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11 November 2008

Report to the Creditors of:

Image International Pty Ltd (In Liquidation) ("the Company") ABN: 61 009 144 923
ACN 009 144 923

1. Introduction

- 1.1. I was appointed Official Liquidator of the above Company on 12 December 2007, pursuant to an Order of the Federal Court of Australia in proceedings WAD 137 of 2007.
- 1.2. The application to wind up the Company was made by the Australian Taxation Office (ATO) as the major creditor of the Company.
- 1.3. An investigation into the Company's affairs and the conduct of its sole director has begun but is not complete because the affairs of the Company are complex and interwoven with the personal affairs of its director.
- 1.4. The results of my investigations thus far are set out in the following main headings:

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2. Nature of Business

- 2.1. The Company was incorporated on 6 August 1985 and conducted several businesses related to the provision of sexual services and adult entertainment. The director has advised me that the Company commenced business in this industry sometime prior to 1989.

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- 2.2. The Company leased (or licensed) all its businesses to unrelated parties at various dates prior to my appointment and was not operating any business at the date of its winding up on 12 December 2007.
- 2.3. Further details of these businesses are provided at paragraph 6.3 below.

3. Trading History and Financial Records

- 3.1. The Company's trading history for the financial years 2004 to 2007 (and part of financial year 2008) may be summarised as follows:

	FY 2004	FY 2005	FY 2006	FY 2007	Year to 12- Dec-07
	\$	\$	\$	\$	\$
Total Income	3,705,546	3,687,841	3,384,223	4,038,410	744,622
Gross Profit	3,549,463	3,643,731	3,338,424	2,945,431	732,252
Total Expenses	3,420,838	3,704,290	2,728,758	2,882,803	650,643
Net Profit/(Loss)	128,625	(60,559)	609,665	62,628	81,609

- 3.2. Financial Statements were prepared by the Company's external accountants for the years 2004 and 2005, from information provided by the director. The above trading results for financial years 2006 to 2008 (part) are derived from the Company's management accounts.
- 3.3. It appears from my review of the financial records that the external accountant would make a number of, and sometimes substantial, adjustments to the financial records prior to completion of the year end financial statements. The Company did not have financial statements prepared for the years ended 30 June 2006 and 30 June 2007.
- 3.4. Therefore, and again based upon the results of my investigation, I am of the opinion that the Company's financial records for the period 1 July 2005 to 12 December 2007 are not accurate.
- 3.5. A detailed statement of trading performance (profit and loss statements) is annexed as Annexure A.
- 3.6. This analysis shows that the Company traded profitably, other than the 2005 financial year.
- 3.7. The stated financial performances for the periods ended 30 June 2006, 30 June 2007 and 12 December 2007 are not accurate due to the financial records being incomplete. By way of example, the Company was advised by the ATO on 28 June 2007 that a further debt of at least in the amount of \$1,067,018.45 was payable by the Company. This debt is not reflected in the financial records at 30 June 2007. There are other

transactions since 1 July 2005 that are also not accurately recorded in the financial records.

- 3.8. The Company's balance sheets for the periods 30 June 2004 to 30 June 2007 and for the period to 12 December 2007 have been summarised and attached as Annexure B. Again, I am of the opinion that the financial records are inaccurate, particularly since 1 July 2005.
- 3.9. In addition to comments earlier in this report, the financial records are inaccurate as they record certain assets as recoverable when in fact the director should have been aware that it was highly unlikely these assets would be recovered for their stated book value. This matter is further expanded upon under the section titled Business Ventures - Loans and Other Debtors, commencing at paragraph 6.7 below.

4. Statutory Information

- 4.1. The sole director of the Company at the date of my appointment was Mary-Anne Kenworthy of Unit 4, 25 Clydesdale Street, Burswood WA 6100

Ms Kenworthy was a director of the Company from 1985 to 1995. She was again appointed a director on 24 October 1996.
- 4.2. The Company had 100 fully paid ordinary shares on issue at the date of my appointment and the sole shareholder was Ms Kenworthy.
- 4.3. On 11 December 2007, the Company appointed a Voluntary Administrator pursuant to Section 436A of the Corporations Act 2001 (**Act**). A company may appoint a voluntary administrator under the Act when the directors resolve that the company is insolvent or likely to become insolvent at some future time.
- 4.4. The Voluntary Administrator retired upon my appointment as liquidator on 12 December 2007.

5. Report as to Affairs (RATA)

- 5.1. The RATA prepared by the Company's sole director reveals an estimated realisable surplus of approximately \$833,000. My investigations suggest the Company has a deficiency of approximately \$2.0 million (see Annexure B and at paragraph 5.4 below).
- 5.2. The Company acts as a trustee for a trust estate comprising a residential property at 3/25 Clydesdale Street, Burswood WA and has an indemnity for funds expended by it in acquiring and maintaining the property for the beneficiaries.
- 5.3. The trust estate appears to have been incorrectly included in the director's RATA thereby partially explaining variations between the director's RATA and the liquidator's estimated position.
- 5.4. The RATA may be therefore be summarised as follows:

	RATA Cost or Book Value \$'000	Director's Estimated Realisable Value \$'000	Liquidator's Estimated Realisable Value \$'000
<u>Assets</u>			
Assets not Specifically Charged	4,393	2,430	278
Assets Subject to Specific Charges	2,636	2,436	1,887
Contingent Assets	Nil	Nil	1,200
	7,029	4,866	3,365
<u>Liabilities</u>			
Specific Charges	(1,439)	(1,439)	(2,384)
Claims by Employees	(25)	(25)	(55)
Owing to Creditors Secured by Debenture or Floating Charge	(1,200)	(1,200)	Nil
Other Preferential Creditors	(81)	(81)	Nil
Unsecured Creditors	(88)	(88)	(1,729)
Contingent Liabilities	(1,200)	(1,200)	(1,200)
	(4,033)	(4,033)	(5,368)
<i>Estimated Total Surplus /(Deficiency)</i>	2,996	833	(2,003)

- 5.5. A further explanation of the asset and liability classes including significant variances between my estimated realisable values and that of the director is as follows:

Assets not Specifically Charged

- 5.6. The director has included land and buildings in the RATA as being both specifically charged and also not subject to specific charges (duplication). My investigations indicate all real property of the Company is subject to specific charges.
- 5.7. The director has included unsecured loans to associated entities as realisable assets. My investigations indicate most of these loans may not be recoverable because the borrowing entities are of limited or no financial means.

- 5.8. The only asset not specifically charged is an indemnity in favour of the Company (\$278,599). The indemnity is discussed in more detail later in this report.

Assets Subject to Specific Charges

- 5.9. My estimate includes all land and buildings owned by the Company in its own right, a motor vehicle, some items of furniture, fittings and plant valued on a forced sale or auction basis.
- 5.10. Further particulars of these assets are provided later in this report.

Contingent Assets

- 5.11. At the date of my appointment, the Company's assets were encumbered by way of real property mortgages and mortgage debentures (fixed and floating charges) to secure debts payable to financiers by Ms Kenworthy personally. These debts are shown as a contingent liability in the RATA.
- 5.12. Proceeds from the realisation of the Company's assets may therefore be applied toward the discharge of Ms Kenworthy's debt by the relevant financier. In such circumstances the Company will have a claim, equivalent to the discharged debt, against Ms Kenworthy by right of subrogation.
- 5.13. Such a situation has arisen since my appointment and I intend to make demand upon Ms Kenworthy for repayment of a debt of \$40,576.16. Details are provided in paragraphs 5.25 to 5.32 below.
- 5.14. The amount estimated by me as Contingent Assets is a representation of the total debt that Ms Kenworthy may become liable to pay the Company in the event Company assets are applied to discharge the Contingent Liabilities.

Specific Charges

- 5.15. All land and buildings owned by the Company in its own right are encumbered by registered first (and in one case second) mortgages. These liabilities are further discussed later in this report.
- 5.16. Some items of furniture, fittings and plant and a motor vehicle are subject to specific charges.
- 5.17. A motor vehicle and associated lease agreement was disclaimed after my appointment as I had assessed that there was no equity in the lease agreement. For the same reason, I disclaimed a rental agreement in respect of a photocopier.

Claims by Employees

- 5.18. The RATA states \$25,472 as owing to employees as unpaid superannuation. A former employee has since submitted a claim for unpaid annual leave, unpaid long service

leave and additional unpaid superannuation totalling \$30,268. I have therefore estimated claims by employees as being \$55,740.

Owing to Creditors Secured by Debenture or Floating Charge

5.19. The Company's assets are encumbered by four debenture mortgages (fixed and floating charges), in the following order of priority:

5.19.1. National Australia Bank

5.19.2. Balanced Securities Ltd (formerly H.G & R. Finance Ltd)

5.19.3. Service Finance Corporation Ltd

5.19.4. Optima Funding Pty Ltd (Formerly H.G. & R. Securities Pty Ltd)

5.20. The charges in favour of Balanced Securities and Optima Funding also secure the borrowings of the director. Those financiers have advised me that the director's loans are in default.

Other Preferential Creditor

5.21. The RATA did not provide any particulars of this liability. My subsequent investigations suggest the director may have incorrectly attributed liabilities due to the ATO as owing to a preferential creditor.

5.22. As the ATO does not enjoy preferential treatment as a creditor (other than payments made by it in respect of the Superannuation Guarantee Charge), I have estimated this liability to be zero.

Unsecured Creditors

5.23. The RATA did not disclose any liability to the ATO. Since my appointment, I have received a proof of debt from the ATO in the amount of \$1,618,021.17, being a claim for unpaid income tax, taxation remittances arising from business activity statements and general interest charges.

5.24. There is a further explanation in respect to the circumstances regarding the debt payable by the company to the ATO commencing at paragraph 6.14 below.

Land and Buildings

5.25. At the date of my appointment, the Company was the registered proprietor of three properties:

2/49 Berriman Drive, Wangara WA

- 5.26. The Company owned 99/100th shares of this strata title property as a tenant-in-common with M.A.K. Holdings Pty Ltd (as to 1/100th share). M.A.K. Holdings Pty Ltd is a company controlled by Ms Kenworthy.
- 5.27. The property is situated within the Wangara Industrial Estate and was leased to the operator of an adult entertainment business. This business was formerly operated by the Company.
- 5.28. The property was encumbered by two registered mortgages which secure the borrowings of the Company and Ms Kenworthy.
- 5.29. I sold the property and the business as a going concern for a total consideration of \$320,000. Settlement was effected on 15 October 2008.
- 5.30. All of the net sale proceeds of the sale of the business assets, after payment of some of my costs and settlement costs, were paid to AllCommercial Finance Australia Pty Ltd as secured creditor. This payment fully repaid the Company's debt under a Hire Purchase Agreement with AllCommercial Finance.
- 5.31. All of the Company's share of the net proceeds of the sale of the property, after payment of settlement costs and some of my costs, were paid to Balanced Securities. I have been advised by Balanced Securities that it applied the net sale proceeds to both the Company's debt (as to \$221,226.57) and to Ms Kenworthy's debt (as to \$40,576.16).
- 5.32. The payment to Balanced Securities partially repaid the Company's debt and also partially repaid Ms Kenworthy's debt. Substantial debts remain on both accounts.
- 5.33. As mentioned at paragraph 5.13 above, I intend to make demand upon Ms Kenworthy for repayment of \$40,576.16 by right of subrogation. I will commence legal action against Ms Kenworthy if she fails to repay the debt to the Company.

4/25 Clydesdale Street, Burswood WA

- 5.34. This is a residential townhouse property previously occupied by Ms Kenworthy. It was constructed in 2002 and the Company purchased the property from the developer, Letizia Building Co Pty Ltd (**Letizia**) in early 2003. It was valued at (fair market value) \$1.2 million in a valuation undertaken shortly after my appointment.
- 5.35. I was unable to market the property for sale for a period of approximately six months due to the existence of a claim by Letizia. Further particulars are provided below, commencing at paragraph 5.46.
- 5.36. The property is encumbered by a registered first mortgage to National Australia Bank. The three loans secured by the mortgage are in default and the total amount presently due to the Bank is approximately \$1.4 million.
- 5.37. The mortgage to the Bank includes a collateral debt due in respect of adjoining property 3/25 Clydesdale Street, Burswood – see comments below.

- 5.38. The property is also encumbered by a caveat in favour of Balanced Securities. The caveator claims an interest as equitable mortgagee pursuant to a mortgage given by the Company on 27 February 2006 to secure a loan to Ms Kenworthy.
- 5.39. On 16 August 2008, I offered the property for sale by public auction but it was passed in after failing to attract a bid. I have since engaged selling agents to offer the property for sale by private treaty.
- 5.40. I have since received a further valuation report from a licensed valuer which now values the property at \$1.0 million and I have instructed the selling agents to offer the property for sale at that price.

3/25 Clydesdale Street, Burswood WA

- 5.41. This residential townhouse adjoins the above property. It was acquired in 2003 by the Company in trust for the W & I George Trust.
- 5.42. It is encumbered by registered first mortgage to National Australia Bank to secure a debt of approximately \$410,000. This debt is collateralised in the mortgage over 4/25 Clydesdale Street, Burswood.
- 5.43. It was valued at (fair market value) \$850,000 in a valuation prepared shortly after my appointment.
- 5.44. The terms of the trust deed provide that the Company is indemnified against the property for funds expended by it in acquiring and maintaining the property. I have identified costs of approximately \$278,600 as falling within the indemnity.
- 5.45. My early assessment indicates there should be sufficient equity in the property to substantially recover the indemnified costs. I have lodged a caveat over the property to protect the Company's indemnity.
- 5.46. At the date of my appointment, the Company was a defendant in litigation commenced by the developer of the two Clydesdale Street properties (Letizia). Letizia had caused caveats to be registered over the two properties, claiming an interest as unpaid vendor.
- 5.47. My investigations and advice from my legal advisers indicated the claim by Letizia was unsubstantiated and I consequently sought agreement with Letizia to withdraw the caveats.
- 5.48. Letizia did not agree to withdraw the caveats and I was therefore forced to take action under the provisions of the *Transfer of Land Act* to have the caveats removed, in order to deliver unencumbered title to a prospective purchaser. The removal of the caveats was not contested by Letizia. Letizia has not subsequently lodged a proof of debt in support of its claim.

- 5.49. The property was also offered for sale by public treaty on 16 August 2008, in conjunction with 4/25 Clydesdale Street, Burswood. It was also passed in after failing to attract a bid.
- 5.50. Shortly before the auction, the beneficiaries of the W & I George Trust lodged a caveat over the property. The beneficiaries have refused to withdraw the caveat and the Registrar of Titles has also declined to take action to withdraw the caveat under the provisions of the *Transfer of Land Act*.
- 5.51. I have therefore been forced to commence legal proceedings against the beneficiaries to seek court approval for the caveat to be withdrawn.
- 5.52. As the beneficiaries are unable to repay the indemnity to the Company, the indemnity can only be recovered for the benefit of creditors through a sale of the property.
- 5.53. Accordingly, the property is now offered for sale by private treaty at an asking price of \$725,000 which is the fair market value of the property as assessed by a licensed valuer in a report provided to me on 7 October 2008.

6. Investigations into Company's Affairs

- 6.1. I have begun extensive investigations into the affairs of the Company and those investigations are on-going. The affairs of the Company, the nature of its former businesses in the sex industry and its continuing association through various agreements with current operators of the businesses are particularly involved and complex.
- 6.2. Due to the complexity of the affairs of the Company, the cost of my investigations to date has been significant and any further investigations (which may recover funds for the benefit of creditors) may be dependent on realisation of assets, recoveries available to the liquidator and/or funding from other sources.

Business Activities

- 6.3. In this report I set out the results of my preliminary investigations and provide creditors with an understanding of the issues that I need to resolve before the administration can be completed.
 - 6.3.1. The director has stated that the Company ceased trading on or about the date of my appointment.
 - 6.3.2. However, Company records show that, by various written agreements, the Company leased its business operations to various unrelated third parties prior to my appointment and consequently ceased to trade its businesses (but retain ownership) on implementation of those agreements.
 - 6.3.3. The agreements may be summarised as:

Ladies Playground

- 6.3.3.1. This business was operated from the Company's property at 2/49 Berriman Drive, Wangara.
- 6.3.3.2. By an agreement made on or around 12 February 2007, the property and the business of an adult ('swingers') club was leased to an unrelated third party for a term of 12 months at an annual rental of \$31,500 plus outgoings.
- 6.3.3.3. The agreement also provided the lessee with an option to purchase both the business premises and the business assets, exercisable within two months prior to expiration of the lease term.
- 6.3.3.4. The lessee exercised his option and entered into an agreement for sale of the land and business, however he failed to complete the contract.
- 6.3.3.5. I subsequently obtained judgment of \$20,212.50 for debts due as rent under the terms of the contract of sale and served a bankruptcy notice on the lessee. The lessee failed to discharge the notice and I have instructed my lawyer to file a creditor's petition for bankruptcy.
- 6.3.3.6. I subsequently agreed terms of a further contract of sale for the land and business and that contract of \$320,000 settled on 15 October 2008.
- 6.3.3.7. After payments to secured creditors, I received approximately \$14,000 as part recovery of my costs.

Langtrees and Langtrees 181 (or Langtrees of Kalgoorlie)

- 6.3.3.8. These two businesses are operated from properties owned by Ms Kenworthy situated at 71-73 Burswood Road, Burswood and 181 Hay Street, Kalgoorlie respectively.
- 6.3.3.9. By an agreement dated 8 October 2007 between Ms Kenworthy and a company controlled by a former employee of the Company, the properties and the businesses of brothels were leased for a term of 3 years at an initial annual rental of \$520,000 plus GST. The rental rises to \$650,000

plus GST in year 2 of the lease and \$715,000 plus GST in year 3 of the lease.

6.3.3.10. The agreement does not apportion the rental between the properties (payable to Ms Kenworthy) and the businesses (allegedly payable to the Company). The Company is not a party to the agreement.

6.3.3.11. Consequently, all of the rent is presently being paid to Ms Kenworthy or her secured creditor.

6.3.3.12. I have commenced legal proceedings against Ms Kenworthy. In my view the Company was entitled to receive a portion of the rental in respect of the businesses. I have claimed \$6,875 per week from the commencement of the lease on 9 October 2007. Ms Kenworthy refutes the claim and has entered an appearance to defend.

6.3.3.13. In the circumstances, I am seeking a declaration from the court that the Company is the proprietor of the businesses and is entitled to a share of the rental.

6.3.3.14. A decision by the Court in favor of the Company would then allow me to commence negotiations for a sale of the Burswood and Kalgoorlie businesses.

6.3.3.15. I have advised the business tenant and the appropriate secured creditors of my interest in the rental payment payable pursuant to the lease.

6.3.3.16. I have not received any rental payments since my appointment.

Outskirts Retreat (or Langtrees of Midland)

6.3.3.17. This business operates from a property owned by the Company's director at 10-14 Helena Street, Midland.

6.3.3.18. By an agreement made sometime in 2005, the property and the business of a massage parlour and adult relaxation centre was leased by the Company to unrelated third parties, for a term of 5 years at an annual rental of \$68,900 inclusive of GST.

6.3.3.19. The agreement does not apportion the rental between the property (payable to Ms Kenworthy as landlord) and the business (payable to the Company).

6.3.3.20. I have received some rental payments since my appointment by agreement between the parties, however the lessees ceased payments in early June 2008.

6.3.3.21. I have consequently made demand upon them for the arrears of \$12,042.02 and am considering legal action for recovery.

Other Business Names

6.3.3.22. The director has advised me that the Company traded under a number of other business names. However, the names given to me are not registered to the Company as Australian Business Names and I have yet to find Company records in relation to them.

Internet Domain Names

6.3.3.23. The Company is the registered proprietor of a number of active websites. I have maintained registration of the domain names for potential sale. Some expressions of interest have been received.

6.3.3.24. The value of these intangible assets is unknown. These assets may form part of a sale of business situated at Burswood and Kalgoorlie.

Causes of Failure

Director's Opinion

- 6.4. According to the director, the failure of the Company is the result of a dispute with the ATO as to the Company's obligation to return Goods and Services Tax (GST) to the ATO arising from sex services provided by women hiring rooms and other facilities provided by the Company.

Liquidator's Opinion

- 6.5. My investigations suggest the Company's failure can be largely attributed to the following:

Factors Contributing to Failure	\$
Estimated loss arising from diversion of Company funds to non-core business ventures of the director and her associates	(2,943,010)
Estimated loss arising from excessive capital expenditure in respect to Property, Business and Related Assets	(1,410,147)
Additional GST and income tax penalties imposed by the ATO for the financial years ended 30 June 2005 and 30 June 2006	(1,067,018)
Total	(5,420,175)

6.6. In addition to the above it is likely the following circumstance also contributed to the Company's failure.

6.6.1. The Company's mismanagement of its financial resources resulted in the Company having little option but to seek and agree to finance facilities with oppressive terms, including relatively high interest rates.

6.6.2. There is evidence that suggests the Company encountered increased competition in more recent times from other providers in the market, particularly sole traders.

Business Ventures – Loans and Other Debtors

6.7. The Company advanced funds to a number of related and non-related entities. My investigations suggest that substantially all of these loans are non-recoverable resulting in a considerable loss to the Company. I have attached as Annexure C a summary of loans payable to the Company at the date of liquidation.

6.8. A brief overview of the more significant losses are as follows:

6.8.1. HFC Limited - Loss \$2,150,801

6.8.1.1. HFC is a New Zealand registered company which was placed into liquidation under New Zealand law on 14 February 2008 for failure to pay taxes.

6.8.1.2. Ms Kenworthy is the sole director and sole shareholder of HFC.

6.8.1.3. According to a report issued by the liquidators of HFC, the company owned property in Awanui, New Zealand from which it operated a business known as Big River Café. The property was sold in May 2006. The liquidators have yet to complete their investigations and report on the distribution of the sale proceeds.

- 6.8.1.4. On 18 October 1999, the Company and HFC entered into a Term Loan Contract under which the Company advanced the sum of \$229,165 to HFC and agreed to provide further advances to HFC from time to time. The Contract also provided that HFC pay interest at the rate on 5% per annum or 12% per annum on default.
 - 6.8.1.5. The loan was unsecured.
 - 6.8.1.6. At the date of my appointment, the Company's records showed that HFC owed the Company the sum of \$897,020.28. However, the records failed to account for accrued interest.
 - 6.8.1.7. I consequently calculated the interest due to the Company and lodged a proof of debt with the liquidators of HFC in the amount of \$2,150,800.62.
 - 6.8.1.8. The liquidators have indicated that a dividend is unlikely.
- 6.8.2. Image Publishing Pty Ltd - Loan \$201,147
- 6.8.2.1. Image Publishing is a registered Australian proprietary company controlled by Ms Kenworthy as its sole director and company secretary.
 - 6.8.2.2. It has 200 shares on issue, of which M.A.K. Holdings Pty Ltd (an entity controlled by Ms Kenworthy) holds 195 shares and Ollie Giumelli holds 5 shares.
 - 6.8.2.3. I have been advised by a former director that Image Publishing formerly operated a general printing business known as Busy Printing but ceased trading some years ago. Ms Kenwothy has not provided any information in relation to its business activities.
 - 6.8.2.4. I have been provided with a copy of the financial statements of Image Publishing prepared by its external accountants for the year ended 30 June 2005. The accountants have advised me that they have not prepared financial reports for Image Publishing since that date.
 - 6.8.2.5. The financial statements for the year ended 30 June 2005 show that Image Publishing had no assets and generated no income for that year.
 - 6.8.2.6. The statements also show an unsecured debt owing to the Company of \$162,937 at 30 June 2005.
 - 6.8.2.7. The financial records of the Company record that the Company continued to advance funds for the benefit of Image Publishing

after 30 June 2005 and the debt rose to \$201,146.81 by 8 August 2007.

6.8.2.8. On the information presently available to me, it is unlikely that the Company will recover any of the debt due to it by Image Publishing.

6.8.3. Image Vending Pty Ltd - Loss \$155,423

6.8.3.1. Image Vending is a registered Australian proprietary company controlled by Ms Kenworthy as sole director and company secretary.

6.8.3.2. I have been advised by the former financial controller of the Company that Image Vending (in its capacity of trustee of the First Rate Unit Trust) operated a business which deployed various vending machines in public venues.

6.8.3.3. Ms Kenworthy has not provided any information in relation to the business activities of Image Vending.

6.8.3.4. I have been provided with a copy of the financial statements of Image Vending prepared by its external accountants for the year ended 30 June 2006. The accountants have advised me that they have not prepared financial reports for Image Vending since that date.

6.8.3.5. The statements show an unsecured debt owing to the Company of \$126,748 at 30 June 2006.

6.8.3.6. The financial records of the Company record the debt due to it by Image Vending as \$155,422.66 at 30 June 2006 (and at the date of my appointment).

6.8.3.7. I have consequently adopted \$155,423 as being the debt due to the Company by Image Vending.

6.8.3.8. On the information presently available to me it is unlikely that the Company will recover any of the debt due to it by Image Vending.

6.8.4. Big River Development Ltd - Loss \$124,205

6.8.4.1. Big River was a New Zealand registered company which has been struck off (deregistered) from the New Zealand company register. It has therefore ceased to exist.

6.8.4.2. Prior to deregistration, Big River was controlled by Ms Kenworthy as its sole director. Ms Kenworthy was also its sole shareholder.

- 6.8.4.3. Ms Kenworthy has not provided any information in relation to the activities of Big River or the arrangements that existed between the Company and Big River for repayment of funds advanced by the Company.
- 6.8.4.4. The financial records of the Company record that Big River is indebted to the Company in the amount of \$124,204.81.
- 6.8.4.5. I have not found any evidence that the debt is secured.
- 6.8.4.6. As Big River no longer exists as a legal entity, there is no prospect of any recovery of the debt due to the Company.

6.8.5. Lets Party Tonight WA - Loss \$197,001

- 6.8.5.1. Lets Party Tonight WA is a registered business name in Western Australia. The business name register records the nature of the business as being an entertainment website.
- 6.8.5.2. The persons carrying on the business are Janet Audrey Bond, Phillip Bond and Topliss Entertainment Pty Ltd. Janet Audrey Bond is the sole director of Topliss Entertainment.
- 6.8.5.3. Topliss Entertainment is presently in liquidation under a creditors' voluntary winding up administration.
- 6.8.5.4. The financial records of the Company record that the Company advanced funds for the business operations of Lets Party Tonight WA and that a debt of \$197,001.32 was due to the Company at the date of my appointment.
- 6.8.5.5. I have lodged a proof of debt with the liquidator of Topliss Entertainment in the amount of \$197,001.32. The Summary of Affairs of Topliss Entertainment provided to the liquidator by its director states that it has nominal assets and creditors of \$172,345 (excluding the claim of the Company which is disputed).
- 6.8.5.6. Accordingly, it is unlikely that any dividend will be paid to the Company.
- 6.8.5.7. I am presently considering action against Janet Audrey Bond and Phillip Bond for recovery of the debt, however at this stage, I am unable to determine the commerciality of such action.

Excessive Capitalisation – Property Businesses and Related Assets

- 6.9. The land and buildings owned by the Company are generally detailed earlier in this report except for an interest in a New Zealand property, the details of which have not been provided to me by the director.

- 6.10. The Company also operated businesses from premises leased at Burswood, Kalgoorlie and Midland.
- 6.11. I have attached as Annexure D a summary showing a book value of \$2,648,252 for the Company's investment in Property, Business and Related Assets at 12 December 2007. The annexure also shows my estimated realisable value of those assets and my estimate of the losses likely to be booked by the Company on sale of the assets.
- 6.12. My investigations suggest a loss of approximately \$1,410,147 will be recorded upon the disposal of the Company Property, Business and Related Assets.
- 6.13. A significant proportion of this loss (\$1,065,516) can be attributed to expenditure on fixtures and fittings at the 4/25 Clydesdale Street, Burswood residence (\$187,514) and at premises owed by the director at Burswood Road, Burswood (\$322,305) and Hay Street, Kalgoorlie (\$345,299).

Australian Taxation Office

- 6.14. In early 2006, the ATO invited the Company to amend its previously lodged Business Activity Statements (BAS) to take into account income received by the Company on behalf of sex workers. The Company was collecting GST on the room rental fee paid by the customer but was not collecting GST on the service fee paid by the customer to the sex workers.
- 6.15. The director did not agree with the position taken by the ATO and chose not to amend the Company's BAS.
- 6.16. The ATO subsequently commenced an audit of the Company's affairs. The information available suggests this was a protracted process.
- 6.17. The ATO's audit was concluded towards the middle of 2007 resulting in the Company being advised on 28 June 2007 that the ATO had assessed the Company owed additional tax and penalties of \$1,067,018.45 for the financial years ended 30 June 2005 and 30 June 2006. This comprised additional GST (\$732,180.00), GST penalties (\$183,045.00), additional income tax (\$121,434.80) and income tax penalties (\$30,358.65).
- 6.18. Prior to issuing the amended assessment, the ATO filed an application in the Supreme Court of Western Australia (on 19 July 2007) for the winding up of the Company in respect to the non-payment of a tax debt totalling \$52,936.15.
- 6.19. The ATO has lodged a proof of debt in the amount of \$1,618,021.17
- 6.20. The ATO had previously filed petitions for the winding up of the Company on 18 November 2003 and 23 March 2005. These winding petitions were withdrawn on 17 May 2004 and 31 May 2005 respectively.

Books and Records

- 6.21. I have recovered the books and records of the Company, including computer records and those held by outside parties.
- 6.22. Financial statements obtained from the Company's external accountant (to 30 June 2005) and management accounts maintained by the Company since 1 July 2005 may be summarised as follows:

	FY 2004	FY 2005	FY 2006	FY 2007	FY to 12 December 2007
	\$	\$	\$	\$	\$
Current Assets	1,613,318	1,760,911	2,095,662	1,693,011	1,717,615
Non-Current Assets	2,399,788	2,507,009	2,529,785	2,608,456	2,608,262
Total Assets	4,013,106	4,267,920	4,625,447	4,301,467	4,325,877
Current Liabilities	921,439	1,169,547	947,492	663,546	644,907
Non-Current liabilities	821,882	939,201	951,380	848,718	810,158
Total liabilities	1,743,321	2,108,748	1,898,872	1,512,264	1,455,065
Net Assets/(Liabilities)	2,269,785	2,159,172	2,726,575	2,789,203	2,870,812

- 6.23. A detailed statement of the financial position of the Company (balance sheets) and my analysis is annexed as Annexure B.

Insolvent Trading

- 6.24. The Act definition of "insolvent" is determined by reference to the term "solvent", which is defined as "*when a company is able to pay all its debts as and when they fall due*". By definition, a company is insolvent when it is unable to meet its debts as and when they fall due.
- 6.25. Pursuant to Section 588G of the Act, a director of a company has a duty to prevent the company from incurring a debt when the company is insolvent, or where there are reasonable grounds to suspect that the company is or would become insolvent as a result of a transaction.
- 6.26. Pursuant to Section 588M of the Act, a liquidator (and in some circumstances a creditor) may recover from a director losses suffered by a company from transactions entered into at a time when a company was insolvent.

- 6.27. In order to establish a case of insolvent trading against a director, a liquidator must first establish that a director or a reasonable person in the director's position ought to have been aware that the company was insolvent at the relevant time.
- 6.28. There are two tests of insolvency, namely the balance sheet test of whether a company has sufficient assets to meet its liabilities and the cash flow test of whether a company has access to sufficient working capital to meet its operating expenses. The cash flow test of insolvency is the more recognised test.

Insolvent Trading Analysis

- 6.29. I have reviewed the Company's financial records and the Company's liabilities which were due and payable at the date of liquidation. I have formed the opinion that, in the Company's circumstances, the point in time at which it became insolvent can (to a large extent) be determined by an analysis of the Company's unsecured creditors. In particular, debts payable to the ATO and the WA Department of Treasury and Finance (**DTF**).
- 6.30. I have attached as Annexure E a listing of the Company's known unsecured creditors at the date of liquidation. Before commenting in respect to the unsecured creditors and the impact such an analysis may have upon an analysis of insolvency I will address debts due to secured and partly secured creditors.
- 6.31. The Company had finance leasing/hire purchase contract obligations with the following financiers at the date of liquidation.
- 6.31.1. Service Finance Corporation Ltd
 - 6.31.2. Canon Finance Australia Ltd
 - 6.31.3. AllCommercial Finance Australia Pty Ltd
 - 6.31.4. Suncorp Metway Advances Corporation Pty Ltd
- 6.32. At the date of liquidation, all finance leasing/ hire purchase contracts were current. That is, there were no monthly lease/ hire purchase payments overdue. Therefore the conclusion can be drawn that in respect to these liabilities the Company was paying its debts as when they fell due.
- 6.33. The Company owed the following secured debts to financiers at the date of liquidation:
- 6.33.1. National Australia Bank – \$1,239,467
 - 6.33.2. Balanced Securities Ltd - \$1,163,832
 - 6.33.3. Optima Funding Pty Ltd - \$202,705
- 6.34. These financial arrangements were all entered into prior to 1 August 2006.

- 6.35. These debts are secured by Company assets and the director's personal assets. To the extent the Company's assets might be insufficient to discharge these debts in full, it is my understanding that the director's assets are more than sufficient to satisfy any shortfall.
- 6.36. None of the secured creditors had commenced recovery proceedings prior to the date of liquidation.
- 6.37. The conclusion to be drawn from this analysis is that the Company's secured debts would be paid in full if the secured creditors chose to call upon their security. Furthermore, the director has provided additional security to ensure the secured creditors were paid in full.
- 6.38. Therefore the determination of the point in time from which the Company continued to trade whilst insolvent largely becomes dependent upon an analysis of the Company's unsecured creditors and the financial resources available to pay those creditors.
- 6.39. At the date of liquidation, with the exception of debts payable to the ATO (\$1,618,021) and the DTF (\$69,523) the Company had twenty (20) unsecured creditors who were owed \$41,516 (see Annexure E).
- 6.40. My investigations suggest that none of the Company's unsecured creditors, with the exception of ATO and DTF, had commenced proceeding to recover their debts and, to the extent I have been able to ascertain, all the debts were current or within normal trading terms at the date of liquidation.
- 6.41. I reviewed the Company's cheque account conducted at the Commonwealth Bank. The cheque account did not record an overdraft balance on any day during the period 1 January 2007 to the date of liquidation. No cheques or any transfer of funds drawn upon the cheque account were dishonoured during that period of time. Furthermore, the cheque account regularly had a balance of funds in excess of \$50,000 and on a number of occasions in excess of \$100,000.
- 6.42. With the knowledge of the level of the Company's unsecured debts, excluding the ATO and DTF debts at the date of liquidation, this review suggests the Company had funds available to pay unsecured creditors during the period 1 January 2007 to the date of liquidation.
- 6.43. Before proceeding I should comment that if not for the ATO and DTF debts it would be difficult to conclude that the Company was insolvent from a cash flow perspective, at any time prior to the date of liquidation.
- 6.44. The DTF debt was the subject of a repayment arrangement which appears to have commenced around 1 September 2006 at which time a debt of \$25,834 was payable in respect to payroll tax. My review of the statement issued by DTF suggests the Company regularly met its obligation under the repayment arrangement. Subsequent to the date of liquidation, DTF issued amended assessments which resulted in the DTF debt increasingly from \$54,427 to \$69,523.

- 6.45. In my opinion, and based upon the extent of my review to date, it cannot be concluded that the Company was insolvent because it failed to discharge a debt payable to the DTF.
- 6.46. Earlier in this report I provided particulars with regard to the ATO debt and the circumstances that eventually gave rise to a debt of \$1,618,021 now being payable to the ATO.
- 6.47. The ATO filed an application in court for the winding up of the Company on 19 July 2007 due to the Company's failure to pay a statutory demand issued in the amount of \$52,936.15
- 6.48. I suspect the Company had sufficient financial resources to discharge or substantially discharge the ATO debt of \$52,936.15 at the time the ATO applied to wind up the Company. The debt was not paid, possibly because:
- 6.48.1. The ATO audit of the Company's BAS lodgements was nearing completion and it was apparent a sizeable debt would be levied against the Company, and
- 6.48.2. The director had been in dispute with the ATO for a period of time in respect to the extent of the Company's obligation to remit GST.
- 6.49. The ATO advised the Company on 28 September 2006 that it would be undertaking an audit of the Company's financial records for the period 1 July 2004 to 30 June 2006. The audit commenced in October 2006. The Company was advised on 8 November 2006 that preliminary estimates suggested the Company owed additional GST of \$363,787 for the year ended 30 June 2005.
- 6.50. The audit concluded in May 2007. The Company was formally advised on 28 June 2007 that additional GST and income tax debt of \$1,067,018 was payable by the Company.
- 6.51. It may be argued that this substantial debt did not become due and payable until such time as the Company was advised of the debt on 28 June 2007. However, I am of the view the Company was insolvent on or shortly after 8 November 2006.
- 6.52. On this date, the Company was advised, albeit a preliminary view, that additional GST of \$363,787 could be payable for the 2004/2005 financial year. At that point in time the director could have reasonably expected an additional GST obligation of approximately \$350,000 for the 2005/2006 financial year. The ATO ultimately assessed additional GST of \$732,180 for these two financial years.
- 6.53. The Company's financial statements (see Annexure B) state the Company had a surplus of assets over liabilities of in excess of \$2.1 million each year from 30 June 2004. Earlier in the report I have commented that I believe the financial statements are not accurate. I have also commented on substantial losses that have or will arrive in respect to a number of the Company's assets.

- 6.54. I have placed little weight upon determining the point in time the Company became balance sheet insolvent. Partially because, if not for the ATO debt the Company would probably been solvent at the date of liquidation and also because of the director's support of the Company's financial position by way of the provision of 3rd party security for loans provided to the Company.
- 6.55. However, I believe a reasonable person having knowledge of the possibility of an additional tax debt approximating \$700,000 and after assessing the actual realisable value of the Company assets would have formed a view that the Company was insolvent on or shortly after 8 November 2006.
- 6.56. My opinion as to the date of insolvency is based upon my investigations to date and may vary as further information is provided during the course of the liquidation.

Voidable Transactions

- 6.57. Pursuant to Part 5.7A of the Act, a liquidator may void certain transactions in respect of money, property or other benefits for the benefit of creditors.
- 6.58. Such voidable transactions may consist of:-
- 6.58.1. Unfair Preferences (Section 588FA) – these are transactions between the Company and a creditor resulting in the creditor receiving more than the creditor would receive if the transaction were set aside and the creditor claimed for this amount in a liquidation. Any such voidable transactions must arise during the Relation Back Period, being six months prior to the commencement of the winding up. For the purposes of the Company, the Relation Back Period commences on 19 January 2007.
- 6.58.2. *My investigations have identified transactions in relation to the ATO (\$186,500) and DTF (\$25,261) which may constitute unfair preferences.*
- 6.58.3. These transactions will require further investigations to substantiate any potential claim and accordingly a recovery has not been included for dividend estimate purposes.
- 6.58.4. Uncommercial Transactions (Section 588FB) – these are transactions entered into that a “reasonable person” would not have entered into taking into account the benefit to the Company, the detriment to the Company and the benefit to the other parties involved in the transaction. Such transactions are only voidable where the Company was insolvent at the time of the transaction.
- 6.58.5. *I have identified one transaction of \$20,000 which may be an uncommercial transaction with a related party. Further particulars are provided at paragraph 6.58.10 below.*
- 6.58.6. Insolvent Transactions (Section 588FC) – these transactions are unfair preferences or uncommercial transactions (as defined above) entered into

when the Company was insolvent or became insolvent as a result of entering into the transaction. Only unfair preferences which occurred within six months of the commencement of the winding up and uncommercial transactions which occurred within two years of the commencement of the winding up may be recovered. As the Company was insolvent from 8 November 2006 (in my view), only transactions from that date may be regarded as insolvent.

6.58.7. Unfair Loans to a Company (Section 588FD) – representing loans made to the Company where interest or other charges of the loan were extortionate. These transactions can be recovered regardless of when they were entered into.

6.58.8. *While certain loans to the Company carried relatively high interest rates (particularly default rates), I have not found any loan to be extortionate.*

6.58.9. Related Party Transactions (Section 588FE (4)) – representing insolvent transactions (that is unfair preferences or uncommercial transactions) with a related party within four years of the commencement of the winding up.

6.58.10. *As noted above, the Company may have entered into an uncommercial transaction of \$20,000 with a related party. The Company records show that it purchased a pool table and a juke box from a son of the director on 21 December 2006 for \$20,000. I have not located a juke box. However, I have found a pool table and had it valued at \$1,000 in December 2007.*

6.58.11. There are also a number of transactions of the Company with its director which I am also investigating. The outcome of those investigations may be that the transactions constitute loans rather than uncommercial transactions, in which case the director's loan account may be increased (see the following section of the report for particulars of the director's loan account).

6.58.12. The director related transactions are not likely to be unfair preferences.

6.58.13. I have not attributed any value of these transactions to my estimate of dividends to creditors.

6.58.14. Transactions Entered into for the Purpose of Defeating Creditors (Section 588FE (5)) – representing insolvent transactions (unfair preferences or uncommercial transactions) entered into for the purpose of defeating, delaying or interfering with the rights of creditors which were entered into within ten years prior to the commencement of the winding up.

6.58.15. *I have not found any transactions of this nature.*

Other Potential Claims of the Liquidator

Director's Loan Account

- 6.59. The director's RATA states a debt of \$25,818 was payable by the Company to the director at the date of liquidation.
- 6.60. The Company's financial records indicated a debt of \$358,644 was payable to the director by the Company at the date of liquidation.
- 6.61. I undertook an extensive review of the Company's records, in particular various transactions to the director's loan account. I formed the view that the Company's records incorrectly stated the director's loan account balance at the date of liquidation. At the conclusion of my investigation I formed an opinion that the director in fact owed the Company \$505,541.
- 6.62. The director has been advised a debt is payable to the Company and has been invited to inspect my working papers. This inspection has not taken place at the date of this report.
- 6.63. However, the director has objected to certain items that I consider constitute loans to her by the Company (included in my assessment of the debt of \$505,541) and has indicated she will seek to substantiate those items as legitimate expenses of the Company.
- 6.64. In the event the director refuses to pay the debt I will commence recovery proceedings.
- 6.65. The records of the Company also show that funds of the Company were applied to repay unidentified credit card debts. As the Company did not operate a credit card, those payments may have benefited either the director or related parties. My investigations are continuing and, once I have identified the party or parties who benefited from the transactions, I will form a view as to whether the transactions are voidable or whether they should be applied to existing loan accounts.

Lease Agreements

- 6.66. Debts are payable to the Company in respect to lease agreements entered into in respect to the Company's businesses which operated at, Wangara (\$20,212.50) and Midland (\$12,042.02). In addition, I have commenced legal proceedings seeking a declaration from the Court that the Company is entitled to a share of the rental being paid to Ms Kenworthy from the businesses operating in her Burswood and Kalgoorlie properties.
- 6.67. Descriptions of those claims are provided earlier in this report.

Breach of Director's Duties

- 6.68. I have submitted a report to the Australian Securities and Investments Commission (ASIC) pursuant to section 533 of the Act. After considering my report, the ASIC has decided not to commence an investigation into matters I raised in relation to contraventions of the Act by the director.
- 6.69. However, I am at liberty to report further to the ASIC if I find further evidence of offences. It is likely that I will submit a further report to the ASIC in relation to the appropriateness of the director's decision to lend substantial funds on an unsecured basis to related and unrelated entities (in some instances in New Zealand).

7. Dividends to Creditors

- 7.1. It is somewhat difficult to estimate the dividend that may eventually be paid to unsecured creditors for a variety of reasons, including:
- 7.1.1. The cross collateralisation of security instruments. The Company's assets are encumbered to secure the director's loan obligations and vice versa. The order of realisation of Company's assets and the director's assets and the application of any proceeds by the secured creditors will have a bearing upon the dividend that may be paid by the Company;
 - 7.1.2. The director disputes the Company's entitlement to the benefit that might accrue to the Company in relation to lease payments being paid under the lease of the Langtrees business assets. Likewise, there is disagreement as to whether the Company can benefit from a sale of the Langtrees business assets;
 - 7.1.3. The present uncertain economic conditions and the effect this may have upon assets realisation, particularly real estate; and
 - 7.1.4. The extent to which claims between the Company and the director can be set off in the event the director's assets are sold and the proceeds utilised to discharge a Company debt.
- 7.2. I presently estimate that unsecured creditors may receive dividend/s in the range of \$0.00 cents to \$0.13 cents in the dollar. A detailed analysis of the dividend estimation is attached as Annexure F.

8. Receipts and Payments

- 8.1. A summary of receipts and payments for the period from the date of appointment to 31 October 2008 is attached to this report as Annexure G.

9. Meeting of Creditors

- 9.1. A meeting of creditors has been convened for 3 December 2008 at the offices of RSM Bird Cameron Partners, 8 St. George's Terrace, Perth WA. A formal notice of the meeting is enclosed with this report.

10. Liquidator's Remuneration

- 10.1. My remuneration and that of my staff has been calculated on a time basis using hourly rates charged by RSM Bird Cameron Partners from time to time in accordance with the Insolvency Practitioners Association of Australia Code of Professional Practice.
- 10.2. Attached as Annexure H is a summary of my remuneration for the period 12 December 2007 to 30 September 2008 amounting to \$258,426.98 plus GST and a summary of the work undertaken. (Annexure I)
- 10.3. At the forthcoming meeting, creditors will be asked to consider, and if thought appropriate, resolve:

'That the remuneration of the Liquidator, his partners and his staff be hereby affixed on a time basis in accordance with the hourly rates charged by RSM Bird Cameron Partners from time to time, for the period from 12 December 2007 to 30 September 2008 in the sum of \$258,426.98 (plus GST) and such remuneration be approved and paid'

- 10.4. Creditors will also be asked at the forthcoming meeting to consider, and if appropriate, approve a resolution in respect of future remuneration as follows:

'That the future remuneration of the Liquidator, his partners and his staff from 1 October 2008 be hereby affixed on a time basis in accordance with the hourly rates charged by RSM Bird Cameron Partners from time to time, for the time being subject to an overall limit of \$150,000.00 (plus GST), and the Liquidator be authorised to make periodic payments on account of such accruing remuneration, and be at liberty to seek approval for additional remuneration.'

11. Other Matters

- 11.1. The director has advised me that she is presently rearranging her personal financial affairs with the view to raising finance in order to seek court approval for the termination of the winding up of the Company.
- 11.2. She has not provided me with any details of her proposal but I have made her aware that any such proposal would need to deal with the claims of creditors of the Company and the costs, charges and expenses of the administration.
- 11.3. In the meantime, I intend to proceed with the winding up, including realisation of assets and pursuit of all claims that may be available to the Company or the Liquidator.

I invite creditors to contact Mike Edmondson of my office should they have any queries in relation to this report.

A handwritten signature in black ink, appearing to read 'Mark Conlan', written in a cursive style.

MARK CONLAN
Official Liquidator

Annexure A

Image International Pty Ltd (In Liquidation) ACN 009 144 923
Statement of Trading Performance
As at 12 December 2007

	Prepared by External Accountant		Company's Management Accounts		
	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2006	Year ended 30 June 2007	Year to 12 December 2007
	\$	\$	\$	\$	\$
Income					
Sales - Massage	3,619,938	3,637,574	3,288,096	3,772,560	729,846
Sales - Other	85,608	50,267	96,127	265,850	14,776
TOTAL SALES	3,705,546	3,687,841	3,384,223	4,038,410	744,622
Cost of Goods Sold					
Purchase of Materials and Supplies	156,083	44,110	35,053	49,392	11,039
Girl Payments	-	-	8,615	1,030,863	1,331
Other	-	-	2,132	12,723	-
TOTAL COST OF GOODS SOLD	156,083	44,110	45,800	1,092,978	12,370
GROSS PROFIT	3,549,463	3,643,731	3,338,424	2,945,431	732,252
Expenses					
Accountancy Fees	13,868	13,156	20,928	19,996	2,766
Advertising and Marketing	344,252	392,407	272,310	280,663	59,092
Bank Charges	61,549	73,758	45,076	32,049	10,275
Cleaning and Maintenance	163,358	260,094	149,859	197,491	33,826
Contract Drivers and Consultants	147,706	256,510	203,919	191,394	42,179
Depreciation	291,924	223,921	-	-	-
Utilities Expense	137,416	149,163	69,553	75,649	23,304
Lease and Hire Expenses	211,135	126,851	103,874	103,131	71,488
Insurance	95,984	156,021	117,968	107,335	-
Interest Paid	104,875	89,857	49,849	166,072	-
Legal Costs	28,117	34,323	5,903	9,913	1,204
Rents, Rates and Taxes	463,240	463,894	516,193	415,238	29,447
Communication and Computers	37,005	24,540	81,006	71,730	21,637
Employee Expenses	1,118,758	1,116,616	797,664	1,004,916	292,386
Other	201,651	323,179	294,656	207,227	63,039
TOTAL EXPENSES	3,420,838	3,704,290	2,728,758	2,882,803	650,643
NET PROFIT/(LOSS)	128,625	(60,559)	609,665	62,628	81,609

Annexure B

Image International Pty Ltd (In Liquidation) ACN 009 144 923
Statement of Financial Position and Analysis

	Prepared by External Accountant		Company's Management Accounts			RATA ERV	Liquidator's ERV
	For the year ended 30 June 2004	For the year ended 30 June 2005	For the year ended 30 June 2006	For the year ended 30 June 2007	For the period 1 July 2007 to 12 December 2007	As at 12 December 2007	As at 31 October 2008
	\$	\$	\$	\$	\$	\$	\$
Current Assets							
Cash	20,924	(20,954)	112,049	6,178	57,997	54,792	69,097
Other Assets	4,486	27,869	44,422	39,012	39,012	14,363	-
Loans Receivable - Related Parties NZ	1,048,624	1,126,175	1,088,926	1,021,225	1,021,225	-	-
Loans Receivable - Related Parties Aust	539,284	626,519	845,383	621,714	594,499	62,059	-
Unrelated Loans	-	1,302	4,881	4,881	4,881	-	-
Total Current Assets	1,613,318	1,760,911	2,095,662	1,693,011	1,717,615	131,214	69,097
Current Liabilities							
Sundry Creditors - Unsecured	(143,859)	(143,465)	(114,081)	(105,257)	(57,346)	(88,027)	(1,729,060)
Hire Purchase Liabilities	(471,881)	(345,056)	(225,931)	(125,634)	(95,998)	-	-
Loans - MA Kenworthy	(14,455)	(214,962)	(442,815)	(213,250)	(250,716)	-	-
Loans - Other	196,350	(22,109)	(74,813)	(51,546)	(15,108)	-	-
Payroll	(102,212)	(163,349)	(16,391)	(55,507)	(31,723)	(25,472)	(55,740)
Australian Tax Office	(385,382)	(280,606)	(23,462)	(62,351)	(144,015)	(81,493)	-
Investment Television	-	-	(50,000)	(50,000)	(50,000)	-	-
Total Current Liabilities	(921,439)	(1,169,547)	(947,492)	(663,546)	(644,907)	(194,992)	(1,784,800)
Working Capital: Surplus / (Deficiency)	691,879	591,364	1,148,170	1,029,465	1,072,708	(63,778)	(1,715,703)
Add: Non-Current Assets							
MV, Plant and Equip, Fixtures and Fittings (WDV)	1,176,603	1,054,862	938,883	967,554	967,360	157,384	45,987
Land and Buildings	1,223,185	1,402,715	1,402,715	1,402,715	1,402,715	4,558,606	1,189,943
Computers and Software	-	-	71,877	71,877	71,877	-	-
Memorabilia	-	-	60,877	60,877	60,877	-	3,315
Unlisted Shares	-	-	-	50,000	50,000	-	-
Loan - MA Kenworthy	-	-	-	-	-	-	505,541
Subrogated Claim - MA Kenworthy	-	-	-	-	-	-	40,576
Indemnity Pursuant George Trust	-	-	-	-	-	-	278,599
Claims Arising - Business Leases	-	-	-	-	-	-	32,255
Contingent Asset [#]	-	-	-	-	-	-	1,200,000
Goodwill - Wangarra / Midland	-	49,432	55,432	55,432	55,432	20,000	-
Total Non-Current Assets	2,399,788	2,507,009	2,529,785	2,608,456	2,608,262	4,735,990	3,296,216
Less: Non-Current Liabilities							
Loans Payable - Secured	(780,113)	(938,319)	(951,380)	(848,718)	(810,158)	(2,639,301)	(2,383,778)
Loan Unrelated	(41,769)	(882)	-	-	-	-	-
Contingent Liability [#]	-	-	-	-	-	(1,200,000)	(1,200,000)
Total Non-Current Liabilities	(821,882)	(939,201)	(951,380)	(848,718)	(810,158)	(3,839,301)	(3,583,778)
Net Assets: Surplus / (Deficiency)	2,269,785	2,159,172	2,726,575	2,789,203	2,870,812	832,911	(2,003,265)

- Contingent asset will only arise upon the Company satisfying the personal debts of the director

- Contingent liability is the director's personal debt, secured by the Company's assets

ERV = Estimated Realisable Value

Annexure C

Image International Pty Ltd (In Liquidation) ACN 009 144 923
 Loans and Other Debtors
 As at 12 December 2007

Loans / Debtors	RATA	General Ledger	Amended Book Value	Comments	Estimated Realisable Value	Estimated Total Loss
Related Entities	\$	\$	\$		\$	\$
HFC Ltd	897,020	897,020	2,150,801	NZ company in liquidation. No dividend expected.	-	(2,150,801)
Image Publishing Pty Ltd	201,147	201,147	201,147	Ms Kenworthy director of company. Recovery unlikely.	-	(201,147)
Image Vending Pty Ltd ATF The First Rate Unit Trust	155,423	155,423	155,423	Ms Kenworthy director of company. Recovery unlikely.	-	(155,423)
Big River Development Ltd	124,205	124,205	124,205	De-registered New Zealand company. No recovery possible.	-	(124,205)
MAK Holdings Pty Ltd	70,702	70,702	70,702	Ms Kenworthy director of company. Recovery unlikely.	-	(70,702)
Farlodge Pty Ltd T/A Miners 69's	1,581	1,581	1,581	Company has been struck of the company register. No recovery possible.	-	(1,581)
Langtree Pty Ltd	359	359	359	Immaterial amount, recovery unlikely.	-	(359)
Sub Total	1,450,436	1,450,437	2,704,217			(2,704,218)
Non-Related Entities						
W & J George Trust	56,150	55,448	278,599	Secured by right of indemnity against the assets of the trust.	278,599	-
Topliss Entertainment Pty Ltd (In Liquidation) T/A Leis Party Tonight WA"	197,001	197,001	197,001	Investigations continuing. Recovery unlikely.	-	(197,001)
Sundry Debtors (Unknown)	24,650	24,650	24,650	Investigations continuing, recovery unlikely.	-	(24,650)
Fiocco Lawyers (Trust Account)	-	45,000	23,696	Portion applied to legal fees. No preference, balance recovered.	23,696	-
Sean Murphy (One Card Investment Pty Ltd)	-	12,000	12,000	Investigations continuing, recovery unknown.	-	(12,000)
Rental Bond (Haig St)	1,900	1,900	1,900	Immaterial amount, not recoverable.	-	(1,900)
Serene Gem	1,758	1,758	1,758	Investigations continuing, recovery unlikely.	-	(1,758)
Interlink Insurance	14,363	14,363	1,187	Prepaid insurance, partial amount recovered.	1,187	-
One Card Investment	20,822	1,183	1,183	Investigations continuing, recovery unknown, immaterial.	-	(1,183)
Cash on Hand	-	300	300	Not available at date of Liquidation. Not recoverable.	-	(300)
Sub Total	316,644	353,603	542,274		303,482	(238,792)
Total	1,767,080	1,804,040	3,246,492		303,482	(2,943,010)

Annexure D

Image International Pty Ltd (In Liquidation) ACN 009 144 923
Property, Businesses and Related Assets
As at 12 December 2007

Particulars	Book Value				Liquidator Values	
	Land & Buildings	Plant, Fixtures and Fittings	Other	Total	Realisable Value	Estimated Loss
	\$	\$	\$	\$	\$	\$
Unit 4/25 Clydesdale Street, Burswood	1,182,685	187,514	-	1,370,199	927,000	(443,199)
Unit 2/49 Berriman Drive, Wangara	269,530	48,890	55,432	373,852	261,803	(112,049)
NZ Freehold Land	40,500	-	-	40,500	-	(40,500)
71-73 Burswood Road, Burswood	-	322,305	-	322,305	1,311	(320,994)
181 Hay Street, Kalgoorlie	-	345,299	-	345,299	43,976	(301,323)
10-14 Helena Street, Midland	-	10,352	-	10,352	-	(10,352)
Memorabilia	-	-	60,877	60,877	3,315	(57,562)
Motor Vehicles	-	-	52,990	52,990	700	(52,290)
Accounting Software	-	-	6,633	6,633	-	(6,633)
Sub Total	1,492,715	914,360	175,932	2,583,007	1,238,105	(1,344,902)
Domain Names	-	-	65,245	65,245	Unknown	(65,245)
Total	1,492,715	914,360	241,177	2,648,252	1,238,105	(1,410,147)

Annexure E

Image International Pty Ltd (In Liquidation) ACN 009 144 923
Creditors Analysis
As at 12 December 2007

Unsecured Creditors	12-Dec-07
Australian Taxation Office	1,618,021
Department of Treasury & Finance	69,523
Hexagon Services	12,561
Hocking & Company Pty Ltd	4,643
Optus Communications	5,229
Kalgoorlie Refrigeration & Airconditioning	4,026
Golden Mail	2,823
Telstra Corporation Limited	2,466
Radio Perth Pty Ltd	2,200
Suncorp	1,720
Synergy	1,292
Town of Victoria Park	927
Kennerlys	780
AMP Flexible Lifetime	700
Water Corporation	504
Bicubic	394
CJ King	367
Cadbury Schweppes	237
Kenkleen	220
Coca Cola	192
Vibra	135
Signature Security	99
Total	1,729,060

Annexure F

Image International Pty Ltd (In Liquidation) ACN 009 144 923
Dividend Analysis
As at 31 October 2008

<u>Assets</u>	Estimated Dividend in Liquidation (High)		Estimated Dividend in Liquidation (Low)	
	\$	\$	\$	\$
Cash at Bank		69,097		69,097
Loan - MA Kenworthy		505,541		505,541
Paintings and Memorabilia		3,315		1,500
Land and Buildings				
Unit 2/49 Berriman Drive, Wangara (Net of Selling Costs) ¹	261,803		261,803	
Less: Balanced Securities Ltd Mortgage	(261,803)	-	(261,803)	-
Unit 4/25 Clydesdale Street, Burswood (Net) ²	927,000		Not Disclosed	
Less: National Australia Bank Ltd Mortgage	(927,000)		Not Disclosed	
Balanced Securities Ltd	-	-	Not Disclosed	Not Disclosed
Sundry Plant and Fittings		43,976		25,000
Claims Arising - Business Leases		32,255		Unknown
Goodwill		Not Disclosed		Not Disclosed
Subrogated Claim - MA Kenworthy ³		40,576		40,576
Estimated Total Available Funds		694,760		641,714
(excluding nil disclosed items)				
<u>Secured Claims</u>				
Real Property Mortgages/Debenture Mortgages				
National Australia Bank Ltd		-		-
Balanced Securities Pty Ltd ⁴		-		(852,654)
Service Finance Australia		(45,264)		-
		649,496		(210,940)
Funds Available to Liquidator - Indemnity Pursuant George Trust ⁵		278,599		278,599
		928,095		67,659
Petitioning Creditors Costs		(2,880)		(2,880)
<u>Actual Liquidators Costs (to 30 September 2008)</u>				
Disbursements		(3,952)		(3,952)
Remuneration		(258,427)		(258,427)
<u>Future Liquidators Costs</u>				
Disbursements		(25,000)		(25,000)
Remuneration		(100,000)		(175,000)
		(111,659)		(161,660)
Legal Costs		(20,218)		(20,218)
Estimated Future Legal Costs		(75,000)		(100,000)
Estimated Funds Available For Unsecured Creditors		330,958		-
Employee Entitlements		(55,740)		(55,740)
Estimated Funds Available For Non-Priority Creditors		275,218		-
Non-Priority Creditors ⁶		2,074,871		2,972,789
Dividend Estimate (cents/\$)		0.13		-

Notes

- ¹ Sellings costs are inclusive of actual statutory charges and selling costs
- ² Property value is net of estimated statutory charges and selling costs
- ³ Repayment of director's loan from sale of 2/49 Berriman Drive, Wangara
- ⁴ High - Assumption that Balanced will exercise their guarantee over the director's assets satisfying their mortgages
- ⁵ Company is indemnified for costs incurred in acquiring and maintaining 3/25 Clydesdale Street, Burswood (not subject to any security)
- ⁶ Non-Priority Creditors are inclusive of the secured creditors' deficiencies
Assume (High) MA Kenworthy not right to set off against debt arising from Balanced applying guarantee

Annexure G

Image International Pty Ltd (In Liquidation) ("the Company")
ACN 009 144 923

Summary of Receipts & Payments
For the period 12 December 2007 to 31 October 2008

RECEIPTS

	\$
Cash from Company's bank account	49,877.18
Cash recovered from Company's premises	635.61
Commission received	151.74
Cash from Solicitor's trust account	25,833.36
Indemnity - W&I George Trust	9,151.44
Rent Received	23,090.94
Net Proceeds from sale of Ladies Playground	13,000.00
Sale of Motor Vehicle	700.00
Insurance Claim	2,440.00
Sundry Receipts	1,186.90
Bank interest	1,299.33
GST inputs	2,280.44
Total Receipts	<u>129,646.94</u>

PAYMENTS

Australian Tax Office (BAS)	9,302.36
Bank Charges	150.20
Insurance	367.75
Legal Fees	18.8
Liquidator's expenses	49,541.19
Repairs and Maintenance	1,100.00
Sundry Payments	70.00
Total Payments	<u>60,550.30</u>

Cash at Bank at 30 September 2008 69,096.64

Annexure H

Image International Pty Ltd (In Liquidation)
ACN 009 144 923

Summary of Liquidator's Fees by Employee (excluding GST)
For the period 12 December 2007 to 30 September 2008

Employee	Position	Total Hours	Average	Total Cost
			Hourly Rate	
			\$	\$
Mark Conlan	Partner	56.6	367.0	20,773.53
Neil Cribb	Partner	8.2	391.9	3,213.24
Andy Gilmore	Partner	6.2	360.7	2,236.28
Greg Dudley	Principal	6.5	300.1	1,950.80
Mike Edmondson	Senior Manager	445.6	266.3	118,649.89
Stuart Moore	Senior Manager	9.8	350.1	3,420.00
Geoffrey Lasscock	Supervisor	2.7	157.4	425.09
Lalitha Samykanno	Supervisor	2.7	168.2	454.04
Breck Robertson	Senior II	641.3	140.3	89,948.01
Benjamin Ward	Senior II	6.8	132.2	898.94
Nicole Reichert	Intermediate I	4.5	131.1	590.05
Nikhil Gohil	Intermediate I	26.4	133.2	3,517.62
Nicholas Dorkham	Intermediate II	12.5	113.6	1,420.30
Terri Hoy	Personal Assistant	16.4	117.7	1,929.98
Helen Hyde	Personal Assistant	4.0	116.2	464.88
Hayley Forshaw	Secretary	43.6	97.1	4,233.03
Corey Turner	Junior	86.8	49.6	4,301.30
Total		1,380.6		258,426.98

Image International Pty Ltd (In Liquidation)
ACN 009 144 923

Summary of Liquidator's Fees by Employee and Task
For the period 12 December 2007 to 30 September 2008

Employee	Position	Total Hours	\$		Task 1	Task 2	Task 3	Task 4	Task 5	Task 6	Task 7	Task 8	Task 9	Task 10	Task 11
			Average Hourly Rate	Total Cost											
Mark Conlan	Partner	56.6	367.02	20,773.53	1,436.08	905.32	9,481.08	1,805.80		752.42	5,675.79	432.83			284.21
Neil Cribb	Partner	8.2	391.86	3,213.24			1,460.22				1,240.11				512.91
Andy Gilmore	Partner	6.2	360.69	2,236.28					2,236.28						
Greg Dudley	Principal	6.5	300.12	1,950.80			623.74	132.70			977.49		216.87		
Mike Edmondson	Senior Manager	445.6	266.27	118,649.89	8,107.65	502.79	87,923.23			156.30	9,533.77	182.35	1,491.62		10,752.18
Stuart Moore	Senior Manager	9.8	350.05	3,420.00				3,420.00						198.00	
Geoffrey Lascock	Supervisor	2.7	157.44	425.09							227.09				
Lalitha Samykanno	Supervisor	2.7	168.16	454.04	30.04						150.30		273.70		
Breck Robertson	Senior II	641.3	140.26	89,948.01	15,176.83	1,851.19	15,186.54			911.76	30,573.21	1,421.54	5,524.24	4,764.37	14,538.33
Benjamin Ward	Senior II	6.8	132.20	898.94		365.75	130.25				349.89				53.05
Nicole Reichert	Intermediate I	4.5	131.12	590.05							419.95			95.10	75.00
Nikhil Gohil	Intermediate I	26.4	133.24	3,517.62							2,255.45		26.05	386.70	849.42
Nicholas Dorkham	Intermediate II	12.5	113.62	1,420.30							507.80				912.50
Terri Hoy	Personal Assistant	16.4	117.68	1,929.98	1,185.45							166.20		470.25	108.08
Helen Hyde	Personal Assistant	4.0	116.22	464.88											464.88
Hayley Forsshaw	Secretary	43.6	97.09	4,233.03	3,600.65										632.38
Corey Turner	Junior	86.8	49.55	4,301.30							60.12			36.07	4,205.11
Total		1,380.6		258,426.98	29,536.70	3,625.05	114,805.06	1,938.50	5,656.28	1,820.48	51,970.97	2,202.92	7,532.48	5,950.49	33,388.05