and in the FY20 audited accounts included goodwill (\$58.2m), customer contracts (\$13.5m), software (\$2.6m) and work in progress (\$5.2m). These types of assets are typically not freely realisable to ease short-term liquidity constraints.
- A current ratio (current assets / current liabilities) of less than one was recorded at all times from FY18 to FY21, indicating the Insolvent Group had limited capacity throughout this period to further release working capital in order to ease short term liquidity pressure (refer section 9.5.3 for further details).
- Lease liabilities recorded at 30 June 2020 reflect the revised accounting treatment of lease commitments pursuant to AASB 16. The corresponding right of use asset is recorded within the PP&E balance. Corresponding year-end lease adjustments have not been reflected at 30 June 2021 given the draft nature of the management accounts.
- The Tandem Group did not record contingent NAB bank guarantees on the balance sheet (c. \$3.9m as at June 2021, refer section 4.6.1).

5.5 Cash flow

A summary of the Tandem Group's Statements of Cash Flows is set out below.

Table 11: Statement of cash flows

Statement of cash flows				
AUD 000's	FY18	FY19	FY20	FY21
Cash generated from operations	6,414	(12,083)	27,255	6,624
Interest and finance costs	(125)	(1,254)	(1,552)	(3,440)
Income taxes refunded/(paid)	(4,775)	(12,693)	2,335	(1,927)
Net cash generated from/(used in) operating activities	1,514	(26,030)	28,038	1,257
Net payments for plant and equipment	(456)	(1,977)	(3,835)	(455)
Net payments for acquisition of businesses	-	(3,620)	-	-
Payments for purchases of intangibles	(2,785)	(4,053)	(2,463)	(5,822)
Net cash used in investing activities	(3,241)	(9,650)	(6,298)	(6,277)
Principal payment of leases	-	-	(1,909)	-
Proceeds from borrowings	16,000	12,500	27,191	28,632
Repayment of borrowings	(6,638)	(5,000)	(34,200)	(41,921)
Dividends paid	(31,000)	-	-	-
Net cash generated from/(used in) financing activities	(21,638)	7,500	(8,918)	(13,289)
Net increase/(decrease) in cash and cash equivalents	(23,365)	(28,180)	12,822	(18,309)
Cash and cash equivalents at beginning of the period	59,861	36,496	8,316	21,138
Cash and cash equivalents at end of the period	36,496	8,316	21,138	2,829

Source: FY18, FY19 and FY20 audited accounts, FY21 management accounts

Key points

- The Tandem Group generated modest net operating cash flow of \$4.8m across the four-year period to FY21 (broadly in line with the corresponding net profit contribution refer section 5.3).
- During the same period the Tandem Group paid dividends totalling \$31.0m and re-invested approximately \$25.5m (in PP&E, business acquisitions and capitalised IT expenditure) in the business.
- With a modest net reduction in borrowings of \$5.4m across the four-year period, the FY18 dividend (\$31m) and abovementioned investment activity (\$25.5m) essentially account for the almost complete erosion of Tandem Group's opening cash reserves of approximately \$60m.

- The Tandem Group's cash balance deteriorated sharply in FY21 in response to underlying trading losses, restructuring and Class Action defence costs, unfavourable changes to working capital terms, a significant increase in capitalised IT expenditure, a net reduction in borrowings of \$13.3m, and the catch-up of ATO payment arrears.
- Interest and finance costs increased in FY21 due to the IFM shareholder loan (c.\$1.3m interest and costs) and arrangement fees relating to the NAB facility restructure.
- The \$3.6m of net payments for acquisition of businesses in FY19 relates to the acquisition of Metasite in September 2018.

5.6 Report on Company Activities and Property

Pursuant to section 438B(2) of the Act, each director submitted a Report on Company Activities and Property (**ROCAP**) in relation to each of the Insolvent Companies subject to the Appointment. A ROCAP is a report summarising the director's understanding of the financial position of a company as at the date of the appointment of administrators, as well as their view on the reasons for failure.

The Directors requested the Administrators provide extensions to submit their ROCAPs due to the time required to compile necessary information and delays caused as a result of the COVID-19 situation in New South Wales. The Administrators granted the extensions and the ROCAPs were received from each Director over the course of 15 July to 21 July 2021.

Whilst each Director submitted a separate ROCAP, the Administrators note that they do not differ and mirror the Tandem Group's management accounts as at 30 June 2021, as reflected in the tables above.

6 Administrators' actions to date

This section of the Report provides details regarding the key activities undertaken by the Administrators and their staff since the Appointment.

The Administrators and their staff have attended to the matters set out below since the Appointment Date.

6.1 Statutory obligations and administration

- Notifying major financial institutions of the appointments and establishing control of banking facilities.
- Establishing Administrators' bank accounts.
- Attending to the Administrators' statutory duties including informing ASIC, the ATO, the various state revenue offices and other statutory authorities of the appointments.
- Holding meetings with certain Directors, as well as the Insolvent Group's management team and key employees (**Management**) to understand the Insolvent Companies' background, operating structure, financial position and critical requirements.
- Issuing requests to the Directors to complete a ROCAP and deliver the books and records of the Insolvent Companies to the Administrators.
- Securing the Insolvent Group's books and records including electronic accounting records.
- Reviewing the books and records of the Insolvent Group and undertaking preliminary investigations to ascertain the Insolvent Group's financial position, reasons for failure and any transactions that may be recoverable by a liquidator.
- Liaising with the following key stakeholders, including issuing circulars and answering queries where possible:
 - employees;
 - customers;
 - the Secured Creditor;
 - PPSR security interest holders;
 - the landlords of premises leased by the Insolvent Companies; and
 - trade creditors and other unsecured creditors;
- Attending to other general and statutory requirements.

6.2 Sale of business process

- Shortly after the appointment, the Administrators along with the directors of the non-VA entities progressed ongoing negotiations with a party interested in acquiring the Tandem Group's Networks, Mobiles, and Digital businesses on a going concern basis. The Administrators separately engaged with another party interested in acquiring ISGM's audio visual installation business servicing JBHiFi.
- Refer section 7 for details of the sale process during the Administration period.

6.3 Trade-on management

- Liaising with Management in relation to the stabilisation of the business and development of an initial trade-on strategy to maintain on-going operations and continued reassessment of same.
- Preparing detailed cash flow forecasts for the Administration.
- Communicating with customers and suppliers regarding continuity of service on contracts, securing payments and supply during the Administration trading period.
- Developing and implementing revised trading and control policies, including:
 - responding to queries in conjunction with Management;

- maintaining the Tandem Group corporate services function;
 - providing support to the non-VA entities; and
 - preparing a list of employee frequently asked questions and information sheets released by ASIC, ARITA and FEG and making those available on the McGrathNicol website.
- Ongoing communication between Management, employees, the Administrators, and their staff to align messaging regarding Administration process, and establishing escalation processes and procedures.
 - Reviewing key financial information required for monitoring ongoing trading, including cash flow forecasts, timing of key cash inflows and outflows and related information.
 - Establishing financial control processes for payroll, payments, purchase orders and document retention matters. Authorising the creation of purchase orders and payment of invoices.
 - Working with the Insolvent Group's Management and finance department to assist with providing access to financial information and preparing analysis relevant to the Administrators' trading position and estimated outcome statement for the Administration period.
 - Liaising with suppliers to establish new accounts and securing ongoing supply of services.
 - Liaising with the Secured Creditor about their rights and the Administrators' trading and asset realisation strategies.
 - Liaising with the Secured Creditor in relation to funds held, organising bank sweeps of funds held in the Insolvent Group's pre-appointment bank accounts to the post-appointment Administration bank accounts.
 - Authorising purchase orders and maintaining a purchase order register.
 - Reconciling the Administration cash position on a daily basis and evaluating the ongoing trading position.
 - Issuing correspondence and holding discussions with landlords, including advising them of the Administrators' appointment and intention to either continue or disclaim leases of premises (as appropriate), the initial strategy of the Administration, and their rights as landlord pursuant to the leases.
 - Liaising with the Offices of State Revenue in each state regarding payroll tax.
 - Reviewing and assessing claims from employees, suppliers and customers, negotiating payments and continuation (or exiting) of agreements and/or projects.

6.4 Employees

- Virtual briefings with employees and Management immediately following the Administrators' appointment.
- Ensuring all employees were made aware of their rights and obligations on the Appointment Date (or as soon as possible thereafter if employees were unable to attend virtual briefings), including the manner in which the Administration process affects their entitlements and responding to employee queries.
- Reviewing employee files and the Insolvent Group's books and records to understand employment details, and liaising with the Insolvent Group's payroll staff on an ongoing basis.
- Paying employees for work performed during the Administration period.
- Preparing and issuing a detailed circular and frequently asked questions documents to all staff, also made publicly available on the McGrathNicol website.
- Reviewing employee contracts and relevant awards to assist with calculating employee entitlements.
- Considering the pre-appointment employee entitlements position and writing to each employee regarding their entitlements.
- Preparing employee termination and resignation letters for both casual and permanent employees, together with separation certificates for terminated employees.
- Preparing an employee entitlement model, calculating and reconciling both pre-administration and post-administration employee entitlements.
- Assisting employees with preparing and submitting documentation in relation to the meetings of creditors in the Administration.

- Corresponding with various government agencies including Child Support, WorkCover, Centrelink and the Attorney-General's Department as required.
- Corresponding with employees in response to their queries.

6.5 Creditors

- Reviewing the Insolvent Group's books and records and issuing notices of appointment and a first circular to creditors convening the First Meetings of Creditors held on 13 July 2021.
- Convening and chairing the First Meetings of Creditors held on 13 July 2021 and preparing and lodging the minutes of the meeting with ASIC.
- Preparing the Administrators' Report (i.e. this Report) pursuant to section 75-225 of the IPR including:
 - undertaking investigations;
 - making a recommendation to creditors on the future of the Insolvent Group; and
 - convening the Second Meetings of Creditors.
- Reviewing in detail the Insolvent Group's books and records, ROCAPs received from the Directors and any proofs of debt received, in order to form a view on the value of the unsecured creditor claims.
- Liaising with PPSR security interest holders identified from searches of the PPSR in relation to goods and/or services supplied to the Insolvent Group under security arrangements.
- Assessing, reviewing and adjudicating on claims for retention of title and enforcement of security, liaising with claimants and maintaining a register of security interests and claims.
- Responding to notices from suppliers, subcontractors and other creditors in relation to legal notices brought against the Insolvent Companies.
- Making available on the McGrathNicol website various information sheets issued by ASIC and ARITA in relation to creditors' rights in administration and the administration process generally.
- Corresponding to creditors in response to their enquiries.
- Forming a Committee of Inspection at the First Meetings of Creditors and subsequently liaising with Committee members regarding their appointment and responding to queries.
- Liaising with landlords in relation to office closure and vacation dates, and issuing formal notices of ceasing to exercise property rights.
- Liaising with motor vehicle leasing companies with PPSR security interests in relation to the continuation or disclaimer of certain vehicles, and issuing formal notices of ceasing to exercise property rights where appropriate.
- Preparation of this Report and attending to Second Meetings of Creditors requirements.

6.1 Investigations

- Refer to section 9 for details of the investigations performed during the Administration period.

7 Sale of business

This section of the Report provides an outline as to the sale of business process undertaken by the Administrators.

7.1 Summary

Prior to the appointment of the Administrators, Tandem Corp had received a non-binding indicative offer (**NBIO**) from GenusPlus Group Ltd (**GenusPlus**), an ASX listed specialist power and telecommunications infrastructure service provider, to acquire the assets and operations comprising the Networks, Digital and Mobiles businesses. The GenusPlus NBIO related to assets and operations belonging to both the Insolvent Companies and the non-VA entities. On 29 July 2021 the Administrators and the directors of the non-VA entities jointly executed an asset sale agreement with GenusPlus with completion expected to occur prior to the Second Meetings of Creditors.

Separately, an offer has been received by the Administrators for the assets and operations relating to ISGM's audio visual installation service contract with JB Hi-Fi. At the date of this Report this offer remains subject to due diligence and documentation which is expected to be completed by the Second Meetings of Creditors.

7.2 Sale process

Immediately following Appointment, it quickly became apparent to the Administrators that GenusPlus was the only realistic prospect of a going concern sale of the Networks, Digital and Mobiles businesses due to:

- confirmation by the major customer of its ability and intention to immediately reduce contract volume absent a quick transaction to an acceptable party;
- instability within the Tandem Group's senior leadership team as evidenced by the unplanned resignation of the three most senior executives and other personnel upon the Administrators' appointment;
- doubts as to the ongoing support of unpaid subcontractors and other critical suppliers; and
- short-term cash flow forecasts which implied negative earnings and which showed that the relevant non-VA entities would be unable to remain solvent beyond July 2021.

Notwithstanding the above challenges the Administrators engaged with other parties who made their interest known following our appointment. All parties but for one described their interest on a fall-back basis (i.e. interest in taking on certain contracts should a sale not eventuate) and for nominal value only.

Accordingly, the Administrators and directors of the non-VA entities expedited negotiations with GenusPlus and executed an asset sale agreement on 29 July 2021 with a headline price of \$3.4m that remains subject to various customary adjustments.

In addition to the above, the Administrators received a separate offer from a party to purchase the assets and operations relating to ISGM's service contract with JB Hi-Fi. As at the date of this Report this offer remains subject to due diligence and documentation which we expect to be finalised prior to the Second Meetings of Creditors.

In addition to the share of net sale proceeds referable to the Insolvent Companies, the above transactions offer additional benefits including:

- transfer of employment for approximately 37 employees of Insolvent Companies reducing residual Priority Creditor claims against Insolvent Companies by up to \$1.6m;
- an opportunity for the secured creditor (NAB) to access further recoveries from non-VA entities and commensurately improve unsecured creditor recovery prospects;
- transfer of employment for approximately 100 employees of non-VA entities; and
- an opportunity for approximately 470 sub-contractors to benefit from service continuity with new, well capitalised, counterparties.

The Administrators will provide a further update in relation to these transactions at the Second Meetings of Creditors by which time each is expected to have completed.

8 Explanations for the Insolvent Companies' difficulties

This section of the Report provides the Directors' and the Administrators' views on the underlying causes contributing to the failure of the Insolvent Companies.

8.1 Directors' reasons for difficulties

The Boards of the Insolvent Companies advised that, in their view, the Insolvent Group failed for the following key reasons:

- the impact of the Class Action in relation to which the Insolvent Group had incurred approximately \$5.9m in legal defence costs as at June 2021;
- a sustained decline in customer volumes for key contracts, with an approximate 40% reduction in Telstra customer volumes from June 2020 to July 2021;
- inability of the Insolvent Group to satisfactorily restructure its borrowing arrangements; and
- failure to secure agreement by the Tandem Group's Secured Creditor to the deferral of a \$2.2m term loan facility repayment due in June 2021.

8.2 Administrators' reasons for failure

The Administrators do not dispute that the factors outlined above contributed to the failure of the Insolvent Companies. However, the Administrators also note that the ultimately insurmountable liquidity challenges facing the Insolvent Companies were further compounded by:

- a) shareholder dividends paid during FY18 totalling approximately \$31.0m; and
- b) the debt repayment obligations associated with a refinance in January 2021 of a secured shareholder loan totalling \$8.8m (including capitalised interest).

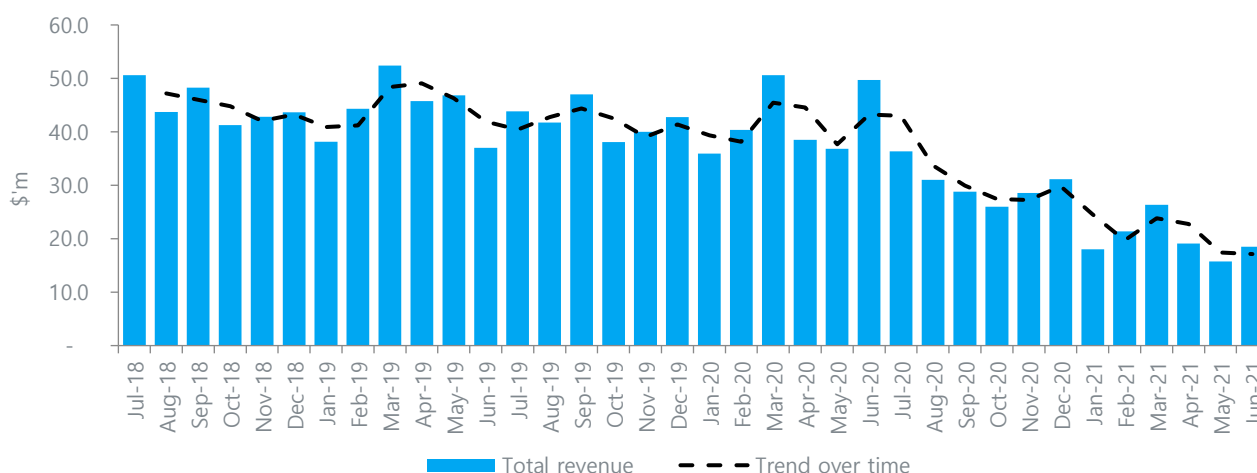
The liquidators will further investigate the circumstances which gave rise to these transactions if the Insolvent Companies are placed into liquidation as is recommended.

The Administrators provide the following additional commentary regarding the causes of the failure of Tandem Group.

8.2.1 Revenue impact of declining customer volumes

Set out below is a graph of the Tandem Group's revenue for FY19 to FY21, illustrating the significant reduction in FY21 revenue as a result of declining customer volumes.

Figure 4: Tandem Group revenue – FY19 to FY21



Source: FY19 and FY20 audited accounts, FY21 management accounts

8.2.2 FY21 underlying EBITDA losses

In early FY21, IAG varied the KPI mechanism which it used to calculate the margin, volume and overhead recoveries provided to suppliers under new and existing contracts, including the Tandem Group's Insurance business unit.

Under the new KPI mechanism Tandem Property Services would no longer receive monthly overhead recoveries (c.\$3.9m in July 2020) but would instead be entitled to a higher service margin and a one-off transition support payment of circa \$10.0m to facilitate a cost base restructure. The IAG contract terms variation ultimately led to Tandem Property Services incurring monthly underlying losses of c.\$1.0m under the IAG contract following a c.60% reduction in volume of work won in the six months to June 2021. This culminated in the Tandem Group electing in early 2021 to wind down the Insurance business unit by August 2021.

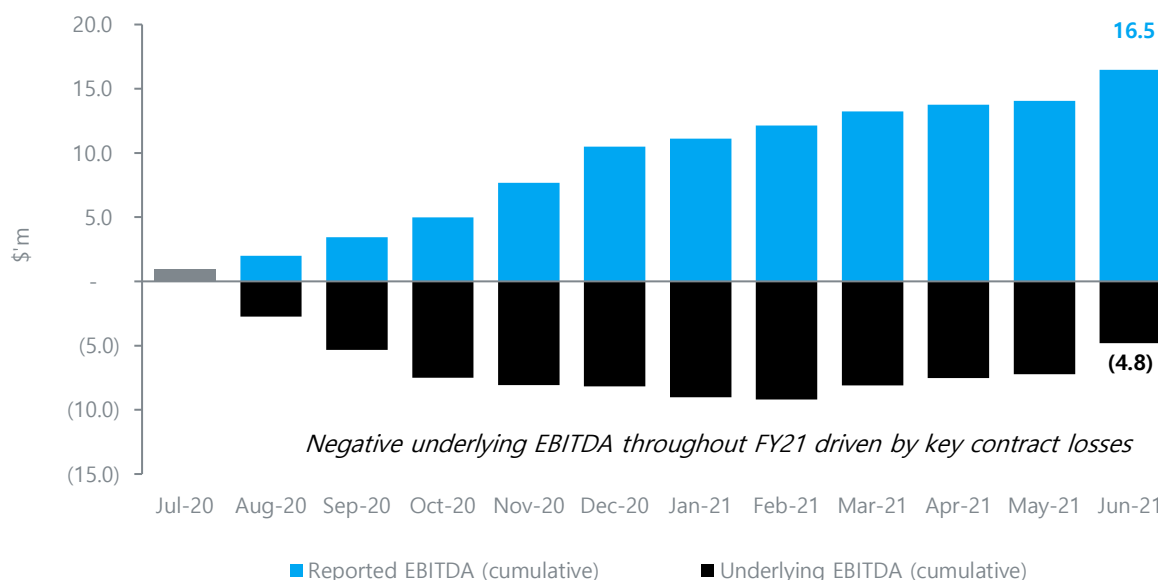
The abovementioned transition payment coupled with other favourable one-off balance sheet adjustments totalled c.\$17.5m, more than accounting for the Tandem Group's reported FY21 EBITDA of \$16.5m. After backing out these one-off adjustments and \$3.7m of JobKeeper receipts we estimate that the Tandem Group incurred an underlying EBITDA loss of \$4.8m in FY21, as set out in the table and graph below.

Table 12: Underlying summary financial performance

Group underlying summary financial performance			
\$'000	FY19	FY20	FY21
Total revenue	534,533	511,326	300,959
Reported EBITDA	(462)	25,758	16,482
JobKeeper receipt adjustments	n/a	(2,073)	(3,725)
Property Services key contract adjustments	n/a	n/a	(17,559)
Underlying EBITDA	(462)	23,685	(4,801)

Source: FY19 and FY20 audited accounts, FY21 management accounts and Board reports

Figure 5: Tandem Group FY21 cumulative EBITDA (reported and underlying)



Source: FY21 management accounts

8.3 Outstanding statutory demands and/or winding up applications

Based on the information before the Administrators there were no outstanding statutory demands or winding up applications against the Insolvent Group as at the Appointment Date.

8.4 Related entities

At the date of Appointment, Management maintained a schedule of receipts and payments made between entities within the Tandem Group. The Administrators' preliminary investigations into these intercompany transactions indicate:

- the Tandem Group managed its treasury function on a grouped basis, with cash moved around the Tandem Group as required to support trading operations and other financial commitments;
- intercompany loan accounts recorded in the Tandem Group's books and records may be misstated due to potentially incorrect opening balances being entered into a new accounting system which was implemented in 2019;
- it is unlikely amounts owed to entities within the Insolvent Group by non-VA entities will be recoverable by the Administrators or a subsequent liquidator (if appointed); and
- no formal loan agreements were in place to govern interest, term, amortisation or repayment arrangements; however intercompany loan amounts were tracked in the monthly management accounts as non-current assets and non-current liabilities.

The above are the Administrators' preliminary views only and a liquidator (if appointed) will undertake further investigations to determine if intercompany transactions are available to be recovered for the benefit of creditors.

9 Administrators' investigations and potential avenues for recovery

This section of the Report informs creditors about the investigations undertaken by the Administrators to date, and sets out whether any potential recovery actions have been identified that may be available to a liquidator to pursue for the benefit of creditors.

9.1 Overview

The Administrators are required to investigate and report on whether there are any potential recoveries or actions available in a liquidation, or any transactions that appear to be voidable pursuant to the Act whereby a liquidator (if appointed) may be able to recover money or property for the benefit of creditors.

ARITA has issued an information sheet titled "Offences, Recoverable Transactions and Insolvent Trading", providing general information for creditors about insolvent trading and voidable transactions. This information sheet is available from the ARITA website (www.arita.com.au) and is included at Appendix B. This information sheet defines and sets out background information in relation to:

- insolvent trading; and
- transactions that may be recoverable by a liquidator (voidable transactions), including preferences, uncommercial transactions, unfair loans, arrangements to avoid employee entitlements, unreasonable payments to directors and voidable charges.

The Administrators' investigations into occurrences of insolvent trading and voidable transactions enable the Administrators to form an opinion on each of the three possible options available to creditors to vote at the Second Meeting of Creditors, including an opinion as to which of the three options is in the best interests of creditors in accordance with section 75-225(3)(b) of the IPR.

An Administrator is also required, in circumstances that include where it appears to the Administrator that a past or present officer of the company may have been guilty of an offence in relation to the company, to complete and lodge a report pursuant to section 438D of the Act with ASIC.

Given the investigations are undertaken in a relatively short timeframe, the work undertaken and conclusions reached are preliminary in nature. Further work in this regard will be undertaken should the Insolvent Group be wound up.

The findings of the Administrators' investigations, together with details of the types of recovery actions that may be available to a liquidator, are provided in this section of the Report.

9.2 Investigations undertaken

The Administrators have investigated the Insolvent Group's business, property, affairs and financial circumstances in accordance with section 75-225(3) of the IPR.

The investigations undertaken include, but are not limited to:

- a review and analysis of the Insolvent Group's available financial accounting information and other books and records;
- a review of the Insolvent Group's Board minutes for the 12 months prior to the Appointment Date;
- discussions with certain Directors, certain members of Management and certain other stakeholders;
- a high level analysis of loan facilities and other financing arrangements;
- consideration of cash and funding available to the Insolvent Group at the Appointment Date, and in the six months prior;
- a review of material transactions appearing in the Insolvent Group's records during the four years prior to the Appointment Date;
- a review of various transactions leading to the appointment of the Administrators;
- a review of statutory payments and accrued employee entitlements; and
- searches of ASIC, the PPSR and other databases available to the Administrators.

9.3 Determining the date of insolvency

A crucial element of most statutory recovery actions available to liquidators is to establish the date when the entity subject to their appointment became insolvent.

In assessing the date of insolvency of the Insolvent Group, the Administrators have considered the following:

- the definition of insolvency contained in section 95A of the Act;
- case law and ASIC guidance on indicators of insolvency; and
- the Insolvent Group's maintenance of its books and records in accordance with section 286 of the Act.

The following range of tests and indicators may be considered when determining if and when the Insolvent Group became insolvent.

9.3.1 Tests of insolvency

Section 95A of the Act states that:

"95A(1) A person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable.

95A(2) A person who is not solvent is insolvent."

There are two generally accepted financial tests to determine whether a company is insolvent. These tests are the 'balance sheet' test and the 'cash flow test':

- the balance sheet test, which indicates that an entity is solvent so long as it has positive net assets and can eventually meet its liabilities from its assets. The balance sheet test has no regard to the timing of the payment of debts. Section 9.4 of this Report outlines the Administrators' preliminary findings in this regard; and
- the cash flow test, which involves an assessment of whether an entity's immediately available (or readily realisable) assets are sufficient to meet its due and payable debts. Section 9.5 of this Report outlines the Administrators' preliminary findings in relation to the cash flow test.

The cash flow test is generally considered to be more closely aligned to the requirements of section 95A of the Act than the balance sheet test. However, the balance sheet test is useful in providing context for the proper application of the cash flow test. Accordingly, the Administrators have considered both tests in undertaking their preliminary assessment as to the point of insolvency for the Insolvent Group, as set out in the following sections.

9.3.2 Indicators of insolvency

In *ASIC v Plymin, Elliot & Harrison* (2003) VSC 123, Mandie J referred to a list of indicators of insolvency when considering the application of the solvency test. These have become commonly accepted indicators in the Australian insolvency industry.

ASIC has also issued Information Sheet 42 titled "Insolvency: a guide for directors". In this document, ASIC has set out twenty-two indicators of insolvency.

The Administrators have considered the generally accepted indicators of insolvency with reference to the Insolvent Group and note the following:

Table 13: Indicators of insolvency

Indicates insolvency: ✗ Does not indicate insolvency: ✓ Further investigation required: ?

Tests of insolvency	Administrators' comments	Indicator
Absence of a business plan	A detailed business plan was maintained and updated by the Board and Management on a rolling basis as is appropriate.	✓

Tests of insolvency	Administrators' comments	Indicator
Incomplete financial records or disorganised internal accounting procedures	The Tandem Group maintained audited consolidated financial accounts to FY20, detailed management accounts to FY21 and had well defined internal accounting procedures. However, we remain concerned about the accuracy of Tandem Group's FY18 statutory accounts having regard to the FY19 impairment and we separately have further unresolved queries regarding the transparency with which one-off items (i.e. including IAG transition support) were reported to and relied upon by external parties including NAB during FY21.	?
Lack of cash flow forecasts and other budgets	Cash flow forecasts and budgets were prepared on a consolidated basis and by business unit on a regular basis, updated as required and monitored by Management and the Board. However, our preliminary investigations have raised concerns regarding the adequacy and timeliness of these processes.	?
Increasing debt, overdraft limit reached, increased monitoring by financier and inability to obtain finance	<p>The Insolvent Group was the subject of increased monitoring by NAB and required support in the form of a restructure of facilities, additional lending and deferral of debt repayments in order to ease liquidity constraints.</p> <p>According to its Boards of Directors, a key reason for the Insolvent Group's failure was its inability to sufficiently finance a restructure or obtain ongoing deferrals of debt repayments.</p>	X
Problems selling stock or collecting debts	<p>Management has advised that the Insolvent Group was undertaking to recover amounts owed by multiple contractors in relation to work defects or overcharging for services performed, however such matters were common in the ordinary course of business and not indicative of insolvency.</p> <p>There is no evidence of difficulty selling stock, noting the Insolvent Companies were primarily a provider of services.</p>	✓
Unrecoverable loans to related parties	<p>The Administrators understand that the Insolvent Companies were unable to resolve their short-term funding requirements by calling for the repayment of loans made to other Tandem Group entities. The recoverability of loans from the Insolvent Companies to other Tandem Group entities remains subject to the outcome of the sale process (including purchase price allocation), the monetisation of remaining working capital assets, and the extent to which these entities have guaranteed the Tandem Group's secured borrowings.</p> <p>Refer to section 8.4 for further details including the Administrators' preliminary findings as to the recoverability of related party loans.</p>	X
Creditors unpaid outside usual terms, special arrangements with creditors and/or payments to creditors of rounded sums	The Insolvent Group made payments to subcontractors and other trade creditors on a regular basis and there is no evidence of special arrangements or an accumulation of amounts owed to trade creditors in the lead up to the Appointment Date.	✓
Solicitors' letters, demands and other judgements	<p>The Class Action filed against ISG Management in November 2018 was ongoing as at the Appointment Date (refer section 4.2.2).</p> <p>There is no evidence of solicitors' letters, demands or judgements against the Insolvent Companies from other parties.</p>	?

Tests of insolvency	Administrators' comments	Indicator
Suppliers placing the company on cash on delivery terms and/or collecting stock	There is no evidence of suppliers placing the Insolvent Group on cash on delivery terms or collecting stock and/or leased assets.	✓
Overdue taxes and superannuation liabilities	<p>Certain entities within the Insolvent Group were subject to payment arrangements with the ATO, discussed further in section 9.5.5.</p> <p>Superannuation contributions appear to have been paid in line with statutory deadlines which fell prior to the Appointment (i.e. pre-appointment superannuation may be outstanding if it was not due for payment until after the Appointment).</p>	X
Inability to raise funds from shareholders	The Insolvent Group was ultimately unable to secure the requisite additional funding from shareholders notwithstanding the repayment of an \$8.8m secured shareholder loan in January 2021.	X
Board disputes, director resignations and/or loss of management personnel	<p>Certain directors of the Insolvent Companies resigned in the three months preceding the Appointment, and key management personnel resigned the day prior and the days following the Appointment Date.</p> <p>There is otherwise no evidence of board disputes, director resignations or loss of management personnel in the months leading to the Administrators' appointment.</p>	?
Increased level of complaints	There is no evidence of complaints in the period leading to the Appointment Date.	✓
An expectation that the "next" big job/sale/contract will save the company	The Insolvent Group was reliant on certain key contracts to maintain revenue and profitability and, according to its Boards of Directors, a reason for its failure was the sustained decline in customer volumes for key contracts over an extended period prior to the Appointment.	?

Source: McGrathNicol analysis, Directors' ROCAPs, Management discussions and Insolvent Group books and records

9.3.3 Books and records

The Administrators are required to provide an opinion as to whether the Insolvent Group's books and records were maintained in accordance with section 286 of the Act. This section of the Act requires that a company must keep written financial records that:

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

Failure to maintain books and records in accordance with section 286 of the Act provides a presumption of insolvency. This presumption can be relied upon by a liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to the Act from directors and/or related parties.

The Administrators consider that a company operating a business such as the business of the Insolvent Group should, as a minimum, maintain the following books and records in order to comply with the provisions of the Act:

- accounting files and associated working papers;
- bank statements and transaction histories;
- management accounts;
- financial statements and audited financial reports;
- supporting documentation for transactions;
- payroll records;
- board meeting reports and minutes;

- asset listings;
- statutory records, including annual returns and ASIC forms;
- taxation records including tax returns and lodgements;
- debtor and creditor listings;
- lease contracts and agreements; and
- intercompany transactions and balances (refer section 8.4).

In the context of the abovementioned concerns regarding Tandem Group's FY18 statutory accounts and our further unresolved queries regarding the transparency with which one-off items were reported to and relied upon by external parties during FY21, the Administrators are not yet satisfied that the Insolvent Group fully complied with the requirements set out at section 286 of the Act. Consequently, the Administrators are not yet satisfied that a presumption of insolvency argument would be unavailable to an appointed liquidator as a result of a lack of compliance with the Act.

9.3.4 Basis of solvency assessment

In forming an opinion as to the solvency of each of the entities that make up the Insolvent Group, the Administrators have considered the solvency of the Insolvent Group as a whole.

The Administrators adopted this approach for the following reasons:

- as outlined at section 4.2.1, the entities within the Insolvent Group entered into a Deed of Cross Guarantee on 29 June 2016 pursuant to ASIC Class Order 98/1418. The Deed of Cross Guarantee had the effect of:
 - allowing the Insolvent Group to prepare consolidated annual financial statements, incorporating all entities within the Insolvent Group; and
 - ensuring that if an entity which is a party to the Deed of Cross Guarantee is wound up, the other entities which are also parties to the Deed of Cross Guarantee, guarantee the repayment of the amounts owed to the creditors of that entity; and
- the Deed of Cross Guarantee allows creditors who are owed amounts by one entity within the Insolvent Group to participate and vote as contingent creditors of the other entities within the Insolvent Group, which are parties to the Deed of Cross Guarantee.

Consequently, in order to determine the solvency or otherwise of one entity that is a party to the Deed of Cross Guarantee, the solvency of all other entities within the Deed of Cross Guarantee must be taken into account.

In addition to the existence of the Deed of Cross Guarantee, the following factors make it appropriate to examine the solvency of the Insolvent Group as a whole:

- as allowed for by the Deed of Cross Guarantee, the Insolvent Group prepared consolidated financial statements for lodgement with ASIC;
- all financial resources within Insolvent Group entities were available to their related entities to satisfy its debt, therefore an assessment as to solvency must consider the collective cash reserves, assets and capacity to borrow of the entire Insolvent Group;
- the secured facilities provided by NAB were secured over all Tandem Group entities (excluding Tandem Digital International) with each entity being jointly and severally liable for secured borrowings as guarantors of the secured facilities;
- Management of the Insolvent Group was involved in the oversight and management of all entities within the Insolvent Group; and
- administrative functions and corporate services for all of the Insolvent Group's operations were provided by a single entity within the Insolvent Group, with group-wide accounting and other intra-group services provided.

9.4 Balance sheet analysis

The balance sheet test specifies that a person or company is insolvent if its total liabilities exceed the value of its total assets, i.e. there are insufficient assets to discharge its liabilities at a point in time.

As detailed in section 5.4 of this Report, the Insolvent Group reported:

- a) at all relevant times during the four years to 30 June 2021 a current ratio of less than 1.0x indicating limited capacity to release working capital assets in order to meet short term liquidity pressures; and
- b) a positive net asset position for FY18, FY19, FY20 and FY21 including goodwill and other intangible assets of between \$75.4m to \$111.0m, absent which the Insolvent Group would have reported a net tangible asset deficiency at each reporting date.

Notwithstanding the above observations the Administrators consider the balance sheet test on its own to be insufficient when considering the solvency of the Insolvent Group, and additional cash flow based analysis is discussed further below.

In the event that the Insolvent Group is placed into liquidation, further analysis would be performed by the liquidator to estimate the availability of liquid assets to satisfy creditors as their debts fell due as a factor in determining the date of insolvency.

9.5 Cash flow analysis

An assessment of a company's solvency position on a cash flow basis requires a review of the company's ability to meet its ongoing liabilities from its available cash and/or other resources. As noted above, this is consistent with the "solvency" test under Australian law as set out in section 95A of the Act.

In making an assessment of the Insolvent Group's solvency position on a cash flow basis, the Administrators have considered the following:

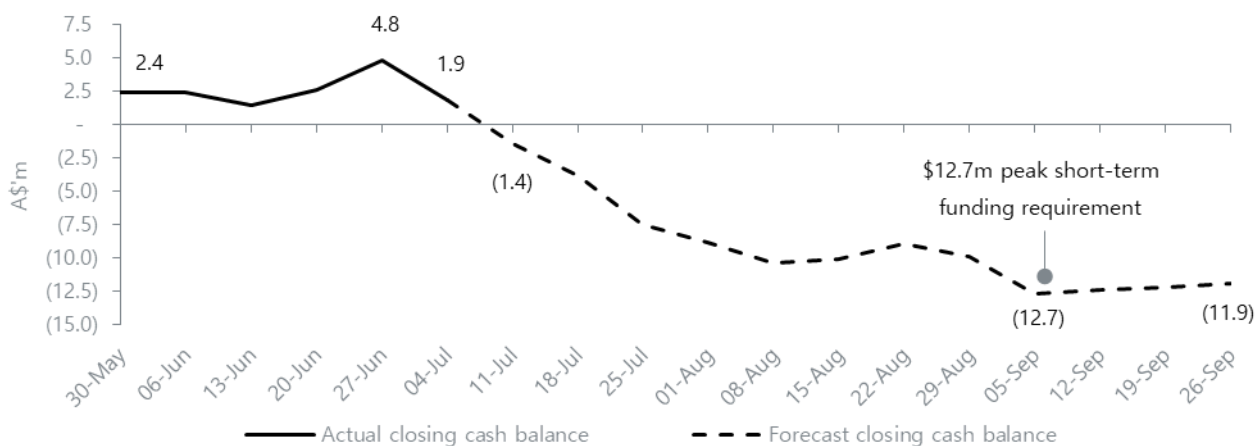
- Management's short-term cash flow forecast;
- available cash holdings;
- availability of short-term assets convertible to cash to discharge current liabilities;
- access to funding/borrowings;
- if creditors are being paid within terms;
- if the Insolvent Group has complied with its statutory payment obligations or is subject to payment plans; and
- Board papers reporting the views of the Insolvent Group's Board and Management.

9.5.1 Management's forecast cash flow

Management prepared rolling monthly cash flow forecasts, which were reconciled to cash holdings on a regular basis and presented at monthly Board meetings. Weekly cash flow forecasts were prepared in the months preceding the Appointment Date.

Whilst our review of Management's forecasting process is ongoing, we note that Management appears to have had difficulty forming a conclusive view on forecast assumptions, particularly in relation to the Insolvent Group's working capital requirements, due to ongoing negotiations and revisions of key contracts and a consistent decline in customer volumes. These issues are evident from material revisions made to forecasts of cash flow and financial performance in the months preceding the Administrators' appointment.

Illustrated below is Management's short-term weekly cash flow forecast prepared on 24 June 2021.



Management's short-term cash flow forecast indicated the Insolvent Group would exhaust its available cash reserves by early July 2021 and have a \$12.7m peak funding requirement by September 2021. Forecast cash outflows included (i) scheduled debt repayments to the Secured Creditor, (ii) payments to the ATO in accordance with payment plans, (iii) staff redundancy and related restructuring costs, and (iv) prepayment of annual insurance premiums and IT licences.

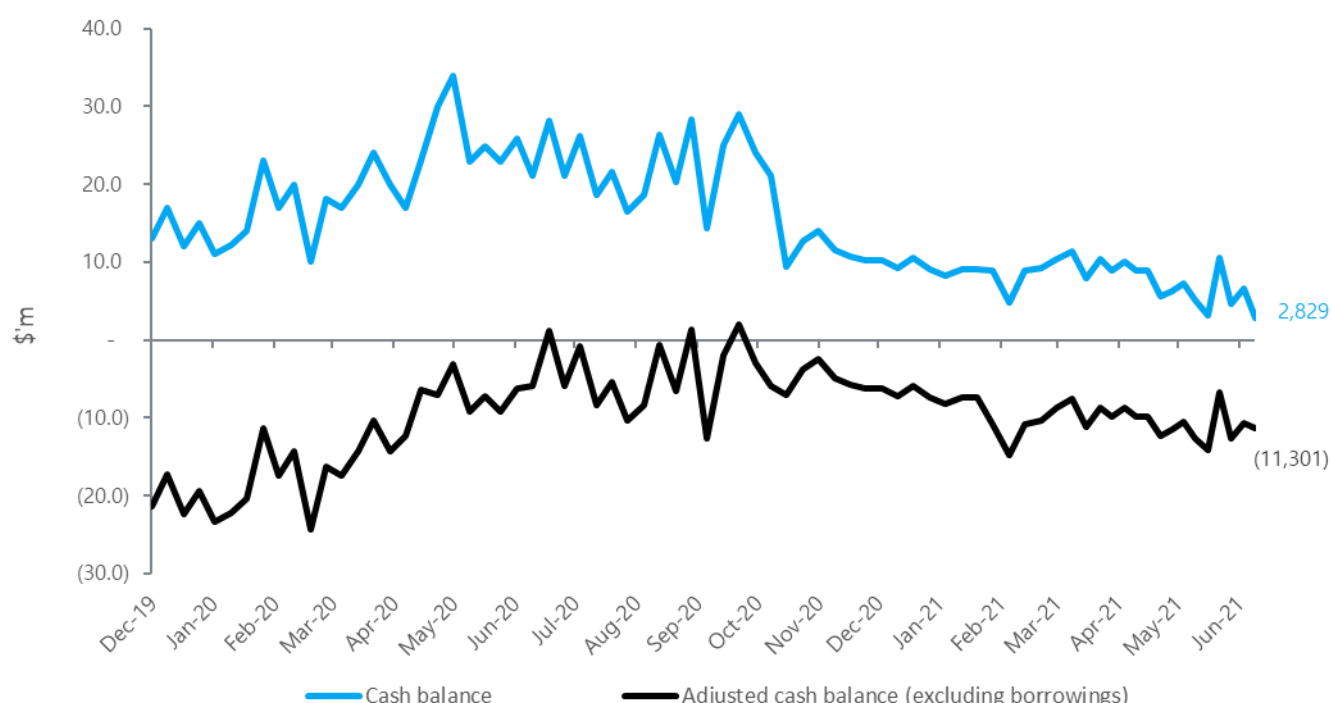
We understand Management may have provided forecasts to the Board as early as 5th March 2021 which also flagged looming funding shortfalls. The existence and solvency implications of these forecasts remains under investigation at the date of this Report.

9.5.2 Available cash holdings

The Tandem Group prepared rolling cash flow forecasts, which were reconciled to cash holdings on a regular basis and presented at monthly Board meetings.

We have reviewed the actual cash position for the period from December 2019 to the Appointment Date, along with available minutes of meetings of the Boards of Directors to understand the cash position of the Tandem Group during the relation back period. Set out below is a graph which illustrates the Tandem Group's closing cash balance over time.

Figure 6: Tandem Group closing cash balance – December 2019 to July 2021



From December 2019 onwards the Insolvent Group was reliant on borrowings from NAB and the IFM shareholder loan (provided in December 2019 and repaid in January 2021) to fund its working capital requirements.

The deterioration in cash reserves from September 2020 until the Appointment Date was primarily driven by (i) the reduction in revenue from declining customer volumes, (ii) underlying IAG related trading losses, (iii) repayments to the ATO under the payment plans, (iv) legal costs incurred to defend the Class Action, and (v) repayment of borrowings.

The graph above illustrates the Tandem Group's declining cash reserves and that without additional funding the Insolvent Group would likely have insufficient cash reserves to continue trading past July 2021, as illustrated by Management's short-term cash flow forecast at section 9.5.1.

9.5.3 Working capital

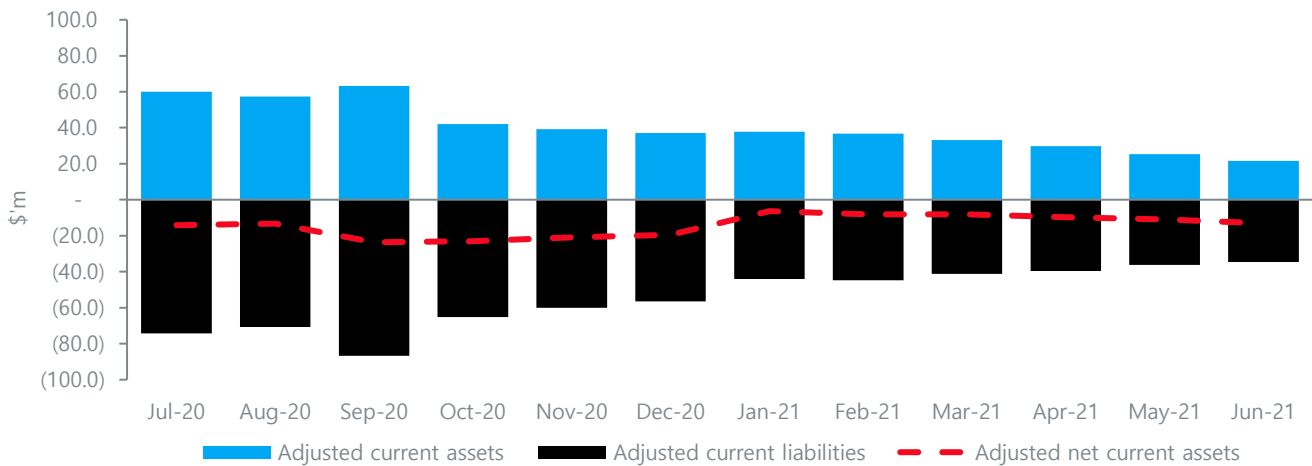
The table and graph below summarise the net current asset position as reported per the monthly management accounts for the 12 months leading to the Appointment Date, along with adjustments to include the ATO payment plans which were to be paid over a period of 12 months (i.e. a current liability) and exclude provisions which were unlikely to be paid in the short-term.

Table 14: Tandem Group working capital – July 2020 to June 2021

Group working capital - July 2020 to June 2021												
\$'m	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Current assets	60.0	57.3	63.2	42.1	39.1	37.0	37.7	36.6	33.1	29.8	25.3	21.5
Current liabilities	(82.1)	(79.2)	(84.4)	(63.6)	(59.9)	(56.7)	(47.0)	(49.6)	(46.7)	(45.6)	(42.9)	(42.9)
Reported net current assets	(22.1)	(21.9)	(21.3)	(21.6)	(20.8)	(19.7)	(9.3)	(13.0)	(13.5)	(15.8)	(17.6)	(21.3)
Adjustments												
ATO payment plans	-	-	(10.8)	(9.9)	(9.0)	(8.1)	(7.2)	(6.3)	(5.4)	(4.5)	(3.6)	(2.7)
Provisions	7.9	8.6	8.4	8.4	8.8	8.3	10.1	11.2	10.8	10.5	10.2	10.9
Adjusted net current assets	(14.2)	(13.3)	(23.6)	(23.1)	(20.9)	(19.5)	(6.4)	(8.1)	(8.1)	(9.8)	(11.0)	(13.1)
Key performance indicators												
Reported current ratio	0.73	0.72	0.75	0.66	0.65	0.65	0.80	0.74	0.71	0.65	0.59	0.50
Adjusted current ratio	0.81	0.81	0.73	0.65	0.65	0.66	0.86	0.82	0.80	0.75	0.70	0.62

Source: Management accounts

Figure 7: Tandem Group working capital – July 2020 to June 2021

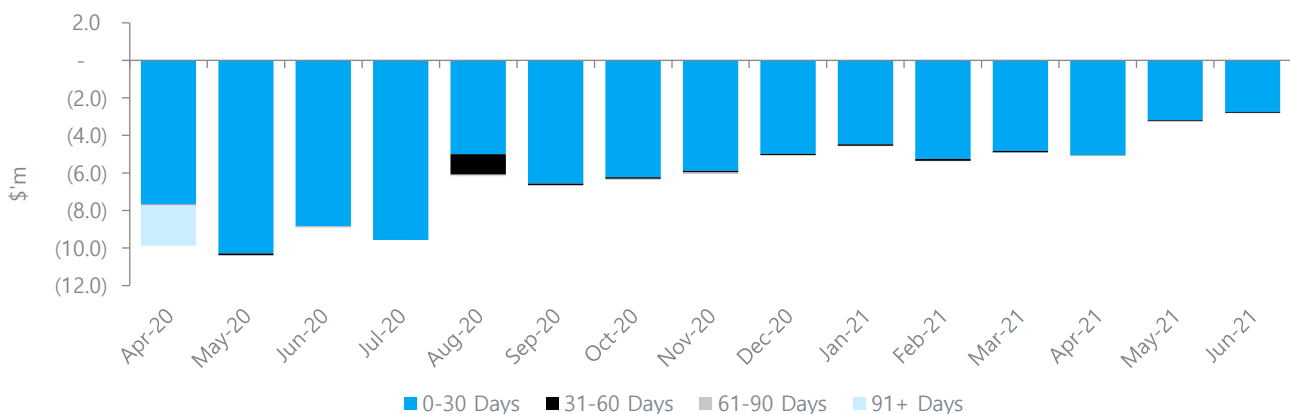


The Tandem Group's reported and adjusted current ratio position is below 1.0x in each of the 12 months prior to the Appointment Date indicating that the Tandem Group had little capacity throughout this period to further release working capital in order to ease short-term liquidity pressure.

9.5.4 Trade creditors

Illustrated below is an analysis of the Insolvent Group's trade creditor position for the period April 2020 to June 2021.

Figure 8: Trade creditor ageing



The Insolvent Group paid subcontractors and other trade creditors predominately within terms to maintain ongoing supply and continuity of operations, as is illustrated by the majority of creditors being within 30 days. The total trade creditor balance decreased over time, commensurate with declining services revenue and customer volumes.

There is no evidence of suppliers placing the Insolvent Group on stop-supply or commencing other enforcement action based on the Administrators' review of the historical trade creditor ageing profile and discussions with Management.

9.5.5 Statutory creditors

The Administrators have reviewed the position in relation to statutory creditors (e.g. GST, PAYG and payroll tax). The following table provides a summary of amounts owed to the ATO and RevenueSA, based on a review of the Insolvent Group's ATO business portals and proofs of debt lodged with the Administrators. These amounts comprised:

- unpaid PAYG, which was subject to a payment plan (discussed below); and
- unpaid payroll tax, which is based on a proof of debt lodged by RevenueSA for amounts owed in South Australia. The Administrators are yet to receive proofs of debt from the offices of state revenue in other States, therefore the Insolvent Group's liability for unpaid payroll tax at the Appointment Date may be higher than is tabled below.

Table 15: Amounts due to statutory authorities at Appointment

Insolvent Group - Statutory debts owing as at appointment			
Entity	Owed to	Type of debt	Amount (\$'000)
ISG Management Pty Ltd	ATO	PAYG	244
ISG Management Pty Ltd	Revenue SA	FY21 payroll tax	404
Infrastructure Services Group (Australia) Pty Ltd	ATO	PAYG	453
Estimated total pending confirmation of ATO debt amount			1,101

Source: ATO running balance account, proofs of debt lodged by the ATO and RevenueSA

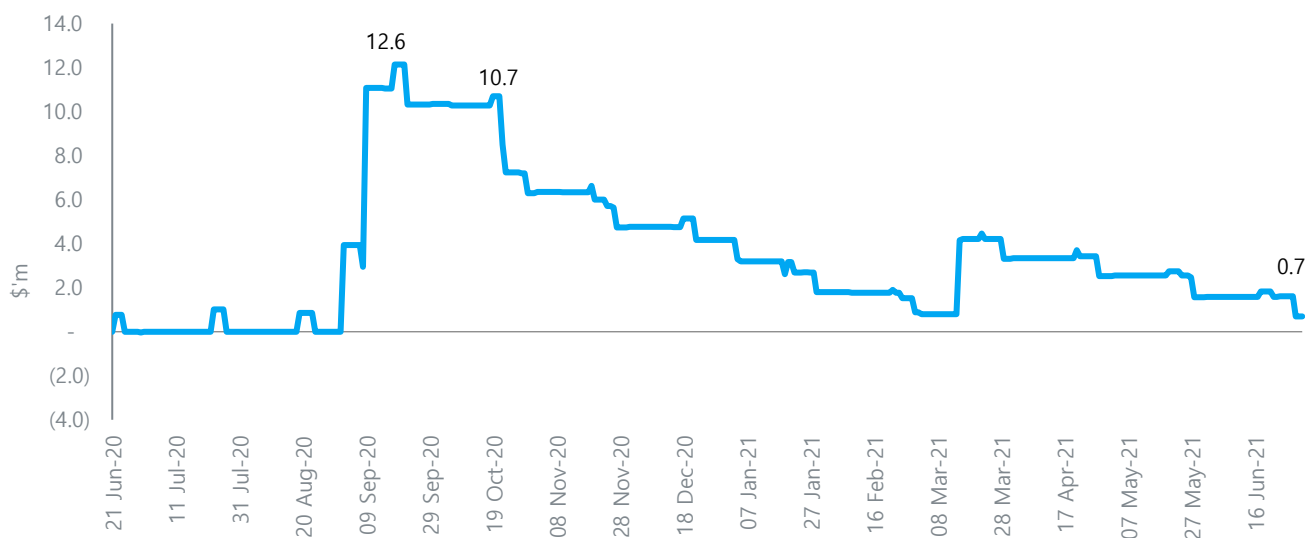
Summarised below are two payment plans that were entered into with the ATO by ISGM and ISG (Aust) in September 2020 for outstanding tax liabilities totalling \$12.6m:

- ISGM and ISG (Aust): \$1.9m paid upfront on 21 October 2020.
- ISGM: \$7.9m to be paid over 12 months in monthly instalments of \$658k commencing 30 October 2020.
- ISG (Aust): \$2.8m debt to be paid over 12 months in monthly instalments of \$237k commencing 30 October 2020.

Both entities adhered to the terms of the payment plans based on information provided to the Administrators by the ATO, however the appointment of the Administrators ceased payment towards the plans prior to completion.

The graph below illustrates the movement in amounts due to the ATO by the Insolvent Group over the period June 2020 to June 2021, indicating ATO debt peaked at \$12.6m in September 2020 and steadily decreased thereafter as payments were made in accordance with the payment plans.

Figure 9: ATO running account



Detailed below are the payment plans entered into the ISGM and ISG (Aust) with the ATO.

Table 16: ATO payment plans

ISGM and ISG (Aust) - ATO payment plans				
(\$'000)	Debt type	ISGM (\$)	ISG (Aust) \$	Total
<i>Payment plans entered into with the ATO on 30 September 2020, comprising an upfront payment on 21 October 2020 and monthly payments commencing 30 October 2020</i>				
21 October 2020	PAYG	1,618	239	1,857
30 October 2020	PAYG	659	237	896
30 November 2020	PAYG	659	237	896
30 December 2020	PAYG	659	237	896
01 February 2021	PAYG	659	237	896
01 March 2021	PAYG	659	237	896
29 March 2021	PAYG	659	237	896
28 April 2021	PAYG	659	237	896
28 May 2021	PAYG	659	237	896
28 June 2021	PAYG	659	237	896
28 July 2021	PAYG	659	237	896
30 August 2021	PAYG	659	237	896
28 September 2021	PAYG	659	237	896
Total monthly payments		7,903	2,849	10,752
Total monthly payments and upfront payment		9,522	3,088	12,610

Source: ATO running balance account and payment plan documentation

The Insolvent Group had \$2.7m outstanding payments to the ATO as at the Appointment Date, an amount greater than was claimed by the ATO in their proofs of debt. The Administrators' preliminary understanding is the variance relates to tax refunds applied to the Insolvent Group's ATO client account; however the Administrators are in the process of confirming this with Management and the ATO.

9.5.6 Availability of funding

Monthly Board minutes and accompanying Board reports record the following in relation to the Insolvent Group's financial position and funding availability:

February 2021:

- New debt facilities were agreed with NAB to obtain additional working capital and term loan facilities following repayment of IFM's shareholder loan.
- Forecast declines in customer volumes for key contracts would lead to increasing pressure in the coming weeks on the Insolvent Group's available cash. The Former CFO's suggested actions to the Board to alleviate liquidity constraints included (i) chasing/escalating receivables from customers and payables to the ATO, (ii) adjusting supplier payment terms, and (iii) liaising with NAB to adjust available funding under finance facilities.
- A reforecast of cash flows had been completed to manage ATO payments (\$0.9m per month), Class Action costs (c.\$250k per month) and availability of borrowings. Discussions were to be held with NAB regarding adjustment of finance agreements to release working capital, reflecting the change in customer volumes and trading terms.
- Month end cash reserves increased from \$8.8m to \$10.4m following receipt of a \$2.0m net tax refund.

March 2021:

- Although February 2021 increased month-on-month due to a tax refund, closing cash balances for the Insolvent Group are forecast to come under considerable pressure with the ongoing reduction in customer volumes.
- Discussions were being held with NAB and IFM to resolve further working capital challenges arising from ongoing reductions in customer volumes and a need to increase available funding under existing NAB facilities;

- The Insolvent Group had approached NAB for support via (i) approving Mobiles BU debtors under facility agreements to release additional working capital, (ii) an increase to the trade finance facility from \$35.0m to \$45.0m, (iii) allowance of an additional shareholder loan from IFM, and (iv) covenant relief when requested.
- Month end cash reserves decreased from \$10.4m to \$8.8m.

April 2021:

- Discussions with NAB and IFM were ongoing in respect of resolving the Insolvent Group's working capital requirements and liquidity constraints.
- FY21 year to date revenue was 36% behind prior year results, reflecting the ongoing decline in customer volumes. Full year FY21 forecast EBITDA of \$25.0m remained on foot only via c.\$8.0m of balance sheet write-backs and one-off IAG transition support revenue.
- The Board engaged KordaMentha as turnaround advisor to (i) assist with preparing a turnaround plan for the Insolvent Group, and (ii) provide advice regarding the requirements to be met by the Board to be eligible for 'Safe Harbour' protections in section 588GA of the Act.
- Month end cash reserves decreased from \$8.8m to \$5.5m.

May 2021:

- KordaMentha's findings concluded that the Board met the eligibility criteria for 'Safe Harbour' protections.
- The Board confirmed it continued to test and pursue the courses of action identified in the turnaround plan as appropriate in a 'better outcome' analysis.
- Month end cash reserves decreased from \$5.5m to \$3.2m.

June 2021:

- The Board continued to test eligibility requirements for 'Safe Harbour' protections and confirmed it continued to test and pursue courses of action identified in the turnaround plan as appropriate in a 'better outcome' analysis.
- Month end cash reserves decreased from \$3.2m to \$2.8m.

As noted earlier in this Report, the Boards of Directors requested NAB provide a further deferral of a \$2.2m term loan repayment due in June 2021 following an initial deferment from April 2021, but that request was not approved.

9.6 Indicators of insolvency

In *ASIC v Plymin, Elliot & Harrison* (2003) VSC 123, Justice Mandie established a list of fourteen indicators of insolvency that have become common law precedent to assess whether an entity is insolvent.

Having investigated the reasons for the Insolvent Group's failure, the Administrators consider the following indicators to apply to the Insolvent Group:

- ongoing underlying trading losses (refer section 8.2.2);
- inadequate operating cash flow (refer sections 9.5.1 and 9.5.2);
- a deficiency of liquid current assets relative to cover current liabilities (refer section 9.5.3);
- accrual of significant statutory arrears and related repayment arrangements (refer section 9.5.5);
- increasingly reliance on the continued support of the Secured Creditor to maintain sufficient liquidity (refer section 9.5.6); and
- lack of access to shareholder funding (refer section 9.3.2).

9.7 Administrators' conclusions regarding solvency

Solvency is a question of fact to be ascertained from a consideration of a company's financial position as a whole. However, Australian Courts have determined that the primary test of solvency is the cash flow test.

The Administrators' preliminary investigations indicate that, whilst the Insolvent Group was certainly insolvent when it could not obtain additional support from the Secured Creditor and a forecast prepared in late June 2021 indicated cash reserves

would be exhausted by early July 2021, for the reasons outlined below, a liquidator may conclude that the Insolvent Group became insolvent earlier.

Whilst a liquidator would be required to undertake more detailed investigations to ascertain the exact point of insolvency, in forming their preliminary view, the Administrators have considered the following:

- the balance sheet test suggests that the Insolvent Group remained balance sheet solvent until the Appointment Date, however, it would be balance sheet insolvent at all times from FY18 to FY21 based on net tangible assets;
- the Insolvent Group's net current asset position remained below 1.0x at all times throughout FY18 to FY21, however deteriorated at a more rapid pace from April 2021 as cash reserves declined;
- the Tandem Group was unsuccessful in refinancing its facilities with NAB with \$120.0m of new funding around July 2020 to August 2020;
- the Insolvent Group's cash reserves were progressively and consistently eroded from around September 2020;
- the Insolvent Group was reliant on funding from IFM (via a shareholder loan) and NAB (via various banking facilities). The secured IFM shareholder loan was repaid in full in January 2021 via a refinance with NAB, who provided the Insolvent Group with a new \$8.8m term loan (used to repay the IFM shareholder loan) and a new \$35.0m trade finance facility;
- Board minutes indicate that in April 2021 the Board had commenced strategic conversations regarding the future of the Insolvent Group, in the context of a continued decline in cash reserves, falling customer volumes and ongoing discussions with IFM and NAB regarding the availability of additional funding; and
- the Board engaged KordaMentha in May 2021 as turnaround advisors and to provide advice in relation to the Board's eligibility for 'Safe Harbour' protections under section 588GA of the Act, an indicator that the Board considered the Insolvent Group was or could likely become insolvent.

In considering the matters identified from the Administrators' investigations as outlined above, the Administrators consider that the Insolvent Group was likely to have become insolvent from around mid to late June 2021 or possibly earlier.

Further investigations by an appointed liquidator are required to establish a conclusive view on the date that the Insolvent Group became insolvent.

9.8 Insolvent trading

9.8.1 Directors' liability

Pursuant to section 588G of the Act, a director of a company has a duty to ensure that the company does not incur debts that it is unable to pay, i.e. that it does not trade whilst insolvent.

In the event that a company is placed into liquidation, and insolvent trading is found to have occurred, the directors are personally liable for the debts incurred during that time. Before a court will order that a person pay compensation in respect of insolvent trading, a liquidator must establish that:

- the person was a director of the company at the time the company incurred the debt which is the subject of the claim;
- the company was insolvent at that time or became insolvent by incurring the debt;
- at that time, there were reasonable grounds for suspecting that the company was insolvent or would become insolvent by incurring the debt; and
- the debt, which is the subject of the claim, was wholly or partly unsecured and the creditors with outstanding amounts suffered loss and damage.

There are various statutory defences available to directors in defending an insolvent trading claim, as set out in section 588H of the Act. In summary, these are that the director:

- had reasonable grounds to expect that the company was solvent at the time the debt was incurred;
- had reasonable grounds to believe, and did believe, that a competent, reliable person was responsible for providing adequate information on the company's solvency and that person fulfilled that responsibility. On the

basis of such information, the director believed that at the time the debt was incurred, and considering the other debts existing at that time, the company was solvent and remained solvent;

- was ill (and therefore did not take part in management) at the time the debt was incurred; and
- took reasonable steps to prevent the debts being incurred.

In addition to statutory defences, section 588GA of the Act was introduced in September 2017, providing a protection for directors against insolvent trading claims, in certain circumstances. The Safe Harbour legislation was introduced to encourage directors, in circumstances where their company's solvency is in question, to formulate and take courses of action that it expects to result in a better outcome than the immediate appointment of an administrator or liquidator. In this regard we expect the directors of the Insolvent Companies to rely on the abovementioned safe harbour advice provided by KordaMentha (refer section 9.7).

The protection is available in circumstances where, as soon as the director suspected that the company was or could become insolvent, they engaged in activities that were reasonably likely to lead to a "better outcome" for the company, and any new debts from that time were incurred directly or indirectly in relation to those activities.

In addition to the above, the Administrators also note that as part of the Coronavirus Economic Response Package Omnibus Bill 2020, company directors are granted temporary relief during the period commencing on 25 March 2020 to 31 December 2020 from prosecution for insolvent trading and incurring debts in the ordinary course of business to facilitate the continuation of the business.

9.8.2 Holding company's liability

A holding company can also be held liable for the insolvent trading of its subsidiary (pursuant to section 588V of the Act) in circumstances where:

- the company was a holding company of the subsidiary at the time the debts were incurred by the subsidiary; and
- the subsidiary was insolvent when it incurred the debts; and
- at the time there were reasonable grounds for suspecting insolvency; and
- the holding company or at least one of its directors was aware of the grounds for suspecting insolvency, or "having regard to the nature and extent of the corporation's control over the company's affairs and to any other relevant circumstances", it was reasonable to expect the holding company or one of its directors to be aware of the grounds for suspecting insolvency.

A claim against Tandem Corp Pty Ltd for the insolvent trading of any of its subsidiaries would involve the same set of facts as a claim against the Directors and, in any case, this would be an unsecured claim against an insolvent entity. The Administrators note that there is Directors and Officers Insurance currently in place which an appointed liquidator will review to understand the ability to make a successful claim against this policy in respect of any potential recovery action.

9.9 Voidable transactions

Pursuant to Part 5.7B of the Act, certain transactions that occurred prior to the Appointment Date, including where property was disposed of or dealt with, are potentially recoverable by a liquidator.

This may result in, amongst other things, a requirement for a third party to return property and/or money and thereby increase the assets available to the liquidator and creditors. These transactions are known as voidable transactions.

Section 75-225 of the IPR requires an administrator to specify whether there are any transactions that appear to the administrator to be voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act.

It is important to note that a number of voidable transactions can only be recovered if the company in question is proven to have been insolvent at the time of the transaction. As set out at section 9.7 of the Report, the Administrators' preliminary opinion is that the Insolvent Group may have been insolvent from mid to late June 2021 or potentially earlier.

The main voidable transactions that require insolvency to be established are:

- **unfair preferences:** transactions between the insolvent entity and a creditor resulting in the creditor receiving from the insolvent entity, in relation to an unsecured debt owed to the creditor, a greater amount than the creditor would have received in relation to the debt in a winding up of the company; and

- **uncommercial transactions:** transactions which a reasonable person in the place of the insolvent entity would not have entered into, taking into account the benefits and the detriment to the insolvent entity, the respective benefits to the other parties involved and any other related matters.

Other voidable transactions which may be claimed regardless of solvency are:

- **unfair loans:** a loan agreement where the interest or charges are considered to be extortionate. Unfair loans made to the entity any time prior to the appointment of the Administrators may potentially be overturned by a subsequently appointed liquidator, whether or not the entity was insolvent at the time the loan was entered into;
- **unreasonable director related transactions:** transactions with a director or a related entity of the director which a reasonable person in the place of the entity would not have entered into, taking into account the benefits and the detriment to the entity, the respective benefits to the other parties involved and any other related matters; and
- **security interests created within six months of the relation back day:** these may be unenforceable under certain circumstances.

The financial accounting records and other sources were reviewed to identify any potential voidable transactions and the Administrators' preliminary conclusions are set out below.

9.9.1 Unfair preferences

An unfair preference is a transaction, or series of transactions, between the insolvent entity and a creditor resulting in the creditor receiving from the insolvent entity, in relation to a debt owed to the creditor, a greater amount than the creditor would have received in relation to the debt in a winding up, or in respect of a secured creditor a greater amount than the value of the security, of the relevant Insolvent Group entity.

In order to bring an action for recovery of an unfair preference against a creditor of an entity within the Insolvent Group, an appointed liquidator would be required to demonstrate that the relevant entity was insolvent at the time of the transaction, as well as a number of other elements. These include that the creditor received a preference over other creditors, and that the recipient of the preference had grounds to suspect that the relevant entity was insolvent at the time of receiving payment.

Similar to insolvent trading actions, there are a range of defences available to parties that received a payment identified as a potential unfair preference. These defences would be considered prior to commencing recovery actions against individual creditors.

There are a range of matters that might impact the ultimate recovery against these potential preference claims, including:

- the possible application of the running account principle, which may reduce the face value of the claims identified;
- the availability of statutory defences and other counter arguments such as that the creditor held security; and
- the costs associated with recovery, including possibly litigating the claims, with the attendant litigation risk.

The statutory defences to an unfair preference claim include receiving payment in good faith and that the creditor had no reasonable grounds for suspecting that the company was insolvent at the time of receiving payment.

9.9.2 Administrators' work undertaken and preliminary findings in relation to unfair preferences

As a part of the Administrators' investigations into unfair preferences, the following tasks were undertaken:

- discussions with Management to understand any payment plans, restricted trading terms with creditors or those that were applying pressure for payment;
- review of Board minutes and Board reports to understand round sum and material payments made to secured creditors and unsecured creditors;
- detailed analysis of financial information, including trade creditor ledgers, historical financial accounts and cash flow statements to identify payments made to creditors; and
- discussions with stakeholders and a subsequent review of available records to understand the circumstances relating to funds loaned to the Insolvent Group and subsequently repaid in the period the Insolvent Group was suffering liquidity constraints prior to the Administrators' appointment.

The Administrators' preliminary investigations identify potential unfair preference payments of at least \$0.9m (split \$0.66m for ISGM and \$0.24m for ISG (Aust)) may have been paid in June 2021 to the ATO in accordance with the Insolvent Group's payment plans. The Administrators note that potential unfair preference payments to the ATO may be greater if the Insolvent Group is determined to have been insolvent earlier than June 2021.

The Administrators have also identified the following payments as transaction of interest for further investigation as potential unfair preferences subject to an earlier date of insolvency being established:

- repayment of the \$8.8m IFM secured shareholder loan in January 2021; and
- payments made to certain other related parties in FY21 totalling approximately \$0.5m.

The Administrators note that their investigations are ongoing as to whether these payments give rise to any potential unfair preference claim or other category of voidable payment where an earlier date of insolvency does not need to be established. If the Insolvent Group is placed into liquidation, further investigations and a cost benefit analysis of instigating recovery actions against individual creditors will be required to be undertaken by an appointed liquidator.

As outlined above, in order to bring an action for recovery of an unfair preference against a creditor of an entity within the Insolvent Group, an appointed liquidator would be required to demonstrate that the relevant entity was insolvent at the time of the transaction, as well as a number of other elements. These include that the creditor received a preference over other creditors, and that the recipient of the preference had grounds to suspect that the relevant entity was insolvent at the time of receiving payment.

Similar to insolvent trading actions, there are a range of defences available to parties that received a payment identified as a potential voidable transaction. These defences would be considered prior to commencing recovery actions against individual creditors.

There are a range of matters that might impact the ultimate recovery of these potential voidable transactions, including:

- the possible application of the running account principle, which may reduce the face value of the claims identified (excluding potential preferences paid to the ATO to which the running account principle does not apply);
- the availability of statutory defences and other counter arguments such as that the creditor held security; and
- the costs associated with recovery, including possibly litigating the claims, with the attendant litigation risk.

The statutory defences to a voidable transaction include receiving payment in good faith and that the creditor had no reasonable grounds for suspecting that the company was insolvent at the time of receiving payment.

Further investigations would be required by an appointed liquidator to determine whether any voidable transactions exist, and whether or not they would be commercial to pursue.

9.9.3 Uncommercial transactions

Based on preliminary investigations the Administrators have not identified any transactions that would constitute an uncommercial transaction.

Further investigations will be conducted in respect of uncommercial transactions if a liquidator were to be appointed.

9.9.4 Unfair loans and unreasonable director related transactions

As set out in section 9.9.2, the Administrators' preliminary investigations have identified various transactions of interest with related parties which may give rise to potential preference claims or in the alternative a claim as unreasonable director related transactions. In addition, the Administrators have unresolved queries regarding the \$31m of dividends paid to Tandem Group shareholders in FY18 which may also give rise to related claims.

The Administrators note that their investigations are preliminary and further investigations and a cost benefit analysis of instigating recovery actions against individual creditors will be required to be undertaken by an appointed liquidator.

9.9.5 Circulating security interests created within six months of the relation back day

Pursuant to section 588FJ of the Act, a circulating security interest created within six months of the relation back day is void against a company's liquidator, except so far as it secures:

- an advance paid to the company, or at its direction, at or after that time and as consideration for the circulating security interest;

- interest on such an advance;
- the amount of a liability under a guarantee or other obligation undertaken at or after that time on behalf of, or for the benefit of, the company;
- an amount payable for property or services supplied to the company at or after that time; or
- interest on an amount so payable.

The relation back day for the Insolvent Group is 1 July 2021, with the relation back period extending to 1 January 2021, being six months prior to the Appointment Date.

The Administrators have undertaken a review of the Insolvent Group's records and the PPSR registrations made against the Insolvent Group and identified any security interests which were registered during and before the relation back period. Any security interests that would be void against a company's liquidator will be taken into account in the event that the Insolvent Group is placed into liquidation and distributions are declared. Relevantly, the security interest held and relied upon by NAB was registered on the PPSR prior to 1 January 2021.

9.10 Funding to pursue insolvent trading and voidable transactions

Creditors should note that insolvent trading and voidable transaction actions can only be pursued in a liquidation and would require significant further investigation prior to establishing that valid, pursuable claims exist.

Any subsequent litigation would be complex and likely to result in significant costs. Funding may be sought from creditors or litigation funders if an appointed liquidator considers commencing such action.

9.11 Breach of Directors' duties

Sections 180 to 184 of the Act set out the duties, obligations and responsibilities imposed on directors, which are designed to promote good governance and ensure that directors act in the interests of a company. These duties include:

- duty of care and diligence;
- duty of good faith;
- duty not to make improper use of position; and
- duty not to make improper use of information.

As set out above in sections 9.9.2 and 9.9.4, the Administrators' preliminary investigations have identified various transactions of interest which may give rise to a claim for breach of directors' duties set out in section 180 to 184 of the Act.

There are a range of defences that may be available to the Directors regarding a claim for a breach of Directors' duties. If the Insolvent Group is wound up, further investigations and a cost benefit analysis of pursuing recovery action will be undertaken.

9.12 Other offences

9.12.1 Section 206A – Disqualified person not to manage corporations

Pursuant to section 206A of the Act, a person who is disqualified from managing corporations commits an offence if they continue to have an active role in the management of a corporation.

The Administrators have not identified any disqualified person acting in a management capacity of the Insolvent Group.

9.12.2 Section 286 – Obligation to keep financial records

Pursuant to section 286 of the Act, a company, registered scheme or disclosing entity must keep written financial records that correctly record and explain its transactions, financial position and financial performance and would enable true and fair financial statements to be prepared and audited.

For the reasons set out at section 9.3.3, the Administrators are not yet satisfied that the Insolvent Group fully complied with the requirements set out at section 286 of the Act.

9.12.3 Section 1307 – Falsification of books

Pursuant to section 1307 of the Act, an officer, employee, former employee, member or former member of a company who engages in conduct that results in the concealment, destruction, mutilation or falsification of any securities of or belonging to the company or any books affecting or relating to affairs of the company is guilty of an offence.

In the course of undertaking preliminary investigations, the Administrators have not had reason to suspect any potential breach under section 1307 of the Act.

9.12.4 Section 1041H – Misleading or deceptive conduct (civil liability only)

Pursuant to section 1041H of the Act, a person must not engage in conduct, in relation to a financial product or a financial service, that is misleading or deceptive or is likely to mislead or deceive.

In the course of undertaking preliminary investigations, the Administrators have not had reason to suspect any potential breach under section 1041H of the Act.

9.13 Directors' financial position

In circumstances where an insolvent trading claim or a breach of director's duty claim is commenced, the avenues of recovery include any insurance coverage in place and/or the Directors personally. To this end, the Administrators have identified real property assets in the name of certain Directors.

An appointed liquidator would review the Directors' personal asset position in detail when undertaking a cost benefit analysis of pursuing any claim for insolvent trading or breach of director duties.

9.14 Directors and officers insurance

The Administrators have confirmed that there is a Directors and Officers Insurance policy currently in place. An appointed liquidator will consider any related notification obligations should further investigations and cost benefit analysis support the pursuit of recovery action against the Directors.

10 Anticipated return to creditors

This section of the Report outlines the estimated outcome for creditors of each of the Insolvent Companies from liquidation.

10.1 Liquidation scenario

As there has been no DOCA proposed for the Insolvent Companies, this section presents the Administrators' preliminary view of the potential return available to creditors from a liquidation of the Insolvent Companies.

The return available to creditors of the Insolvent Companies will depend on the following variables:

- The outcome of the Administrators' sale processes (refer section 7) and the following related factors that may impact on any net return to creditors:
 - final purchase price adjustments for items which remain variable as at the date of this Report;
 - the share of net sale proceeds referable to entities within the Insolvent Group;
 - the extent to which priority creditor claims against the Insolvent Companies are reduced via transfer of employment;
 - the final allocation of related costs including Administrator fees to non-VA entities and as between the circulating and non-circulating asset pools of the Insolvent Companies; and
 - the extent to which net sale proceeds received by non-VA entities have the effect of reducing NAB's residual secured claim against the Insolvent Group.
- The allocation and recovery of corporate recharges between the non-VA entities and the Insolvent Group entities (refer section 13.1); and
- The extent of any recoveries that may be available to a liquidator from voidable transactions and other offences (refer sections 9.9 to 9.12).

As at the date of this Report all of the above matters are yet to be finalised and, accordingly, it is too early to provide a reliable estimate of the likely return available to creditors from a liquidation of the Insolvent Companies. However, notwithstanding these limitations the Administrators make the following preliminary comments regarding potential creditor returns from the Insolvent Companies:

- up to \$1.6m of the Insolvent Companies' total priority creditor (i.e. employee) claims of \$8.4m (refer section 4.7) are expected to be transferred as part of the sale transactions negotiated by the Administrators;
- priority creditors of ISGM only are expected to receive distributions from the realisations of circulating assets of between \$1.0m and \$1.5m (net of costs);
- the priority creditors of Insolvent Companies other than ISGM are not expected to receive any distributions from the realisation of circulating assets (net of costs);
- additional recoveries from voidable transactions may be available to priority employee creditors of certain of the Insolvent Companies. Based on our preliminary investigations in this regard we have identified payments to the ATO of at least \$0.9m (split \$0.66m for ISGM and \$0.24m for ISG (Aust)) which may be voidable as unfair preferences (refer section 9.9.2);
- the secured creditor (NAB) is expected to receive a distribution from the Insolvent Companies of between \$0.5m and \$1.5m against a claim of \$17.6m but may also recover further amounts from non-VA entities;
- unsecured creditors of the Insolvent Companies with estimated claims totalling \$5.4m (refer section 4.8.1) are unlikely to receive any return absent meaningful further recoveries from voidable transactions; and
- the estimated returns described above include a provision for the likely costs of administering the winding up of the Insolvent Companies in the range of \$0.4m to \$0.6m (for the avoidance of doubt this estimate relates to forecast liquidators' fees and expenses charged at hourly rates and cost respectively).

A more detailed update in relation to the anticipated return to creditors will be provided in due course, likely by the time the liquidators' statutory report to creditors is required to be issued, within three months of the commencement of the liquidation.

11 Options available to creditors

This section of the Report provides Creditors with a statement of the Administrators' opinion regarding each course of action Creditors are entitled to vote for at the Second Meeting of Creditors.

The Administrators are required to provide creditors with a statement of their opinion about each of the courses of action in respect of which creditors are entitled to vote at the Second Meetings of Creditors.

The Administrators are required to opine on whether it would be in the creditors' interests for:

- the Administration to end with control of the Insolvent Companies reverting to their Directors;
- the Insolvent Companies to enter into a DOCA; or
- the Insolvent Companies to enter liquidation and be wound up.

Creditors are also entitled to vote to adjourn the Second Meetings of Creditors for up to 45 business days.

11.1 Administration to end

Creditors may consider ending the Administration and returning the control of the Insolvent Companies to their Directors. This would only be appropriate in circumstances where the Insolvent Companies were deemed to be solvent.

The Administrators do not believe this to be a viable option, noting that the Insolvent Group remains clearly insolvent and the majority of the Insolvent Group's business has either been sold, or is in the process of being wound down.

In the Administrators' opinion, it is not in the best interests of creditors of any of the Insolvent Group entities for control to revert to Directors.

11.2 DOCA

The Administrators note that, at the date of this Report, no DOCA has been proposed for any entity within the Insolvent Group, nor is it considered likely that a DOCA will be proposed before the Second Meetings of Creditors. Accordingly, the option for creditors to resolve that any of the entities should enter into a DOCA is not expected to be available.

11.3 The Insolvent Companies be wound up

Absent a compelling DOCA proposal, and because the Administrators cannot recommend returning control of the Insolvent Companies to their Directors in their insolvent state (as explained above), the only option for the Administrators to recommend (at the time of writing this Report) is that the Insolvent Companies be wound up by placing them into liquidation and that the Administrators act as joint and several liquidators of the Insolvent Group.

The liquidation of the Insolvent Companies would involve:

- the completion of a more detailed investigation into the affairs of the Insolvent Companies, the conduct of their Directors and the potential to pursue claims against the Directors or other parties;
- further enquiries regarding recovering potential insolvent trading and voidable transaction claims; and
- adjudication of creditor claims and payment of dividends, if sufficient funds become available.

The costs of administering the liquidation would depend, to a large extent, on the nature of any further investigations in respect of potential voidable transactions and other recovery actions.

In the Administrators' opinion, in the absence of a DOCA proposal for the Insolvent Companies, it is in the best interests of creditors to vote for the winding up of the Insolvent Companies.

11.4 Administrators' recommendation

For the reasons set out above, the Administrators, at the time of writing this Report, recommend that Creditors resolve that the Insolvent Companies be placed into liquidation.

12 Receipts and payments

Details of the Administrators' receipts and payments during the period 1 July 2021 to 25 July 2021 by entity are included at Appendix A. A summary of the consolidated position is set out in the table below.

Summary receipts and payments for the period 1 July 2021 to 25 July 2021	
	A\$'000
Receipts	
Post-appointment receipts	703
Pre-appointment receipts and cash at bank at appointment	2,180
Administration funding from Tandem Corp	1,000
Administration funding from prospective purchaser	440
Total receipts	4,323
Payments	
Payroll and employee expenses	(268)
Subcontractors	(250)
Pre-appointment funds received in error	(174)
IT expenses	(222)
Insurance expenses	(48)
Other expenses	(20)
Total payments	(983)
Closing cash at bank as at 25 July 2021	3,340

Source: Administrators' accounts

The Administrators note that analysis regarding the allocation between circulating assets and trading receipts remains ongoing and the post-appointment debtor receipts presented above may include elements of WIP and accrued revenue held at the date of appointment.

13 Other matters for consideration

13.1 Creditor information on remuneration

An administrator's remuneration can only be fixed by resolution of a COI, a company's creditors or by application to the Court.

In accordance with section 449E of the Act and the ARITA Code of Professional Practice, Schedules of Remuneration Methods and Hourly Rates was provided to creditors with the Administrators' Initial Circular to Creditors dated 6 July 2021 and tabled at the First Meetings of Creditors held on 13 July 2021. The "time based/hourly rates" method of remuneration will continue to be used if the Administrators are appointed Liquidators at the Second Meetings of Creditors. A copy of this schedule is included with the accompanying circular to this Report.

The Administrators do not intend to seek creditor approval for remuneration at the Second Meetings of Creditors as additional time and analysis is required to allocate net asset sale proceeds, corporate recharges and fees incurred between each of the Insolvent Group entities on a just and equitable basis. The Administrators will seek creditor approval for remuneration once this process is complete at a date following the Second Meetings of Creditors.

13.2 Committee of Inspection and other resolutions

In the event that creditors resolve that the Insolvent Group be wound up, the Act provides that a COI may be formed and that other powers may be given to the liquidators. An information sheet on committees of inspection is available from the ARITA website (www.arita.com.au) and is included at Appendix B.

If appointed, a COI would provide the liquidators with a sounding board in relation to creditors' views on any contentious issues, and may approve certain matters (for example compromises of claims and the liquidator's remuneration).

At the Second Meetings of Creditors, if the Insolvent Group is placed in liquidation, creditors will be invited to consider:

- whether a COI should be formed, and, if so, which creditors should be on the committee;
- authorising the liquidators to compromise debts of the Insolvent Group pursuant to section 477(2A) of the Act; and
- authorising the liquidators to enter into agreements that may take longer than three months to complete pursuant to section 477(2B) of the Act.

The Administrators propose that a COI be formed for each of the Insolvent Companies, with identical membership of each COI (given the terms of the DXG, a creditor of one of the Insolvent Companies will be a creditor of all other Insolvent Companies). Taking that approach will create efficiencies in the liquidations. The liquidators will seek separate COI approvals in respect of each of the Insolvent Companies as and when required.

14 Second Meetings of Creditors

The second statutory meetings of creditors for the Insolvent Companies have been convened to be held at **2:00pm (AEST) on Thursday, 5 August 2021**.

The meetings will be held virtually using online video conferencing on Zoom. The online video conference can be joined from a computer (preferred) or telephone.

Creditors planning on attending should register their intention to do so with the Administrators (tandemcreditors@mcgrathnicol.com) and provide a correctly completed POD and proxy form (if applicable) by 4:00pm (AEST) on Wednesday, 4 August 2021 and you will be provided with a link to join.

Creditors who intend to vote at the meeting are required to lodge a formal proof of debt. Creditors who have already lodged a proof of debt for the First Meetings of Creditors (or subsequent to the First Meetings of Creditors) do not need to complete a new form.

Creditors may exercise their right to vote by voting at the meeting in person via the Zoom teleconference, or vote by appointing a proxy.

Pursuant to the Act, the proxy forms lodged by creditors for the First Meetings of Creditors cannot be used for the Second Meetings of Creditors. Accordingly, creditors who are unable to attend the meeting and wish to be represented should ensure that a proxy form for the Second Meetings of Creditors, power of attorney or evidence of appointment of a company representative is completed.

A formal notice of meeting, POD form and proxy form are enclosed with the accompanying Circular to Creditors. An information sheet "General information for Attending and Voting at Meetings of Creditors" has also been provided.

Documents must be lodged with the Administrators' office by **4:00pm (AEST) on Wednesday, 4 August 2021**. A copy of the minutes of the Second Meeting of Creditors will be lodged with ASIC within ten business days of the meeting.

15 Contact

Provided at Appendix B are information sheets issued by ARITA for the benefit of creditors.

Please refer to the McGrathNicol website at www.mcgrathnicol.com/creditors/tandem-group for further information regarding this engagement. Creditors may also email tandemcreditors@mcgrathnicol.com if they have any queries.

Dated: 29 July 2021



Keith Crawford
Joint and Several Administrator



Matthew Caddy
Joint and Several Administrator

APPENDIX A Statutory and other information by entity

A1 TANDEM CORP PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	Tandem Corp Pty Ltd
ACN	612 789 983
Registered in	Victoria
Registered on	3/06/2016
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Stuart Wardman-Browne	Director	21/09/2018	-
David Alexander Odgers	Director	1/05/2019	-
Adrian James Field	Director	23/06/2016	11/06/2021
Joseph Caporale	Director	23/06/2016	11/06/2021
John Paitaridis	Director	3/05/2019	15/05/2021
Simon Thomas Martin	Director	24/04/2018	17/04/2020
Kirsteen Naomi Clarke	Secretary	26/10/2016	-
Matthew Paul Caulfield	Secretary	1/08/2019	28/10/2019
Damian William Johnson	Secretary	23/06/2019	1/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders

Rank	Shareholder	Issued capital	% total
1	Lentesco Packing Pty Ltd	8,662,790	50%
2	AJF Investments Pty Ltd	2,439,272	14%
3	De Boer Estate Pty Ltd	2,339,882	14%
4	Bootstrapper Pty Ltd	1,639,994	9%
5	JM Cap Pty Ltd	1,340,034	8%
	Other	903,608	5%
Total shares on issue		17,325,580	100%

Source: A search of ASIC records on 1 July 2021

Security interests

Security interests

Collateral class	Number
Secured creditor - ALL PAP	1
Secured creditor - All PAP with exception	-
Secured creditor - General intangible	1
Motor Vehicle	1
Other goods	-
General intangible	-
Total	3

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

Creditor Profile

Creditor Profile	Number	Value (\$)
Unsecured Creditors - Trade Creditors	4	62,291
Total	4	62,291

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Summarised ROCAP

Summarised ROCAP - as at 30 June 2021

(\$'000)	ROCAP Value (\$)
Assets	
Cash at bank	5
Trade and Other Receivables	10
Total Assets	15
Liabilities	
Credit cards	(1)
Unsecured Creditors - Trade Creditors	(62)
Total Liabilities	(63)
Net Assets/(Liabilities)	-

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Receipts and payments

Summary receipts and payments for the period 1 July 2021 to 25 July 2021

	A\$'000
Receipts	
Pre-appointment receipts	5
Administration funding from Tandem Corp	1,000
Administration funding from prospective purchaser	440
Total receipts	1,445
Payments	
Insurance expenses	(48)
IT expenses	(216)
Valuation expenses	(1)
Hire and leasing	(6)
Total payments	(271)
Net cash flow	1,174
Closing cash at bank as at 25 July 2021	1,174

Source: Administrators' accounts

A2 TANDEM DIGITAL SERVICES PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	Tandem Digital Services Pty Ltd
ACN	625 476 897
Registered in	Victoria
Registered on	10/04/2018
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/ class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Adrian James Field	Director	10/04/2018	-
Stuart Wardman-Browne	Director	21/09/2018	-
Joseph Caporale	Director	10/04/2018	-
John Paitaridis	Director	3/05/2019	15/05/2021
Simon Thomas Martin	Director	22/06/2018	17/04/2020
Kirsteen Naomi Clarke	Secretary	10/04/2018	-
Matthew Paul Caulfield	Secretary	6/08/2019	28/10/2019
Damian William Johnson	Secretary	10/04/2018	6/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders			
Rank	Shareholder	Issued capital	% total
1	Tandem Corp Pty Ltd	100	100%
Total shares on issue		100	100%

Source: A search of ASIC records on 1 July 2021

Security interests

Security interests	
Collateral class	Number
Secured creditor - ALL PAP	-
Secured creditor - All PAP with exception	1
Secured creditor - General intangible	1
Motor Vehicle	-
Other goods	-
General intangible	-
Total	2

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

Creditor Profile		
Creditor Profile	Number	Value (\$)
Unsecured Creditors - Statutory Creditors	1	33,719
Total	1	33,719

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Summarised ROCAP

Summarised ROCAP - as at 30 June 2021	
(\$'000)	ROCAP Value (\$)
Assets	
Intangibles	946
Property, Plant and Equipment	9
Computer Software	1,737
Total Assets	2,693
Liabilities	
Outstanding superannuation	(4)
Unsecured Creditors - Statutory	(34)
Total Liabilities	(38)
Net Assets/(Liabilities)	- 2,655

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Receipts and payments

Summary receipts and payments for the period 1 July 2021 to 25 July 2021

A\$'000

Receipts

Loan from Insolvent Group entities	20
Total receipts	20

Payments

Payroll	(16)
Total payments	(16)

Net cash flow	4
----------------------	----------

Closing cash at bank as at 25 July 2021	4
--	----------

Source: Administrators' accounts

A3 INFRASTRUCTURE SERVICES GROUP (AUSTRALIA) PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	Infrastructure Services Group (Australia) Pty Ltd
ACN	142 331 717
Registered in	Victoria
Registered on	3/03/2010
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/ class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Stuart Wardman-Browne	Director	21/09/2018	-
Adrian James Field	Director	3/03/2010	10/06/2021
Joseph Caporale	Director	19/06/2013	10/06/2021
John Paitaridis	Director	3/05/2019	15/05/2021
Simon Thomas Martin	Director	26/04/2018	17/04/2020
Kirsteen Naomi Clarke	Secretary	26/10/2016	-
Matthew Paul Caulfield	Secretary	6/08/2019	28/10/2019
Damian William Johnson	Secretary	24/03/2015	6/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders

Rank	Shareholder	Issued capital	% total
1	Tandem Corp Pty Ltd	17,325,581	100%
Total shares on issue		17,325,581	100%

Source: A search of ASIC records on 1 July 2021



Security interests

Security interests

Collateral class	Number
Secured creditor - ALL PAP	1
Secured creditor - All PAP with exception	-
Secured creditor - General intangible	1
Motor Vehicle	1
Other goods	5
General intangible	-
Total	8

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

Creditor Profile

Creditor Profile	Number	Value (\$)
Unsecured Creditors - Trade Creditors	8	330,817
Unsecured Creditors - Statutory Creditors	1	707,693
Total	9	1,038,509

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Summarised ROCAP

Summarised ROCAP - as at 30 June 2021

(\$'000)	ROCAP Value (\$)
Assets	
Cash at bank	22
Trade and Other Receivables / Debtors	60
Intangibles	1,256
Property, Plant and Equipment	1,639
Computer Software	522
Total Assets	3,499
Liabilities	
Employee entitlements	(482)
Outstanding superannuation	(52)
Unsecured Creditors - Statutory	(708)
Unsecured Creditors - Trade Creditors	(331)
Total Liabilities	(1,572)
Net Assets/(Liabilities)	-
	1,926

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Receipts and payments

Summary receipts and payments for the period 1 July 2021 to 25 July 2021

A\$'000

Receipts

Pre-appointment receipts and cash at bank at appointment	23
Loan from Insolvent Group entities	200
Total receipts	223

Payments

Payroll	(192)
Employee expenses	(5)
Total payments	(197)

Net cash flow	26
----------------------	-----------

Closing cash at bank as at 25 July 2021	26
--	-----------

Source: Administrators' accounts

A4 ISGA FINCO PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	ISGA FinCo Pty Ltd
ACN	612 825 797
Registered in	Victoria
Registered on	6/06/2016
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/ class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Adrian James Field	Director	23/06/2016	-
Stuart Wardman-Browne	Director	21/09/2018	-
Kirsteen Naomi Clarke	Secretary	25/06/2018	-
Matthew Paul Caulfield	Secretary	6/08/2019	28/10/2019
Damian William Johnson	Secretary	23/06/2016	6/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders

Rank	Shareholder	Issued capital	% total
1	Tandem Corp Pty Ltd	1	100%
Total shares on issue		1	100%

Source: A search of ASIC records on 1 July 2021

Security interests

Security interests

Collateral class	Number
Secured creditor - ALL PAP	1
Secured creditor - All PAP with exception	-
Secured creditor - General intangible	-
Motor Vehicle	-
Other goods	-
General intangible	1
Total	2

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

Creditor Profile

Creditor Profile	Number	Value (\$)
Secured Creditor	1	13,945,046
Total	1	13,945,046

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Summarised ROCAP

Summarised ROCAP - as at 30 June 2021

(\$'000)	ROCAP Value (\$)
Assets	
Cash at bank	10
Total Assets	10
Liabilities	
Secured Creditors	(13,945)
Total Liabilities	(13,945)
Net Assets/(Liabilities)	- (13,935)

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Receipts and payments

Summary receipts and payments for the period 1 July 2021 to 25 July 2021

	A\$'000
Receipts	
Pre-appointment receipts	10
Total receipts	10
Payments	
Total payments	-
Net cash flow	10
Closing cash at bank as at 25 July 2021	10

Source: Administrators' accounts

A5 ISGM CONSULTING PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	ISGM Consulting Pty Ltd
ACN	142 331 735
Registered in	Victoria
Registered on	3/03/2010
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/ class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Adrian James Field	Director	3/03/2010	-
Joseph Caporale	Director	23/06/2016	-
Kirsteen Naomi Clarke	Secretary	25/06/2018	-
Matthew Paul Caulfield	Secretary	6/08/2019	28/10/2019
Damian William Johnson	Secretary	24/03/2015	6/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders

Rank	Shareholder	Issued capital	% total
1	Infrastructure Services Group (Aust) Pty Ltd	120	100%
Total shares on issue		120	100%

Source: A search of ASIC records on 1 July 2021

Security interests

Security interests

Collateral class	Number
Secured creditor - ALL PAP	1
Secured creditor - All PAP with exception	-
Secured creditor - General intangible	1
Motor Vehicle	-
Other goods	-
General intangible	-
Total	2

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

ISGM Consulting Pty Ltd is a dormant entity and there were no unsecured creditors as at 30 June 2021 (excluding intercompany loans between entities within the group).

Summarised ROCAP

ISGM Consulting Pty Ltd is a dormant entity with no reported assets or liabilities (excluding loans between entities within the Group), and therefore did not prepare a standalone Statement of Financial Performance or Statement of Financial Position which would form the content of a ROCAP.

Receipts and payments

ISGM Consulting Pty Ltd is a non-trading entity, and therefore there are no receipts and payments for the period 1 July 2021 to 25 July 2021.

A6 TANDEM PROPERTY WORKS PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	Tandem Property Works Pty Ltd
ACN	600 211 603
Registered in	Victoria
Registered on	19/06/2014
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/ class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Adrian James Field	Director	25/02/2016	-
Joseph Caporale	Director	23/06/2016	-
Kirsteen Naomi Clarke	Secretary	25/06/2018	-
Matthew Paul Caulfield	Secretary	6/08/2019	28/10/2019
Damian William Johnson	Secretary	25/02/2016	6/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders

Rank	Shareholder	Issued capital	% total
1	Infrastructure Services Group (Aust) Pty Ltd	1	100%
Total shares on issue		1	100%

Source: A search of ASIC records on 1 July 2021

Security interests

Security interests	
Collateral class	Number
Secured creditor - ALL PAP	1
Secured creditor - All PAP with exception	-
Secured creditor - General intangible	1
Motor Vehicle	-
Other goods	-
General intangible	-
Total	2

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

Tandem Property Works Pty Ltd is a dormant entity and there were no unsecured creditors as at 30 June 2021 (excluding intercompany loans between entities within the group).

Summarised ROCAP

Summarised ROCAP - as at 30 June 2021	
(\$'000)	ROCAP Value (\$)
Assets	
Cash at bank	11
Total Assets	11
Liabilities	
Total Liabilities	-
Net Assets/(Liabilities)	11

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Receipts and payments

Summary receipts and payments for the period 1 July 2021 to 25 July 2021	
	A\$'000
Receipts	
Pre-appointment receipts	185
Total receipts	185
Payments	
Pre-appointment funds received in error	(174)
Total payments	(174)
Net cash flow	11
Closing cash at bank as at 25 July 2021	11

Source: Administrators' accounts

A7 ISG MANAGEMENT PTY LTD

Statutory information

Company information

Information type	Details
Legal entity	ISG Management Pty Ltd
ACN	142 916 970
Registered in	Victoria
Registered on	1/04/2010
Registered office	1320 Malvern Road, Malvern VIC 3144
Principal place of business	1320 Malvern Road, Malvern VIC 3144
Type/ class	Australian Proprietary Company

Source: A search of ASIC records on 1 July 2021

Directors and officers

Directors and officers

Name	Role	Appointment Date	Resignation Date
Stuart Wardman-Browne	Director	21/09/2018	-
Adrian James Field	Director	1/04/2010	10/06/2021
Joseph Caporale	Director	24/03/2011	10/06/2021
John Paitaridis	Director	3/05/2019	15/05/2021
Simon Thomas Martin	Director	1/05/2018	17/04/2020
Kirsteen Naomi Clarke	Secretary	26/10/2016	-
Matthew Paul Caulfield	Secretary	6/08/2019	28/10/2019
Damian William Johnson	Secretary	24/03/2015	6/08/2019

Source: A search of ASIC records on 1 July 2021

Shareholders

Shareholders

Rank	Shareholder	Issued capital	% total
1	Infrastructure Services Group (Aust) Pty Ltd	15,423,767	100%
Total shares on issue		15,423,767	100%

Source: A search of ASIC records on 1 July 2021

Security interests

Security interests

Collateral class	Number
Secured creditor - ALL PAP	1
Secured creditor - All PAP with exception	-
Secured creditor - General intangible	1
Motor Vehicle	84
Other goods	10
General intangible	-
Total	96

Source: PPSR searches undertaken on 1 July 2021

Creditor profile

Creditor Profile

Creditor Profile	Number	Value (\$)
Unsecured Creditors - Trade Creditors	489	2,392,085
Unsecured Creditors - Statutory Creditors	1	1,891,141
Total	490	4,283,227

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Summarised ROCAP

Summarised ROCAP - as at 30 June 2021

(\$'000)	ROCAP Value (\$)
Assets	
Cash at bank	350
Trade and Other Receivables / Debtors	2,177
Accrued Revenue	1,589
Intangibles	216
Property, Plant and Equipment	23
Total Assets	4,355
Liabilities	
Employee entitlements	(3,725)
Outstanding superannuation	(138)
Unsecured Creditors - Statutory	(2,136)
Unsecured Creditors - Trade Creditors	(2,392)
Total Liabilities	(8,391)
Net Assets/(Liabilities)	(4,037)

Source: Directors' ROCAP as at 30 June 2021

Note 1: Excludes intercompany loans between entities within the Group

Receipts and payments

Summary receipts and payments for the period 1 July 2021 to 25 July 2021

	A\$'000
Receipts	
Post-appointment receipts	703
Pre-appointment receipts and cash at bank at appointment	1,957
Total receipts	2,660
Payments	
Payroll	(55)
Employee expenses	(1)
Subcontractors	(250)
IT expenses	(7)
Office rent	(13)
Loan to Insolvent Group entities	(220)
Total payments	(546)
Net cash flow	2,114
Closing cash at bank as at 25 July 2021	2,114

Source: Administrators' accounts

The Administrators note that analysis regarding the allocation between circulating assets and trading receipts is ongoing and post-appointment receipts presented above may include elements of WIP and accrued revenue held at the date of appointment.

APPENDIX B ARITA information sheets

ARITA Information Sheet – “Offences, Recoverable Transactions and Insolvent Trading”

ARITA Information Sheet – “Committees of Inspection”

Creditor Information Sheet

Offences, Recoverable Transactions and Insolvent Trading



Offences

A summary of offences under the Corporations Act that may be identified by liquidators or administrators:

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) / 453F 475(9)) / 497(4) / 530A – 530B	Failure by directors to assist, deliver records and provide information.
438C(5) / 477(3) / 530B	Failure to assist, deliver up books and records and provide information.
588G	Incurring liabilities while insolvent
588GAB	Officer's duty to prevent creditor-defeating disposition
588GAC	A person must not procure a company to make a creditor-defeating disposition
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.
596AB	Entering into an agreement or transaction to avoid employee entitlements.

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, or three months if a simplified liquidation process is adopted. 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.

**Must be greater than \$30,000 for unrelated creditors in a simplified liquidation*

Creditor-defeating disposition

Creditor-defeating dispositions are the transfer of company assets for less than market value (or the best price reasonably obtainable) that prevents, hinders or significantly delay creditors' access to the company's assets in liquidation. Creditor-defeating dispositions are voidable by a liquidator.

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 or from members of a corporate group (Contribution Order).

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 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 director may also be able to avail themselves of safe harbour, if they meet certain conditions.

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.

Queries about the external administration should be directed to the insolvency practitioner's office.

Information Sheet: Committees of Inspection

You have been elected to be, or are considering standing for the role of, a member of a Committee of Inspection (COI) in either a liquidation, voluntary administration or deed of company arrangement of a company (collectively referred to as an external administration).

This information sheet is to assist you with understanding your rights and responsibilities as a member of a COI.

What is a COI?

A COI is a small group of creditors elected to represent the interests of creditors in the external administration. The COI advises and assists the external administrator and also has the power to approve and request certain things – this is discussed in more detail below.

Membership of the COI is a voluntary, unpaid position.

Who can be elected to a COI?

To be eligible to be appointed as a member of a COI, a person must be:

- A creditor
- A person holding the power of attorney of a creditor
- A person authorised in writing by a creditor; or
- A representative of the Commonwealth where a claim for financial assistance has, or is likely to be, made in relation to unpaid employee entitlements.

If a member of the COI is a company, it can be represented by an individual authorised in writing to act on that creditor's behalf. It also allows the creditor to maintain its representation if a change in the individual is required

A COI usually has between 5 and 7 members, though it can have more, or less, depending on the size of the external administration.

A member of a COI can be appointed by:

- resolution at a meeting of creditors
- an employee or a group of employees owed at least 50% of the entitlements owed to employees of the company
- a large creditor or group of creditors that are owed at least 10% of the value of the creditors' claims,

If an employee or group of employees, or a large creditor or group of creditors, appoints a member to the COI, they cannot vote on the general resolution of creditors to appoint members to the COI. Each of these groups also have the power to remove their appointed member of the COI and appoint someone else.

If you are absent from 5 consecutive meetings of the COI without leave of the COI or you become an insolvent under administration, you are removed from the COI.

What are the roles and powers of a COI?

A COI has the following roles:

- to advise and assist the liquidator, voluntary administrator or deed administrator (collectively referred to as the external administrator)
- to give directions to the external administrator
- to monitor the conduct of the external administration.

In respect of directions, the external administrator is only required to have regard to those directions. If there is a conflict between the directions of the COI and the creditors, the directions of the creditors prevail. If the external administrator chooses not to comply with the directions of the COI, the external administrator must document why.

A COI also has the power to:

- approve remuneration of the external administrator after the external administrator has provided the COI with a Remuneration Approval Report (a detailed report setting out the remuneration for undertaking the external administration)
- approve the use of some of the external administrator's powers in a liquidation (compromise of debts over \$100,000 and entering into contracts over 3 months)
- require the external administrator to convene a meeting of the company's creditors
- request information from the external administrator
- approve the destruction of the books and records of the external administration on the conclusion of the external administration
- with the approval of the external administrator, obtain specialist advice or assistance in relation to the conduct of the external administration
- apply to the Court for the Court to enquire into the external administration.

An external administrator is not required to convene a meeting of creditors if the request by the COI is unreasonable, or provide requested information if the request is unreasonable, not relevant to the administration or would cause the external administrator to breach their duties.

A request to convene a meeting of creditors is unreasonable if:

- it would substantially prejudice the interests of a creditor or third party
- there are insufficient funds in the external administration to cover the cost of the request
- a meeting of creditors dealing with the same matters has already been held or will be held within 15 business days, or
- the request is vexatious.

If a request for a meeting is reasonable, the external administrator must hold a meeting of creditors as soon as reasonably practicable.

A request for information is unreasonable if:

- it would substantially prejudice the interests of a creditor or third party
- the information would be subject to legal professional privilege
- disclosure of the information would be a breach of confidence
- there are insufficient funds in the external administration to cover the cost of the request
- the information has been provided or is required to be provided within 20 business days, or
- the request is vexatious.

If the request for information is not unreasonable, the external administrator must provide the requested information within 5 business days, but the law provides for further time in certain circumstances.

An external administrator must inform the COI if their meeting or information request is not reasonable and the reason why.

How does the COI exercise its powers?

A COI exercises its powers by passing resolutions at meetings of the COI. To pass a resolution, a meeting must be convened and a majority of the members of the COI must be in attendance.

A meeting is convened by the external administrator by giving notice of the meeting to the members of the COI. Meetings of the COI can be convened at short notice. The external administrator must keep minutes of the meeting and lodge them with ASIC within one month of the end of the meeting.

ASIC is entitled to attend any meeting of a COI.

What restrictions are there on COI members?

A member of a COI must not directly or indirectly derive any profit or advantage from the external administration. This includes by purchasing assets of the company or by entering into a transaction with the company or a creditor of the company. This prohibition extends to related entities of the member of the COI and a large creditor(s) that appoints a member to the COI.

Creditors, by resolution at a meeting of creditors, can resolve to allow the transaction. The member of the COI or the large creditor(s) that appoints a member to the COI is not allowed to vote on the resolution.

Where can you get more information?

The Australian Restructuring Insolvency and Turnaround Association (ARITA) provides information to assist creditors with understanding external administrations and insolvency. This information is available from ARITA's website at www.arita.com.au/creditors.

ASIC provides information sheets on a range of insolvency topics. These information sheets can be accessed on ASIC's website at www.asic.gov.au (search "insolvency information sheets").

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