

RSM! Bird Cameron Partners

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STATEMENT OF ADMINISTRATORS' OPINION

**Corporations Act - Section 439A(4)
Corporations Regulations - Regulation 5.3A.02**

**Travel Services Group Ltd (Administrators Appointed)
ACN 009 122 070 (“TSG”)**

**Travelshop Pty Ltd (Administrators Appointed)
ACN 104 443 263
Formerly trading as “Travelshop”
under Licences Numbers 2TA 5668 (NSW), 18800515 (ACT),
32622 (Victoria), 3067694 (Qld) and 9TA 1396 (WA) (“Travelshop”)**

**Bella Holidays Pty Ltd (Administrators Appointed)
ACN 105 628 475 (“Bella”)**

**TSG Leisure Pty Ltd (Administrators Appointed)
ACN 083 780 394
Formerly trading as “Sportsnet Holidays” (“Leisure”)**

(together “the Companies” or “the Group”)

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.

1. Introduction

- 1.1. On 20 March 2007, Neil Cribb and Mark Conlan were appointed Joint and Several Voluntary Administrators of TSG, Travelshop, Leisure and Bella pursuant to Section 436C of the Corporations Act (“the Act”).
- 1.2. The Companies ceased to trade upon our appointment or had already ceased to trade.
- 1.3. The first meetings of creditors were held concurrently on 27 March 2007. At these meetings, creditors ratified our appointment as the Joint and Several Voluntary Administrators.
- 1.4. As required by Section 439A(4)(a) of the Act, and to assist creditors in determining the future of the Companies, we have conducted a preliminary investigation of the Group’s business, property, affairs and financial circumstances. The outcome of our enquiries and opinions in accordance with Section 439A(4)(a) of the Act is contained in this report.

Statement of Independence

- 1.5. In accordance with the Insolvency Practitioners Association of Australia – Statement of Best Practice, we declare that prior to 20 March 2007, neither Neil Cribb, Mark Conlan, RSM Bird Cameron Partners nor RSM Bird Cameron had provided professional services to the Group.
- 1.6. The first contact with a director was at a meeting on 15 March 2007, together with his legal advisor. Between 15 March 2007 and our appointment, we liaised with the director’s legal advisor and the ANZ Bank and their advisors in relation to the Group’s financial position.
- 1.7. Accordingly, we are satisfied that we are not precluded by Section 448 of the Act from acting independently for the benefit of all creditors.

Second Meeting of Creditors

- 1.8. The second meeting of creditors of the Companies will be held concurrently on 22 June 2007. Notices of the meetings are attached. The purpose of the meetings is for creditors to decide the future of the Group. At the meetings creditors may resolve that:
 - 1.8.1. The Companies execute Deeds of Company Arrangement (“DOCA”); or
 - 1.8.2. The administrations should end; or
 - 1.8.3. The Companies should be wound up; or
 - 1.8.4. Pursuant to Section 439B(2) of the Act, creditors may adjourn the meetings for up to 60 days.

1.9. The balance of our report is set out under the following major headings.

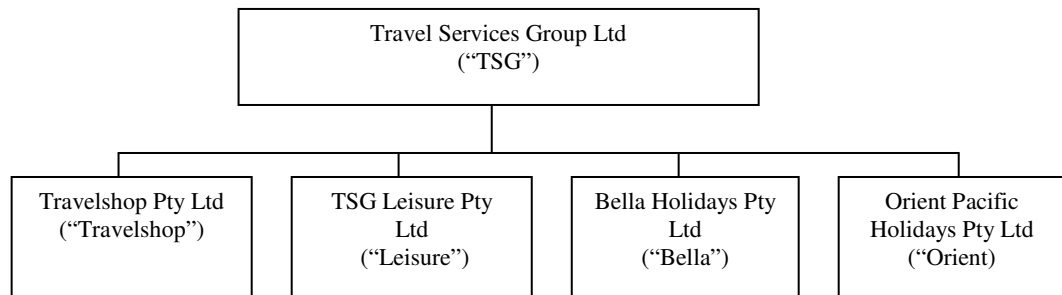
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A	Travel Services Group Ltd – Historical Statements of Financial Performance
B	Travelshop Pty Ltd – Historical Statements of Financial Performance
C	Bella Holidays Pty Ltd – Historical Statements of Financial Performance
D	TSG Leisure Pty Ltd – Historical Statements of Financial Performance
E	Travel Services Group Ltd – Historical Statements of Financial Position
F	Travelshop Pty Ltd – Historical Statements of Financial Position
G	TSG Leisure Pty Ltd – Historical Statements of Financial Position
H	Bella Holidays Pty Ltd – Historical Statements of Financial Position
I	Summary of Administrators' Fees by Employee for the Group for the period 20 March to 31 May 2007;
J	Summary of Estimated Administrators' Fees by Employee for the Group for the period 1 June to 22 June 2007 and Summary of Total Fees for the period 20 March to 22 June 2007;
K	Description of Task Categories
L	Travel Services Group Ltd – Summary of Administrators' Fees by Employee and Task
M	Travelshop Pty Ltd – Summary of Administrators' Fees by Employee and Task
N	TSG Leisure Pty Ltd – Summary of Administrators' Fees by Employee and Task
O	Bella Holidays Pty Ltd – Summary of Administrators' Fees by Employee and Task
P	Travel Services Group Ltd – Administrators' Receipts and Payments
Q	Travelshop Pty Ltd – Administrators' Receipts and Payments
R	TSG Leisure Pty Ltd – Administrators' Receipts and Payments

2. Corporate Structure

2.1. A diagrammatic representation of the whole Travel Services Group of companies is shown below:-



2.2. Travelshop, Leisure, Bella and Orient Pacific Holidays Pty Ltd (“Orient”) are all wholly owned subsidiaries of TSG.

2.3. We are not the Administrators of Orient. PPB Melbourne were appointed Administrators of Orient on 20 March 2007 and at the second meeting of creditors convened on 23 April 2007, the creditors of Orient resolved to liquidate the company.

2.4. This report is in respect of TSG, Travelshop, Leisure and Bella. Where necessary they are collectively referred to in this report as “the Group” or “the Companies”. Given the relationship between Orient and TSG as the holding company, and the interwoven nature of the Group’s financial affairs, reference is made to Orient at various times in this report.

2.5. Accordingly, any deficiency to satisfy creditor claims in Orient is in addition to those identified in this report.

3. Executive Summary

3.1. Our preliminary investigation into the Group’s business, property, affairs and financial circumstances has identified the following:-

3.1.1. The Group’s estimated deficiency in assets to satisfy creditor claims is approximately \$10.4 million. Set out below in Table 1 is a summary of the composition of the estimated deficiency.

	\$
Secured Creditor	3,147,502
Unsecured Creditors (including priority employee claims)	
TSG	4,205,311
Travelshop	1,650,229
Leisure	808,064
Bella	612,014
	\$7,275,618
Estimated Deficiency	\$10,423,120

Table 1: Summary of Estimated Deficiency

- 3.1.2. A Deed of Company Arrangement (“DOCA”) proposal to settle creditor claims has not been forthcoming from either the directors or a third party. Accordingly, we believe it would be in the best interests of creditors if each of the Companies was liquidated. Further comment is made below in Section 16 – Administrators’ Opinions.
- 3.1.3. Only minimal funds have been realised by the administrators from the disposal of assets. Accordingly, given the significant deficiency to secured and unsecured creditors, and in the absence of a DOCA proposal to settle creditor claims, no dividend will be payable to creditors without the successful pursuit and recovery of claims against third parties.
- 3.1.4. Numerous possible claims have been identified against the directors, officers, related parties and auditors. Details are outlined in Section 13 - Possible Recovery Actions. Any pursuit of the claims by a future liquidator will require funding by creditors or an independent litigation funding party. Further comment regarding funding is made in Section 20 - Funding.
- 3.1.5. The financial statements, including the audited financial statements as at 30 June 2006, do not accurately represent the financial position or financial performance of the Companies. In this regard, the financial performance of Travelshop for the year ended 30 June 2006 may have been overstated by approximately \$2.9 million.
- 3.1.6. The Companies’ membership of the Travel Compensation Fund (“TCF”) may have been based upon inaccurate Annual Financial Returns (“AFR”) for the years ended 30 June 2005 and 2006.
- 3.1.7. The provision of finance by the secured creditor at various times may have been based on the provision of suspected misrepresented and manipulated financial information.
- 3.1.8. A shortfall in client funds, representing deposits paid by the travelling public prior to the appointment of the Administrators is currently estimated to total \$0.77 million. Additional claims for client funds relating to Orient are understood to approximate \$1 million.
- 3.1.9. The Companies may have been insolvent as at 30 June 2006, if not before. Further comment is made in Section 10 – Insolvent Trading.

4. Business and Affairs

- 4.1. We make the following comments in regard to statutory information, nature of the businesses, a chronology of events in the development of the Group and the sale of business assets during the period of Administration.

Statutory Information

- 4.2. Pursuant to Section 9 of the Act, an officer of a company is defined to include a director, secretary or a person participating in decision making that affects the whole, or a substantial part of the business of the corporation or a person in accordance with whose instructions or wishes the directors of the corporation are accustomed to act. Further comment is made in Section 12 - Duties of Officers.

Directors

- 4.3. Set out below in Table 2 is a summary of the directors of each of the Companies as at the date of our appointment and those acting in that capacity from 1 January 2006.

Name		TSG	Travelshop	Leisure	Bella
Joseph Ferrone	Appt Date	27/10/2000	16/04/2003	1/02/2005	10/03/2004
	Cease Date	Continuing	Continuing	Continuing	Continuing
	Appt Date	31/08/1992	-	-	-
	Cease Date	10/12/1997	-	-	-
Maurizio Buti	Appt Date	14/03/2006	14/03/2006	14/03/2006	14/03/2006
	Cease Date	Continuing	Continuing	Continuing	Continuing
	Appt Date	11/01/1999	27/09/2004	1/02/2005	10/03/2004
	Cease Date	1/04/2005	29/04/2005	12/10/2005	10/10/2005
Loris Giovanni Porcheri	Appt Date	-	-	-	22/07/2003
	Cease Date	-	-	-	-
Robert Glen Sparks	Appt Date	24/06/2005	14/03/2006	14/03/2006	14/03/2006
	Cease Date	7/03/2007	7/03/2007	7/03/2007	1/08/2006
Guiseppe Cicerello	Appt Date	31/07/1995	27/09/2004	1/02/2005	10/10/2005
	Cease Date	14/03/2006	14/03/2006	14/03/2006	14/03/2006
	Appt Date	31/08/1992	-	-	-
	Cease Date	1/02/1995	-	-	-
Robert Cecconi	Appt Date	1/04/2005	29/04/2005	7/08/1998	-
	Cease Date	14/03/2006	14/03/2006	14/03/2006	-

Table 2: Directors of the Companies during the period 1 January 2006 to 20 March 2007

- 4.4. Messrs Sparks, Ferrone and Buti also acted as directors of Orient from 4 August 2006, with Mr Sparks resigning on 7 March 2007.
- 4.5. The information outlined in Table 2 above is company data maintained at the Australian Securities and Investments Commission (“ASIC”).
- 4.6. Our enquiries indicate that Mr Sparks and Mr Cicerello acted as Executive Directors in that they were employed by the Group. Mr Sparks held the position of Managing Director and is understood to have extensive experience in the travel industry.
- 4.7. Our enquiries indicate that Mr Cicerello may have continued to act in his capacity as a Director after 14 March 2006 and possibly up until the date of our appointment as Administrators.

Secretaries

- 4.8. Set out below in Table 3 is a summary of the secretary of each of the Companies as at the date of our appointment and those acting in that capacity from 1 January 2006.

Name		TSG	Travelshop	Leisure	Bella
Colin Frederick Chester	Appt Date	29/03/2005	29/04/2005	14/03/2006	10/10/2005
	Cease Date	Continuing	Continuing	Continuing	Continuing
Guiseppe Cicerello	Appt Date	10/12/1997	-	-	-
	Cease Date	Continuing	-	-	-
	Appt Date	31/08/1992	-	-	-
	Cease Date	1/02/1995	-	-	-
Loris Giovanni Porcheri	Appt Date	-	-	-	22/07/2003
	Cease Date	-	-	-	Continuing

Table 3: Secretary of the Companies during the period 1 January 2006 to 20 March 2007

- 4.9. Mr Chester and Mr Ian McLaren also acted as Company Secretaries of Orient from 4 August 2006. Messrs Chester and McLaren were actively involved in the Group's financial affairs in that they held positions of CEO / Group Financial Controller and National Administration Manager.

Shareholders

- 4.10. TSG held all the issued capital of Travelshop, Leisure and Bella.
- 4.11. TSG is an unlisted public company. The Shareholder Register maintained by the company differs to the shareholders as detailed in the ASIC records. Whilst we have been unable to determine the accuracy of either shareholder listing, it appears that Messrs Ferrone, Buti and Cicerello and / or related parties are the major shareholders of TSG.

Auditors

- 4.12. As you may be aware, in order to operate as a travel agent, a company must firstly obtain and retain membership of the TCF in order to then obtain registration from State based regulatory bodies. In order to obtain and retain TCF membership, a company is required to submit to the TCF, on an annual basis, special purpose audited financial statements and an AFR to be signed by the company's directors and auditor. The financial information provided must meet the various financial benchmarks set by the TCF.
- 4.13. During the years ended 30 June 2004, 2005 and 2006, the Companies retained three (3) auditors as noted below:-
- 4.13.1. Mr Nick Del Popolo for the year ended 30 June 2004 for TSG and Bella, and for the year ended 30 June 2006 for Travelshop and Leisure;
- 4.13.2. PKF for the year ended 30 June 2005 for each of the Companies; and
- 4.13.3. Mr Anthony Law in respect of Leisure for the year ended 30 June 2004.

Relationships

- 4.14. Our enquiries indicate that Messrs Ferrone, Buti and Cicerello have or have had business relationships outside the Group, professional relationships and personal relationships over an extended period of time. The business relationships include

mutual directorships and shareholdings in companies. On a professional basis, accounting practices in which Mr Ferrone had an interest or controlled (Joe Ferrone & Co Pty Ltd (“Joe Ferrone & Co”) and previously Kensington Partners) provided professional services to the Group, Messrs Buti and Cicerello and their related parties.

- 4.15. We also note that one of the auditors of the Companies over the last three years, Mr Del Popolo, previously held a directorship in a company formerly known as Knightsbridge International Pty Ltd (“Knightsbridge”) with Mr Ferrone. At the time of our appointment, Mr Cicerello was the sole director and shareholder of Knightsbridge.

Nature of Business

- 4.16. The Companies operated as retail and wholesale travel agents from various locations throughout Australia.

TSG

- 4.17. At the date of our appointment TSG was not an operating business but acted as the holding company of the other companies, operating from leased premises in North Perth that were also occupied by Joe Ferrone & Co.
- 4.18. Up until 30 June 2006, TSG operated retail travel outlets at five (5) locations in Western Australia being Fremantle, Geraldton, Adelaide Terrace (Perth CBD), Yokine (suburban Perth) and Mirrabooka (suburban Perth). Effective from 1 July 2006, the business assets and business operations associated with the four (4) branches at Geraldton, Adelaide Terrace, Yokine and Mirrabooka were transferred to Knightsbridge. Further details are provided in Table 4 and Section 9 – Voidable Transactions.
- 4.19. On or about October 2006, the business assets and business operations of the Fremantle branch were transferred to Travelshop. We have been unable to establish the terms of this transaction.
- 4.20. Accordingly, from on or about October 2006, TSG ceased to trade. TSG surrendered its membership of the TCF in November 2006.

Travelshop

- 4.21. Travelshop operated nine (9) retail outlets from leased premises at the following locations:
- 4.21.1. Brisbane;
 - 4.21.2. Canberra;
 - 4.21.3. Dee Why (Sydney);
 - 4.21.4. Lindfield (Sydney);
 - 4.21.5. Pitt Street (Sydney CBD);
 - 4.21.6. Liverpool Street (Sydney CBD);
 - 4.21.7. Clifton Hills (Melbourne);

- 4.21.8. Geelong (Victoria); and
- 4.21.9. Fremantle (Western Australia).
- 4.22. The Pitt Street and Liverpool Street operations were embedded within American Express Corporate Travel Offices servicing the private travel needs of Amex corporate clients.
- 4.23. Prior to our appointment, the landlord of the Clifton Hill premises had taken possession of the premises and the branch had ceased to trade. All other retail outlets ceased to trade upon our appointment.

Leisure

- 4.24. Leisure operated from leased premises in Melbourne as a travel wholesaler specialising in packaged sports orientated tours trading as “Sportsnet Holidays”. The company ceased to trade upon our appointment.

Bella

- 4.25. At the date of our appointment Bella was not an operating business.
- 4.26. Bella had previously operated as a wholesaler of packaged holidays to Europe, particularly Italy. It appears that at or about October 2006, the business assets were transferred to Orient and the business operations undertaken using the Orient licence. We have been unable to establish the terms or value, if any, of this transaction.
- 4.27. Accordingly, Bella appears to have ceased to operate from on or about October 2006. Bella surrendered its membership of the TCF in October 2006.

Chronology of Events

- 4.28. To provide creditors with a better understanding of the nature of the Companies’ business and business affairs, set out below in Table 4 is a chronology of events in the development of the Group.

Date / Period	Event
August 1992	Ferrone & Cicerello acquired the issued shares of Esiway Enterprises Pty Ltd trading as “Esiway Travel”. The company was subsequently to be known as Mansfield Holdings (Australia) Pty Ltd, Meadowbrook Holdings Pty Ltd, Travel Services (WA) Pty Ltd, Travel Services Plus Pty Ltd, Travel Services Group Pty Ltd, and becoming Travel Services Group Ltd (“TSG”) on 25 April 2003.
August 1993	TSG joined Jetset as a franchisee. Joe Cicerello managed the business on a day to day basis.
January 1999	Maurice Buti was appointed a director of TSG
Pre September 11 2001	TSG acquired “travelshop.com.au” being the internet business previously operated by a listed entity trading as “travelshop.com.au”
2002	TSG acquired the Fremantle branch from Sam Fazio trading as “Jetset Travel Fremantle”
March 2003	TSG acquired Mirrabooka and Yokine branches from Jetset

April 2003	<p>TSG converted from a private company to a non-listed public company in preparation for listing on the Australian Stock Exchange (“ASX”). Directors at the time were Messrs Ferrone, Cicerello and Buti and others.</p> <p>TSG engaged corporate lawyers to facilitate and progress the strategy of a public float and in so doing, a strategy commenced to grow the business to a major national travel group. It was acknowledged that capital was a key.</p>
16 April 2003	Travelshop Pty Ltd was incorporated with Ferrone and another as directors.
July 2003	TSG acquired Jetset Travel in Geraldton
2 nd half of 2003	TSG opened a new branch at Adelaide Terrace in the Perth CBD
Early 2004	TSG operating branches terminated arrangements as Jetset franchisees and adopted the trading name of “Travelshop”.
March 2004	<p>TSG acquired Going Holidays Pty Ltd now known as Bella Holidays Pty Ltd.</p> <p>The acquisition of Bella was the Group’s first foray into wholesale travel and provided a “beachhead” for the Group in the Eastern States as part of its national travel group strategy.</p> <p>The focus on growth by way of acquisition was seen as critical to the pursuit of a national travel group and ultimate public listing.</p>
Mid 2004	In pursuing the national growth strategy, discussions commenced with a substantial Eastern States based business specialising in wholesale travel to Europe.
Prior to September 2004	<p>Primary banker changed from NAB to ANZ.</p> <p>Numerous operational and trust accounts were retained by TSG.</p>
September 2004	<p>Travelshop Pty Ltd commenced trading in its own right upon the acquisition from American Express Travel of various branches located at Brisbane, Canberra, Dee Why, Lindfield, North Sydney and Geelong. Pursuant to a separate agreement with Amex, Travelshop undertook to service the private travel needs of Amex corporate clients from offices embedded in Amex offices in Pitt Street and Liverpool Street in the Sydney CBD. These branches traded as “Travelshop”.</p> <p>We understand the acquisition was funded by debt facilities from the ANZ Bank and from a capital raising through the issue of shares in TSG to friends and clients of Joe Ferrone.</p>
Late 2004 / Early 2005	The Board giving renewed consideration to progressing the Initial Public Offering (“IPO”) in preparation for listing on the ASX.
Early 2005	Travelshop experienced teething problems upon acquiring the Amex branches. This was at the same time as pursuing the IPO.
February 2005	TSG acquired the issued capital of Sportsnet Pty Ltd now known as TSG Leisure Pty Ltd. Consideration for the acquisition being the issue of shares in TSG and cash.
March 2005	Colin Chester resigned from Joe Ferrone & Co and was employed by TSG as the CFO. Mr Chester also took on the officer role of company secretary of TSG and Travelshop at or about that time.

March/April 2005	Draft prospectus for IPO prepared and formal agreements entered into with underwriter.
1 April 2005	Travelshop purchased the retail travel agency trading as Travel World, Clifton Hill
April / May 2005	<p>TSG entered into an agreement for the purchase of a major Eastern States based travel wholesaler for \$7 million, comprising \$6.3 million in cash and \$.7 million by way of issue of shares in TSG. The agreement was conditional upon the raising of capital through the envisaged IPO.</p> <p>The proposed IPO was to raise \$9 million and to be applied toward:-</p> <ul style="list-style-type: none"> • the acquisition of the Eastern States based wholesaler; and • working capital of \$2 million.
April / June 2005	<p>In moving towards an IPO, changes were made to the Board representation of TSG and management.</p> <p>In this regard, Mr Buti ceased to be a director on 1 April 2005 and the company made the following appointments:-</p> <ul style="list-style-type: none"> • Mr Robert Sparks was employed as the CEO and became Managing Director of TSG on 24 June 2005. • Three independent directors (Kevin Edwards, Thomas McKaskill and Eddie Baldacchino) were also appointed.
September 2005	<p>Sabre Pacific provided a business development loan for \$500,000 which was applied towards the working capital requirements of the Group.</p> <p>From on or about September 2005 to February / March 2006, Mr Cicerello focused upon dealing with cash flow matters for the Group which included dealing with and making arrangements with overdue creditors. In this regard, he was aware of arrangements made with the ATO and that employee superannuation remained unpaid.</p>
October / November 2005	<p>Capital raising fell over being \$1.5 to \$2 million short.</p> <p>As a result, the proposed acquisition of the Eastern States based wholesaler did not proceed.</p> <p>An independent director appointed in preparation for the proposed IPO tendered his resignation sighting significant frustrations at not being provided with appropriate financial information regarding the Group's affairs from either management or fellow directors. The resignation of the other independent directors immediately followed.</p>
28 November 2005	<p>The ATO issue a Notice of Intended Legal Action / Garnishee on Travelshop.</p> <p>Travelshop defaulted on five arrangements with the ATO during the period 3 October 2005 to 8 June 2006.</p>
December 2005	<p>The Group sought and obtained finance from ANZ to consolidate existing current loans within the Group and provide working capital for immediate payout of creditors. ANZ's account management of the Group was transferred from Retail to Corporate.</p> <p>ANZ Equity also considering taking a private equity stake in the Group, pulling out in late 2005.</p>
Late 2005	Mr Cicerello replaced another person as the General Manager of the Travelshop retail operations nationally in late 2005 / early 2006.
February / March 2006	Alan Diamond replaced Mr Cicerello as General Manager of the Travelshop retail outlets reporting directly to Mr Sparks.

March 2006	Further changes in directors with Mr Buti recommencing on 4 March 2006 and Messrs Cicerello and Robert Cecconi ceasing to act as directors of TSG. Mr Cicerello continued as Company Secretary of TSG.
12 June 2006	<p>“The Knightsbridge Transaction”</p> <p>An agreement entered into between TSG and Knightsbridge International Pty Ltd (a company owned and controlled by Mr Joe Cicerello) for the sale of travel agencies known as Travelshop Mirrabooka, Adelaide Terrace, Geraldton and Yokine with the value of plant and goodwill totalling \$120,000. The purchase price was to be paid by way of Knightsbridge agreeing to cancel all of its shares held in TSG by way of execution of a Shares Cancellation Agreement.</p> <p>Accordingly, no cash consideration was payable or paid.</p> <p>Financial management reports indicate that the branches “acquired” by Knightsbridge grossed sales of \$9.9 million and commissions of approximately \$1 million for the year ended 30 June 2006.</p> <p>The effect of this transaction was to strip TSG of income on an annual basis of approximately \$1 million.</p> <p>The Knightsbridge Transaction was effective from 30 June 2006.</p> <p>Mr Cicerello was the Company Secretary of TSG at the time of the transaction and remained until the date of our appointment.</p> <p>The records in our possession do not reflect the cancellation of shares held in TSG.</p> <p>We believe TSG was insolvent or became insolvent as a consequence of the transaction on 30 June 2006.</p> <p>Accordingly, from 30 June 2006 the only operating business of TSG was the Fremantle branch.</p>
30 June 2006	At or about this time it appears that the directors decided to divest the retail travel outlets being operated by TSG (in Western Australia) and Travelshop (in Melbourne, Sydney, Brisbane and Canberra) and focus upon the wholesale businesses and travelshop.com.au (the internet business).
Early August 2006	<p>TSG acquired the issued capital of Orient Pacific Holidays Pty Ltd (“Orient”) by way of cash and the issue of shares in TSG to the vendors. We are not aware if the cash component was paid.</p> <p>During the period 8 August 2006 to 2 March 2007, funds totalling \$2.083 million were transferred from Orient to the Perth head office and applied towards the Group’s working capital requirements, related parties and unknowns.</p>
August / September 2006	The Group reignited its intention to list on the ASX either by way of IPO or via an existing listed shell. These discussions continued through until early 2007 but none proceeded as intended.
16 October 2006	<p>TSG agreed to sell as a going concern the business known as “Travelshop Fremantle” to Travelshop, effective 16 October 2006 for a sale consideration of \$130,000 comprising \$35,000 for plant and equipment and \$95,000 for goodwill and licence. The consideration was to be made by way of movement in the inter-company loan accounts. The accounting records have not been updated to reflect this transaction.</p> <p>Consequently, TSG ceased to trade any retail outlets.</p>

	TSG made application to the TCF to cancel its membership of the TCF. TSG membership was officially cancelled 19 January 2007.
October 2006	On or about October 2006 the business and business assets of Bella appeared to have been incorporated into the business operations of Orient. Accordingly, Bella ceased to trade. The financial records do not record any details of this transaction.
November 2006	The directors engaged a private equity consultancy firm in Melbourne to seek out private equity partners. These efforts were pursued up to the time of our appointment but without fruition.
27 November 2006	Bella made application to cancel its membership of the TCF. Termination was effective from 29 November 2006.
2nd half of 2006	The Group approached Flight Centre Ltd to acquire the remaining retail outlets in Fremantle and the Eastern States. A conditional agreement was subsequently signed with Flight Centre Ltd. We understand the sale did not proceed due to issues identified by FCL during their due diligence, particularly relating to shortfalls in client fund accounts. At this time, it appears that neither Travelshop nor the Group were able to transfer the required client funds at settlement.
February / March 2007	The companies continued to pursue the acquisition and growth strategy with negotiations continuing with prospective targets.

Table 4: Chronology of Events for the Group

Sale of Business Assets

- 4.29. Upon our appointment as Administrators, we immediately mobilised RSM Bird Cameron Partners Turnaround and Insolvency staff in the various States to secure the business assets, books and records.
- 4.30. The Companies' readily realisable assets were limited to forward sales on existing bookings and plant and equipment of an office furniture nature.
- 4.31. In order to crystallise any value remaining in the Companies, we immediately initiated a sale process whereby we liaised with major industry players in seeking expressions of interest on an urgent basis. We also obtained valuations of the Companies' plant and equipment assets.
- 4.32. Sales agreements were concluded with three (3) parties for specified assets of Travelshop and Leisure including plant and equipment and forward sales as summarised in Table 5 below.

	Travelshop	Leisure	Total
	\$	\$	\$
American Express	27,500	-	27,500
Flight Centre Ltd	55,000	-	55,000
Alpha Travel Group	-	58,500	58,500
Total	\$82,500	\$58,500	\$141,000

Table 5: Summary of Sale of Business Assets

- 4.33. Upon our appointment there were no apparent forward bookings for Travelshop Geelong, Clifton Hills and Fremantle. We believe customer accounts had been transferred by staff prior to our appointment.

5. Reasons for Failure

- 5.1. The directors have not offered a reason or reasons as to the failure of the Group except Mr Ferrone who stated the Group expanded too rapidly.
- 5.2. It is apparent from our preliminary investigations that the primary factor in the Group's financial demise is the failure by the directors, officers and management to:
- 5.2.1. Ensure proper corporate governance practices were adopted and adhered to;
 - 5.2.2. Ensure proper internal controls and segregation of duties;
 - 5.2.3. Maintain a reliable Management Information System ("MIS") providing regular and accurate financial management reports;
 - 5.2.4. Ensure the financial management reports were adequately supported by and reconciled to the travel reservation and databases maintained by the Companies;
 - 5.2.5. Make reasonable enquiries of management and fellow directors on the financial performance and financial position of the Companies. In this regard, we note that a former director tendered his resignation in late 2005 as a direct consequence of a lack of financial information being provided by management and fellow directors, and particularly given the nature of the industry and the need to properly account for and manage client funds;
 - 5.2.6. Respond appropriately and adequately to the warning signs of insolvency such as declining working capital, ATO arrangements not be adhered to, superannuation debts, and need to utilise client funds; and
 - 5.2.7. Ensure adequate capital backing to support the business acquisition strategies of the Group, the working capital needs of the growing business and particularly to fund the significant and ongoing trading losses of the Group.
- 5.3. The suspected manipulation and misrepresentation of financial data, including audited financial data to the secured creditor and the TCF as the primary authority for registration of travel agents, prolonged the ultimate failure of the Group.

6. Books and Records

- 6.1. Pursuant to Section 286(1) of the Act a company is required to maintain sufficient books and records which:
- 6.1.1. Correctly record and explain transactions and the financial position; and
 - 6.1.2. Enable true and fair financial statements to be prepared and audited.
- 6.2. The Companies maintained a general ledger accounting system utilising MYOB software. The financial records of TSG and Travelshop were primarily maintained by the Company's own accounting staff or staff provided by accounting practices in which Mr Ferrone had a financial interest (Joe Ferrone & Co and previously

Kensington Partners). Indeed, the Group's Head Office was situated in the same premises as Joe Ferrone & Co.

- 6.3. Former employees of the accounting practice were formerly engaged by the Group taking on key financial roles within the Group. In this regard, Mr Colin Chester who became Company Secretary of the Companies from March 2005 also maintained the title of Group Financial Controller and / or Chief Financial Officer during 2005 to the date of our appointment. Mr Ian McLaren was also engaged from early to April 2006 as the National Administration Manager.
- 6.4. The accounting records for Leisure and Bella were maintained at a company level from the Melbourne based premises.
- 6.5. It appears that after the acquisition of Sportsnet Holidays (now known as Leisure) the Group implemented what was termed a "centralised treasury function" which saw the movement of funds, including client funds, to Perth managed bank accounts.
- 6.6. Our preliminary review of the Companies' books and records indicates that the Group has failed to maintain adequate books and records, particularly from 1 July 2006. Accordingly, we believe the books and records do not properly reflect the true financial position of the Companies as at 20 March 2007, nor their trading performance for the period 1 July 2006 to 20 March 2007. In this regard, we make the following observations:
 - 6.6.1. Since the departure of the Group's accountant in June 2006, the MYOB records appear not to have been properly maintained;
 - 6.6.2. We have been unable to locate or identify all accounting records, including cheque butts, bank statements and supporting documentation to explain the numerous electronic transfers to related parties and others;
 - 6.6.3. Irreconcilable differences in the management of client funds as detailed in the Company's MYOB general ledger system to the reservations and travel database systems;
 - 6.6.4. No maintenance of debtors ledgers for commissions and commission overrides due, aged or otherwise;
 - 6.6.5. No aged creditors ledger maintained since 2004;
 - 6.6.6. Shareholder register for TSG not properly maintained; and
 - 6.6.7. No reconciliation of client fund accounts and reasonable enquiry as to the status of client funds, particularly in light of the centralised treasury process.
- 6.7. It appears that whilst regular Directors' meetings were held, the focus of those Directors' meetings was of a strategic nature, particularly focusing upon the growth objective by way of acquisitions. Whilst management meetings were held on a monthly basis, these focused on branch operational performance and appear not to have adequately considered the financial position of each of the Companies and of the Group as a whole.
- 6.8. We question whether the information produced by the Group's MIS would have provided a timely and accurate position of trading performance and financial position in any case.

Anomalies in Audited Accounts and AFRs

- 6.9. As noted above, for the Companies to operate as travel agents, membership of the TCF must be obtained and retained on an annual basis. This process requires the preparation of audited financial statements and the preparation and lodgement of an AFR, signed and verified by the directors and the appointed registered company auditor.
- 6.10. Set out in Table 6 below is a summary of the audited financial statements and AFRs prepared in respect of the Companies:

	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2006
TSG	✓	✓	Licence surrendered effective 19 January 2007
Travelshop	Not applicable – Licence obtained during 2004/05	✓	✓
Leisure Bella	✓ ✓	✓ ✓	✓ Licence surrendered effective 29 November 2006

Table 6: Summary of Years for which Audited Financial Statements and AFRs prepared

- 6.11. Our preliminary investigations indicate that the audited financial statements as at 30 June 2006 and the AFR as at the same date, signed and dated 30 November 2006, for Travelshop, do not reflect the true financial position or trading performance of Travelshop in that:-
- 6.11.1. The audited financial statements may overstate net profit by as much as approximately \$2.9 million;
- 6.11.2. The audited financial statements may overstate net assets by approximately \$3 million; and
- 6.11.3. The AFR fails to adequately disclose the maximum amount of liability or potential liability secured over the assets of the agency by \$3.4 million. Such encumbrances existed pursuant to a corporate guarantee and indemnity, unlimited as to amount, given by the Companies as sureties on account of the Companies.
- 6.12. The AFR lodged for Leisure for the year ended 30 June 2006 also failed to disclose the encumbrance of \$3.4 million.
- 6.13. Furthermore, the AFRs for the year ended 30 June 2005 in respect of TSG, Travelshop and Bella also failed to disclose encumbrances over these Companies' assets pursuant to a cross-guarantee and indemnity dated 13 December 2004 for in excess of \$3 million. No such anomaly exists in respect of Leisure for the year ended 30 June 2005 as no security was provided by Leisure to the ANZ Bank until March 2006.

- 6.14. Whilst our investigations have only been preliminary, we believe the following anomalies exist in regard to the audited financial statements for Travelshop for the year ended 30 June 2006:-

6.14.1. Omission of Overdraft

As at 30 June 2006, the overdraft facility with the ANZ Bank held by Travelshop totalled \$1,249,396. This current liability was not reflected in the audited financial statements.

Of this amount, the amount of \$1,181,434 was transferred by way of book entry to the loan account owed by TSG to Travelshop which effectively reduced the monies owed by TSG to Travelshop by that amount. Whilst the net asset position is not affected, the working capital of Travelshop was significantly enhanced.

The remaining balance of the overdraft in the amount of \$67,962 was effectively transferred to revenue by way of book entry resulting in an understatement of liabilities and overstatement of profit.

6.14.2. Overstatement of Recoverable Related Party Loans

As at 30 June 2006, the audited financial statements of Travelshop showed related party loans owed to Travelshop totalling \$891,653, comprising a loan owed by TSG of \$644,852 and Bella of \$246,801. As noted above, the loan account owed by TSG had already been improperly reduced by \$1.181 million.

As at 30 June 2006, and given The Knightsbridge Transaction previously noted, the business operations of TSG post 30 June 2006 and up until October 2006 was limited to the Fremantle branch only. At the date of the signing of the audit report, being 1 December 2006, TSG did not have any business operating activities generating income to service its debts, including the debt to Travelshop.

Accordingly, we believe that as at 30 June 2006, TSG would not have been able to repay its loan such that it should have been written off as non-recoverable in the books of Travelshop as at 30 June 2006.

Similarly, the operations of Bella officially ceased in October 2006 with its assets and business operations being transferred to Orient. Accordingly, at the time of signing of the audit report, Bella did not have any trading activities and was therefore not in a position to generate income to service any of its debts including the debt to Travelshop.

Accordingly, we believe that as at 30 June 2006, Bella would not have been able to repay its loan such that it should have been written off as non-recoverable in the books of Travelshop as at 30 June 2006.

6.14.3. Year End Journal

By way of complex book entry dated 30 June 2006, net assets of Travelshop were increased by an amount of \$844,379 with a corresponding increase in profit. This singular transaction incorporated the transfer of \$67,962, being the remaining balance in the ANZ overdraft, to revenue.

6.15. We believe the Companies may not have been able to maintain their membership of the TCF after 31 December 2005, or in the alternative, by no later than 31 December 2006, where:-

6.15.1. firstly, the AFR's for the year ended 30 June 2005 for TSG, Travelshop and Bella had properly disclosed the secured encumbrances over the assets of TSG, Travelshop and Bella of more than \$3 million; and

6.15.2. secondly, the AFR's for the year ended 30 June 2006 for Travelshop and Leisure had properly disclosed the secured encumbrances over the assets of those companies of \$3.4 million, and the audited financial statements properly reflected the financial performance and financial position of those companies for the year ended 30 June 2006

for the reason that the Companies may not have been in a position to rectify the apparent substantial deficiencies in shareholder equity, net tangible assets and working capital by way of capital injection or otherwise.

6.16. Further comments are made below regarding issues arising from these matters in Section 7 – Trading Performance, Section 8 – Report as to Affairs, Section 10 – Insolvent Trading and Section 13 – Possible Recovery Actions.

6.17. Our review of the Companies' books and records and discussions with management indicate that in addition to the abovementioned anomalies, the Companies may have maintained another set of financial records termed "ANZ MYOB" for the purposes of seeking and possibly obtaining debt funding.

7. Trading Performance

7.1. A detailed Statement of Financial Performance for each of the Companies as per the audited accounts for the years ended 30 June 2004, 2005, 2006 and as per the Management Accounts for the period 1 July 2006 to 20 March 2007 are attached as Annexure A, B, C and D.

7.2. Set out below in Table 7 is a summary of the reported trading performance of each of the Companies for the period 1 July 2003 to the date of our appointment.

	Year ended 30 June 2004 (Audited) \$'000	Year ended 30 June 2005 (Audited) \$'000	Year ended 30 June 2006 \$'000	Period 1 July 2006 to 20 March 2007 MYOB Records \$'000
TSG	(172)	99	(617) (unaudited)	(219)
Travelshop	Not applicable	24	864 (audited)	(71)
Leisure	17	112	232 (audited)	10
Bella	14	(49)	(174) (unaudited)	(16)
Total Profit/(Loss) After Tax	(141)	186	305	(296)

Table 7: Summary of Historical Trading Performance

7.3. Profits reported by way of audited accounts to the TCF for the two (2) years ended 30 June 2005 totalled \$45,000 (net). Reported audited profits (Travelshop and Leisure) for the year ended 30 June 2006 alone totalled \$1.096 million.

- 7.4. A consequence of the “restructure” whereby TSG ceased to trade in or about October 2006 (as a consequence of “The Knightsbridge Transaction” and Fremantle branch transaction) and Bella ceasing to trade in or about October 2006 (as a consequence of the Orient transaction), no audited financial statements were prepared and no AFRs were required to be submitted to the TCF for the year ended 30 June 2006 for either TSG or Bella. If they had, trading losses of \$0.79 million may have been disclosed. The consequence, together with the anomalies in the audited accounts, was that the total trading losses of the Group were not fully disclosed to or known by the TCF.
- 7.5. As noted above, our preliminary investigations indicate that the audited financial statements for the year ended 30 June 2006 do not properly reflect the true financial performance or financial position of the Companies.
- 7.6. Set out below as Table 8 is a Revised Statement of Financial Position for Travelshop for the year ended 30 June 2006 reflecting the anomalies noted above in paragraph 6.14 resulting in a revised loss of \$2.053 million.

	Paragraph Reference	\$
Profit per audited financial statements		864,176
Less: Adjustments		
Additional write-off of related party loan (TSG) after adjusting for proper accounting treatment of overdraft	6.14.1	1,181,434
Write-off non-recoverable related party loans as at 30 June 2006:	6.14.2	
TSG		644,852
Bella		246,801
Overstatement of profit from ordinary activities before income tax via year end journal entry	6.14.3	844,379
Adjusted Loss for year ended 30 June 2006		<u>(\$2,053,290)</u>

Table 8: Revised Statement of Financial Performance for Travelshop for the year ended 30 June 2006

- 7.7. Accordingly, the profit for Travelshop alone for the year ended 30 June 2006 may have been overstated by approximately \$2.9 million.

8. Report as to Affairs

- 8.1. A Report as to Affair (“RATA”) is a statutory form to be completed by directors, detailing the assets and liabilities of a company as at the date of our appointment.
- 8.2. Notices were issued to the directors, requesting that they submit a RATA for TSG, Travelshop, Leisure and Bella as at 20 March 2007.
- 8.3. A RATA has only been received from Mr Buti for each of the Companies.
- 8.4. In respect of the other directors:-
- 8.4.1. Mr Ferrone declared himself bankrupt on 16 March 2007;
- 8.4.2. Mr Sparks tendered his resignation on or about 7 March 2007; and

8.4.3. Mr Porcheri tendered his resignation upon our appointment.

8.5. Mr Cicerello is recorded on the ASIC records as having resigned in March 2006 however upon our meeting with him after our appointment he had believed he remained a director of the Companies. Indeed, Mr Cicerello remained the Secretary of TSG.

8.6. Our comments and analysis in respect to each of TSG, Travelshop, Leisure and Bella's RATAs are as follows:-

TSG

8.7. Set out below in Table 9 is a summary of the RATA and our own estimate of TSG's financial position as at 20 March 2007.

	Paragraph Reference	Director's RATA		MYOB Management Accounts as at 20 March 2007	Administrators' Estimated Realisable Value as at 20 March 2007
		Book Value	Estimated Realisable Value		
Assets not Specifically Charged		\$	\$	\$	\$
Sundry Debtors	8.8	155,045	58,019	69,500	-
Cash at Bank	8.11	-	-	6,193	4,106
Other Assets	8.14	1,940,531	-	4,527,527	-
Subtotal		2,095,576	58,019	4,603,220	4,106
Assets Subject to Specific Charges					
Plant & Equipment	8.19	351,842	Unknown	170,546	-
Less: Amounts Owing ANZ Bank Ltd Fixed & Floating Charge	8.23	2,500,000	2,500,000	3,419,059	1,663,666
Lease Liabilities	8.20	Unknown	Unknown	-	28,397
Total Assets		Unknown	Unknown	1,354,707	(1,687,957)
Less:					
Priority Creditors (Employee Entitlements)	8.27	86,139	86,139	11,476	12,495
Assets Available for Non-Priority Creditors		Unknown	Unknown	1,343,231	(1,700,452)
Non-Priority Creditors	8.31	(2,832,843)	(2,659,487)	(235,977)	(3,367,107)
Contingent Assets	8.34	5,000,000	5,000,000	-	-
Contingent Liabilities	8.35	-	-	-	(2,285,254)
Estimated Surplus/(Deficiency) Subject to Costs of Administration		Unknown	Unknown	1,107,254	(7,352,813)

Table 9: RATA and Estimated Financial Position as at 20 March 2007

Sundry Debtors

8.8. Set out below in Table 10 are the details outlined in the RATA.

	RATA Book Value \$	Administrators' Estimated Realisable Value \$
Trade Debtors	58,019	-
Bella	52,259	-
Leisure	44,767	-
Total	\$155,045	-

Table 10: Summary of Sundry Debtors as at 20 March 2007

8.9. Since our appointment, I have issued demands to the debtors detailed in the company records, however the majority of debts have been disputed. Accordingly, I do not anticipate any recoveries in regard to the trade debtors.

8.10. Other debtors relate to related companies that are currently in administration. Accordingly, at this time future recoveries are not known.

Cash at Bank

8.11. The company operated four (4) bank accounts with the National Australia Bank, two (2) of which were titled trust accounts.

8.12. At the date of our appointment the funds held in the accounts totalled \$4,106 as set out in Table 11 below.

	\$
Non-Trust Accounts	103
Trust Accounts	4,003
Total	\$4,106

Table 11: Summary of Cash at Bank as at 20 March 2007

8.13. The funds received in respect of the trust accounts at the date of our appointment are being held aside in trust pending a review of possible trust entitlements. At first glance however, it appears that those accounts have also been utilised as general operating accounts which may dispel any trust entitlements. Further enquiries will be made in due course.

Other Assets

8.14. Set out below in Table 12 is a summary of other assets per the MYOB records as at 20 March 2007 and including the book value detailed in the RATA which was limited to the inter-company loans totalling \$1,940,531.

	RATA Book Value \$	MYOB Records \$
Investments		
Travelshop	175,945	175,945
Leisure	1,093,906	563,906
Bella	670,680	670,680
Orient	-	1,137,972
Genesis Travel	-	22,859
Loan Bella	-	49,479
Capital Raising Costs	-	327,491
Intangibles	-	1,515,340
Prepayments and Other	-	63,655
Total	\$1,940,531	\$4,527,527

Table 12: Summary of Investments per MYOB records as at 20 March 2007

- 8.15. Assets to the value of approximately \$2.6 million detailed in the MYOB accounts were not disclosed in the director's RATA. These include intangible assets associated with acquired goodwill (e.g. brand names) in the acquisitions of Bella, Sportsnet and Orient. Some value may remain in assets yet to be realised attached to domain names and trading names. However, for the purposes of this report no value has been ascribed to those assets.
- 8.16. The book value of related party amounts relates to the value of the investment of the shares held in companies within the Group and a loan. As these companies are all in administration, we do not currently anticipate any return to shareholders in respect of those investments or the loan.
- 8.17. Our enquiries are continuing regarding the recorded investment in Genesis Travel and prepayments.
- 8.18. The capital raising costs were noted in the audited accounts for the year ended 30 June 2005. The auditor stated that such amounts should be written off if an ASX listing was not forthcoming.

Plant & Equipment

- 8.19. The vast majority of plant and equipment was of an office furniture nature, most of which was the subject of lease agreements with numerous financiers.
- 8.20. At the time of preparing this report, minimal claims totalling \$28,397 had been received from lessor companies. We envisage such claims to increase upon the realisation of leased assets.
- 8.21. Any value remaining in items of plant and equipment were determined to be of no commercial value and leased assets were disclaimed shortly after our appointment.
- 8.22. The difference arising between the directors' book value and the MYOB accounts appears to relate to the fact that the records have not been properly maintained after 1 July 2006 such that the MYOB records are unlikely to be reliable.

Secured Creditor

- 8.23. The ANZ Bank holds a first ranking fixed and floating charge over TSG assets to secure the company's obligations as principal borrower in respect of facilities totalling \$1,663,666.
- 8.24. The company has a contingent liability pursuant to an unlimited Corporate Guarantee of Indemnity, whereby TSG also secured the borrowings of other companies within the Group totalling \$1,483,836.
- 8.25. Set out below in Table 13 is a summary of the secured creditor claims against TSG as at 20 March 2007.

	\$
Overdraft	250,141
Term Loan – Fully Drawn Advance	950,000
Guarantee	389,716
Credit Cards	73,809
	<hr/> 1,663,666
Contingent Liability	1,483,836
	<hr/>
Total	\$3,147,502

Table 13: Summary of Secured Creditor Claims as at 20 March 2007

- 8.26. Our enquiries indicate that Sabre Pacific Pty Ltd also provided a term loan to the company in the amount of \$500,000 with the ability to register a third ranking fixed and floating charge. At the date of our appointment no charge had been registered.

Employee Entitlements

- 8.27. Employee entitlements are afforded a priority pursuant to Section 556 of the Act and include entitlements for wages, superannuation, annual leave and long service leave.
- 8.28. Set out below as Table 14 is a summary of the outstanding employee entitlements detailed in the RATA.

	RATA Book Value \$	Administrators' Estimated Value \$
Annual Leave	13,272	9,711
Long Service Leave	-	2,784
Superannuation	72,867	Unknown
	<hr/>	<hr/>
Total	\$86,139	\$12,495

Table 14: Summary of Employee Entitlements per RATA

- 8.29. Our review of the company's records show annual leave and long service leave entitlements totalling \$12,495.

- 8.30. Superannuation entitlements are yet to be quantified. Accordingly, we would envisage employee entitlement claims increasing upon the submitting a Proofs of Debt by employees and the lodging of a claim of the Australian Taxation Office pursuant to the Superannuation Guarantee Act.

Unsecured Creditors

- 8.31. Set out below in Table 15 is a summary of the unsecured creditors disclosed in the RATA.

	RATA Book Value \$	Administrators' Estimated Value \$
Trade Creditors / Others	407,948	1,122,730
Sabre Loan	453,356	503,767
Knightsbridge	30,000	-
Australian Taxation Office	304,376	103,447
Travelshop	1,637,163	1,637,163
Total	\$2,832,843	\$3,367,107

Table 15: Summary of Unsecured Creditors as at 20 March 2007

- 8.32. As noted above, we believe unsecured creditor claims may total \$3.367 million.
- 8.33. Our enquiries indicate the loan to Knightsbridge was repaid, with interest, after June 2006.

Contingent Assets

- 8.34. The RATA refers to a contingent asset of \$5 million in respect of a possible claim for negligence against Joe Ferrone & Co, the company's accountants. Joe Ferrone & Co is in liquidation. We have requested the liquidator of the accounting practice to notify the applicable professional indemnity insurer of a possible claim or claims against the insurance policy. The quantum of any such claim and the quantum of the claims allowable under a policy, if any, are not known at this time.

Contingent Liabilities

- 8.35. Contingent liabilities of \$2,285,254 may arise from contractual obligations with Sabre Pacific in the amount of \$801,418 and the ANZ Bank as noted above.

Travelshop

- 8.36. Set out below in Table 16 is a summary of the RATA and our own estimate of Travelshop's financial position as at 20 March 2007.

	Paragraph Reference	Director's RATA		MYOB Management Accounts as at 20 March 2007	Administrators' Estimated Realisable Value as at 20 March 2007
		Book Value	Director's Estimated Realisable Value		
Assets not Specifically Charged		\$	\$		\$
Sundry Debtors	8.37	2,260,218	30,451	139,850	101,095
Cash at Bank	8.42	-	738	-	-
Cash on Hand	8.42	-	-	3,150	21
Other Assets	8.47	-	-	2,622,656	5,000
Subtotal		2,260,218	31,189	2,765,656	106,116
Assets Subject to Specific Charges					
Plant & Equipment	8.51	422,233	Unknown	219,129	18,500
Less: Amounts Owing					
ANZ Bank Ltd Fixed & Floating Charge	8.54	(2,500,000)	(2,500,000)	(1,348,771)	(1,305,836)
Lease Liability	8.53	-	-	-	(2,741)
Total Assets		182,451	Unknown	1,636,014	(1,183,961)
Less:					
Priority Creditors (Employee Entitlements)	8.57	291,510	291,510	340,891	400,506
Assets Available for Non-Priority Creditors		(109,059)	Unknown	1,295,123	(1,584,467)
Non-Priority Creditors	8.60	(618,897)	(618,897)	(133,449)	(1,371,598)
Contingent Assets	8.62	5,000,000	5,000,000	-	-
Contingent Liability	8.55	-	-	-	(1,841,666)
Estimated Surplus/(Deficiency) Subject to Costs of Administration		4,272,044	Unknown	1,161,674	(4,797,731)

Table 16: RATA and Estimated Financial Position as at 20 March 2007

Sundry Debtors

8.37. Set out below in Table 17 is a summary of the RATA book value and our own estimate of Travelshop's trade debtors as at 20 March 2007.

	RATA Book Value \$	Administrators' Estimated Realisable Value \$
Trade Debtors	30,451	-
Commissions	-	42,095
TSG	1,637,163	-
Leisure	152,492	-
Bella	440,112	-
Sale of Forward Bookings	-	59,000
Total	\$2,260,218	\$101,095

Table 17: Summary of Trade Debtors as at 20 March 2007

- 8.38. Upon our appointment we recovered numerous cheques from the various branches representing commissions yet to be deposited. These, together with subsequent commission receipts, total \$42,095 and relate to debtors other than those recorded in the company records.
- 8.39. The trade debtors recorded in the company records have been issued with demands. However, I believe the records do not properly reflect the monies owed and I do not anticipate receiving funds from those stated debtors.
- 8.40. During the course of the administration I have negotiated sales of the forward bookings held by Travelshop at the date of our appointment for a total value of \$59,000. Of this amount, \$42,500 is yet to be received.
- 8.41. In respect to the related party loans, given the companies within the Group are currently under administration, no value is expected to be realised at this time.

Cash at Bank and on Hand

- 8.42. Travelshop operated three (3) bank accounts with the ANZ Bank. Two were in overdraft. One of these was titled "Retail Travel Trust Account". The non-overdraft account titled "Travelshop Holiday Travel Services Trust Account" held funds at the date of our appointment of approximately \$70,000.
- 8.43. The Retail Travel Trust Account was overdrawn at the date of our appointment by approximately \$1,129,928. The other overdraft account was overdrawn in the amount of approximately \$88,000.
- 8.44. Upon our appointment, the funds held in the Travelshop Holiday Travel Services Trust Account were set-off by the Bank against the Retail Travel Trust Account overdraft balance.
- 8.45. Investigations and enquiries are continuing in respect to this set-off and any trust entitlements. Further comments are made in Section 13 - Possible Recovery Actions.
- 8.46. Minimal other funds were recovered as petty cash from the various branches.

Other Assets

- 8.47. As at the date of our appointment, the MYOB records ascribed a significant value of approximately \$2.6 million to other assets whereas the RATA book value was nil.

- 8.48. The company records refer to intangibles assets of \$502,271, intercompany loans (TSG, Leisure and Bella) of \$1,980,318, and prepayments and a tax credit totalling \$140,067.
- 8.49. During the course of the administration, we have concluded a sale for the company's email database for a value of \$5,000. At the date of preparing this report, these funds are yet to be received.
- 8.50. We do not envisage any realisation from any of the other assets.

Plant & Equipment

- 8.51. Upon our appointment we obtained valuations of the plant and equipment located at the various Travelshop branches throughout Australia. It was also noted that the majority of the plant and equipment, particularly electronic equipment, was the subject of lease arrangements with numerous lessors.
- 8.52. During the course of the administration, we realised plant and equipment located at various locations with the parties acquiring the forward bookings and email database. The value obtained totalled \$18,500 and equated approximately to the auction value of the plant and equipment but without incurring auction costs.
- 8.53. Other items of office furniture were deemed to be of no commercial value and abandoned. Similarly, all leased assets were disclaimed. We envisage an increase in lessor claims upon realisation of those assets.

Secured Creditor

- 8.54. The ANZ Bank holds a first ranking fixed and floating charge over Travelshop assets to secure the company's obligations as principal borrower in respect of facilities totalling \$1,305,836.
- 8.55. Pursuant to an unlimited Corporate Guarantee of Indemnity, Travelshop also secured the borrowings of other companies within the Group totalling \$1,841,666.
- 8.56. Set out below in Table 18 is a summary of the secured creditor claims against Travelshop as at 20 March 2007.

	\$
Overdraft (Retail Travel Trust Account) – after set-off	1,059,928
Temporary overdraft	87,908
Guarantees	158,000
	<hr/> 1,305,836
Contingent Liability	1,841,666
	<hr/>
Total	<u>\$3,147,502</u>

Table 18: Summary of Secured Creditor Claims as at 20 March 2007

Employee Entitlements

- 8.57. Employee entitlements are afforded a priority pursuant to Section 556 of the Act. These entitlements include wages, superannuation, annual leave and long service leave.

- 8.58. Set out in Table 19 below is a summary of employee entitlements detailed in the RATA and our current estimate of possible claims.

	RATA	Administrators'
	\$	Estimate
		\$
Annual Leave	61,040	69,951
Long Service Leave	84,245	90,727
Superannuation	146,225	130,561
Wages	-	109,266
Total	\$291,510	\$400,506

Table 19: Summary of Employee Entitlements as at 20 March 2007

- 8.59. Our estimate of employee entitlements has been derived from a review of the company's records and notification of claims. We envisage that should the company be liquidated, employee claims may increase upon claims being made under GEERS.

Unsecured Creditors

- 8.60. Set out below as Table 20 is a summary of unsecured creditor claims as detailed in the RATA and our current estimate of possible claims.

	RATA	Administrators'
	Book	Estimated
	Value	Realisable
	\$	Value
		\$
Trade Creditors	458,562	1,148,564
Australian Taxation Office	89,062	151,761
Payroll Tax Liability	71,273	71,273
Total	\$618,897	\$1,371,598

Table 20: Summary of Unsecured Creditors as at 20 March 2007

- 8.61. The difference in claims noted above is primarily as a result of a claim by the TCF related to client funds.

Contingent Assets

- 8.62. The RATA refers to a contingent asset of \$5 million in respect of a possible claim for negligence against Joe Ferrone & Co, the company's accountants. Joe Ferrone & Co is in liquidation. We have requested the liquidator of the accounting practice to notify the applicable professional indemnity insurer of a possible claim or claims against the insurance policy. The quantum of any such claim and the quantum of the claims allowable under a policy, if any, are not known at this time.

Leisure

- 8.63. Set out below in Table 21 is a summary of the RATA and our own estimate of Leisure's financial position as at 20 March 2007.

	Paragraph Reference	Director's RATA		MYOB Management Accounts as at 20 March 2007	Administrators' Estimated Realisable Value as at 20 March 2007
		Book Value	Director's Estimated Realisable Value		
Assets not Specifically Charged		\$	\$	\$	\$
Sundry Debtors	8.64	16,710	16,710	127,156	238
Cash at Bank	8.66	738	738	168,860	23,180
Other Assets	8.70	-	-	247,203	47,183
Subtotal		17,448	17,448	543,219	70,601
Assets Subject to Specific Charges					
Plant & Equipment	8.72	51,803	Unknown	51,803	10,687
Less: Amounts Owing ANZ Bank Ltd Fixed & Floating Charge	8.73	(2,500,000)	(2,500,000)	-	-
Total Assets		(2,430,749)	Unknown	595,022	81,288
Less:					
Priority Creditors (Employee Entitlements)	8.75	(57,034)	(57,034)	(6,609)	(61,224)
Assets Available for Non-Priority Creditors		(2,487,783)	Unknown	588,413	20,064
Non-Priority Creditors	8.77	(290,401)	(290,401)	(202,983)	(828,128)
Contingent Assets	8.78	5,000,000	5,000,000	-	-
Contingent Liabilities	8.74	-	-	-	(3,147,502)
Estimated Surplus/(Deficiency) Subject to Costs of Administration		2,221,816	Unknown	385,430	(3,955,566)

Table 21: RATA and Estimated Financial Position as at 20 March 2007

Sundry Debtors

8.64. The amount disclosed in the RATA of \$16,710 relates to a credit due from the Australian Taxation Office. Under the current circumstances, we would envisage that the ATO will set off this amount against amounts due to the ATO. Further enquiries will be made in due course.

8.65. The sundry debtors detailed in the MYOB accounts as at 20 March 2007 in the amount of \$127,156 refers to commission receivables. Since the date of our appointment, we have received commissions of \$238. Enquiries are continuing in relation to commissions that may be owing.

Cash at Bank

- 8.66. The company operated two (2) accounts with the National Australia Bank (“NAB”) termed a general account and a trust account. At the date of our appointment, monies were held in both accounts totalling \$23,180. Immediately upon our appointment, we instructed the bank to freeze the accounts and forward the funds to our office. To date, the Bank is yet to release the funds.
- 8.67. Subsequent to our appointment, the Bank has back-charged claims by its credit card holders against the funds held, claiming to be able to recoup charge-backs by customers pursuant to a Merchant Services Agreement.
- 8.68. I have sought legal advice on the matter and I am advised that these actions, under these circumstances, are contrary to the Act. My legal advisers have requested the Bank to disgorge the funds immediately. At the time of preparing this report, neither a response nor the funds have been forthcoming.
- 8.69. Upon the funds being provided, I will set aside the funds emanating from the NAB trust account and undertake a review to ascertain the existence of any beneficiary entitlements. It would appear however, that prior to our appointment the trust account may have been utilised as a general operating account which may dispel any beneficiary entitlement. I am aware of monies being deposited to the trust account after our appointment. I would envisage these funds being returned in due course to the rightful beneficiaries.

Other Assets

- 8.70. The MYOB accounts disclose other assets totalling \$247,203 comprising related party loans (TSG and Travelshop), rental deposits, prepayments and a taxation credit. Our enquiries are continuing regarding the rental deposit and prepayments, however I do not envisage any recovery at this time.
- 8.71. During the course of the administration, I have concluded a sale with the company’s former owner which included forward bookings, telephone numbers, business names and plant and equipment. The value assigned to the non-plant and equipment assets totalled \$47,183.

Plant & Equipment

- 8.72. As noted above, during the course of the administration I concluded a sale of the company’s plant and equipment for \$10,687. The sale was concluded after obtaining a valuation with the sale price equating to the going concern value.

Secured Creditor

- 8.73. Leisure does not have any principal borrowings from the secured creditor.
- 8.74. A contingent liability exists in regard to the ANZ Bank’s first ranking fixed and floating charge over Leisure’s assets in support of an unlimited Corporate Guarantee of Indemnity for the borrowings of other companies within the Group totalling \$3,147,502. Accordingly, should there be insufficient assets of TSG, Travelshop and Bella to satisfy the secured creditor, the ANZ could call upon the corporate guarantees provided by the company in order to satisfy the debt.

Employee Entitlements

- 8.75. Employee entitlements are afforded a priority pursuant to Section 556 of the Act. These entitlements include wages, superannuation, annual leave and long service leave.
- 8.76. Set out below in Table 22 is a summary of employee entitlements as outlined in the RATA and our own current estimates.

	RATA \$	Administrators' Estimate \$
Annual Leave	37,322	37,322
Long Service Leave	13,656	13,656
Superannuation	6,056	7,477
Wages	-	2,769
Total	\$57,034	\$61,224

Table 22: Summary of Employee Entitlements as at 20 March 2007

Unsecured Creditors

- 8.77. Of the creditor claims detailed in the RATA and totalling \$290,401, related party loans comprise \$285,562. The differential between the RATA and our own assessment relates primarily to a claim by Concorde International Travel for in excess of \$400,000.

Contingent Assets

- 8.78. The RATA refers to a contingent asset of \$5 million in respect of a possible claim for negligence against Joe Ferrone & Co, the company's accountants. Joe Ferrone & Co is in liquidation. We have requested the liquidator of the accounting practice to notify the applicable professional indemnity insurer of a possible claim or claims against the insurance policy. The quantum of any such claim and the quantum of the claims allowable under a policy, if any, are not known at this time.

Bella

- 8.79. Set out below in Table 23 is a summary of the RATA and our own estimate of Bella's financial position as at 20 March 2007.

	Paragraph Reference	Director's RATA		MYOB Management Accounts as at 20 March 2007	Administrators' Estimated Realisable Value as at 20 March 2007
		Book Value	Director's Estimated Realisable Value		
Assets not Specifically Charged		\$	\$	\$	\$
Sundry Debtors	8.80	88,306	-	-	-
Cash at Bank	8.81	-	-	19,672	-
Other Assets	8.81	-	-	136,548	-
Subtotal		88,306	-	156,220	-
Assets Subject to Specific Charges					
Plant & Equipment	8.81	94,020	Unknown	94,020	-
Less: Amounts Owing ANZ Bank Ltd Fixed & Floating Charge	8.83	(2,500,000)	(2,500,000)	-	(178,000)
Total Assets		(2,317,674)	Unknown	250,240	(178,000)
Less:					
Priority Creditors (Employee Entitlements)	8.85	38,251	38,251	30,799	-
Assets Available for Non-Priority Creditors		(2,355,925)	Unknown	219,441	(178,000)
Non-Priority Creditors	8.86	(592,542)	(592,542)	(305,141)	(612,014)
Contingent Assets	8.87	5,000,000	5,000,000	-	-
Contingent Liability	8.84	-	-	-	(2,969,502)
Estimated Surplus/(Deficiency) Subject to Costs of Administration		2,051,533	Unknown	(85,700)	(3,759,516)

Table 23: RATA and Estimated Financial Position as at 20 March 2007

Sundry Debtors

8.80. The RATA amount relates to a debt due from Leisure and given that it is currently in administration, no realisation is envisaged at this time.

Cash at Bank, Other Assets and Plant and Equipment

8.81. At the date of our appointment, the company did not operate a bank account.

8.82. Indeed, our enquiries indicate Bella ceased to operate well prior to our appointment and all of Bella's business assets and undertakings were transferred into Orient. As previously noted, Orient is currently in liquidation and it is likely any assets that were transferred from Bella to Orient have been subsequently realised by the liquidator or

are of no commercial value. It would appear that Bella received no value for the transfer of its assets and business undertakings to Orient.

Secured Creditor

- 8.83. The ANZ Bank holds a first ranking fixed and floating charge over Bella assets to secure the company's obligations as principal borrower in respect of guarantee facilities totalling \$178,000.
- 8.84. A contingent liability exists in regard to the borrowings of other companies within the Group totalling \$2,969,502 pursuant to an unlimited Corporate Guarantee of Indemnity. Accordingly, should there be insufficient assets of TSG, Travelshop and Leisure to satisfy the secured creditor, the ANZ could call upon the corporate guarantees provided by the company in order to satisfy the debt.

Employee Entitlements

- 8.85. As noted above, the business assets and undertakings of Bella are understood to have been transferred to Orient in 2006. We believe these business undertakings included the obligation to pay outstanding employee entitlements. Accordingly, we do not believe there are any priority employee entitlements outstanding in respect of Bella.

Unsecured Creditors

- 8.86. Of the unsecured creditor claims, \$492,371 relates to related party loans outstanding from Travelshop and Leisure.

Contingent Assets

- 8.87. The RATA refers to a contingent asset of \$5 million in respect of a possible claim for negligence against Joe Ferrone & Co, the company's accountants. Joe Ferrone & Co is in liquidation. We have requested the liquidator of the accounting practice to notify the applicable professional indemnity insurer of a possible claim or claims against the insurance policy. The quantum of any such claim and the quantum of the claims allowable under a policy, if any, are not known at this time.

9. Voidable Transactions

- 9.1. In accordance with Regulation 5.3A.02 of the Act, an Administrator is required to specify in this report whether there are any transactions that appear, at first instance, to be voidable and thereby result in the recovery by a liquidator, of property and other benefits. Such transactions are not recoverable by an Administrator or an Administrator of a Deed of Company Arrangement but can only be pursued by a Liquidator upon the winding up of a company.
- 9.2. An Administrator is also required to form a view as to whether and from what point in time the directors allowed a company to trade whilst insolvent.
- 9.3. In determining whether there are possible voidable transactions available for recovery by a future Liquidator and/or claims arising from insolvent trading, consideration is to be given to the following provisions of the Act:-
- 9.3.1. Unfair preferences (Section 588FA) – these are transactions between the company and the 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 (6) months prior to the commencement of the Voluntary Administration. For the purposes of the Group, the relation back period commences on 20 September 2006;

- 9.3.2. 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. It is not necessary that a creditor be a party to a transaction. Such transactions are only voidable where the company was insolvent at the time of the transaction;
- 9.3.3. Insolvent transactions (Section 588FC) – these transactions are unfair preferences or uncommercial transactions (refer above) entered into when the company was insolvent or became insolvent as a result of entering into the transaction. Only unfair preferences, which have occurred within six (6) months of the commencement of the Voluntary Administration and uncommercial transactions, which have occurred within two (2) years of the commencement of the Voluntary Administration, can be recovered;
- 9.3.4. Unfair Loans to a Company (Section 588FD) – representing loans made to the company where interest or other charges on the loan were extortionate. These transactions can be recovered regardless of when they were entered into;
- 9.3.5. Unreasonable Director-Related Transactions (Section 588FDA) – representing a transaction of a company including a payment by the company or a conveyance, transfer or other disposition by the company of property of the company to a director of the company or a close associate of a director of the company and where it may be expected that a reasonable person in the company’s circumstances would not have entered into the transaction. This provision does not require the transaction to be an insolvent transaction and may be voidable pursuant to Section 588FE(6A) if the transaction was entered into during the four (4) years ending on the relation back day;
- 9.3.6. Related Party transactions (Section 588FE (4)) – representing insolvent transactions (that is unfair preferences or uncommercial transactions) with a related party within four (4) years prior to the commencement of the Voluntary Administration. For this purpose a related party would include a party related to a director or deemed director; and
- 9.3.7. Transactions entered into for the purposes of defeating creditors (Section 588FE(5)) – represented by 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 a period of ten (10) years prior to the commencement of the Voluntary Administration.

Unfair Preferences

- 9.4. We have conducted a review of the Group’s available books and records, including bank statements, cheque books and creditor invoices and statements, for the six (6) months prior to 20 March 2007 in an attempt to identify any payments to creditors which may be recoverable by a Liquidator as an unfair preference.

- 9.5. Set out below in Table 24 is a summary of payments by each of the Companies which may be recoverable by a future liquidator:

	\$
TSG	29,470
Travelshop	295,377
Leisure	40,030
Bella	-
Total	\$364,877

Table 24: Summary of Possible Unfair Preference Claims

- 9.6. However, our investigations have been limited due to lack of continuity and completeness of financial records including cheque books and transaction details related to electronic bank transfers and over the counter transactions.
- 9.7. Subject to creditor funding, further investigation may identify additional transactions or dispel the merits of the possible claims identified to date.
- 9.8. A liquidator cannot recover pursuant to Section 588FG of the Act funds paid to a creditor where it is established the creditor:-
- 9.8.1. Received the payment in good faith; and
- 9.8.2. Had no reasonable ground for suspecting the company was insolvent at the time of the payment.

Uncommercial and Related Party Transactions

- 9.9. Our preliminary investigations have identified numerous transactions which we consider to be of an uncommercial nature, primarily with related parties.
- 9.10. It is our preliminary view that many of the transactions may be Unreasonable Director- Related Transactions and include payments made by the Companies and the disposition of company property.
- 9.11. A summary of possible voidable transactions arising from our preliminary investigation is detailed below.

Joe Ferrone & Related Parties

- 9.12. We have been able to readily identify payments to the benefit of Mr Joe Ferrone or his accounting firm, Joe Ferrone & Co, in excess of \$300,000 during the period 1 July 2005 to 20 March 2007. However, given the state of the Companies' records, particularly the Companies' records maintained after 30 June 2006, it is likely this amount is conservative.
- 9.13. In addition to the above, we are aware of a further \$128,000 being transferred to Joe Ferrone & Co from funds received from Orient.
- 9.14. It would appear that the payments have been made on the basis that they were consulting fees. We have not established whether invoices have been raised to support the payments made nor the veracity of the payments or the invoices raised, if any.

- 9.15. As noted above, Mr Ferrone is a bankrupt. Furthermore, Joe Ferrone & Co was placed into liquidation on 20 April 2007.
- 9.16. Accordingly, a commercial recovery against Mr Ferrone and / or the accounting practice is believed to be unlikely at this time. We have however requested the liquidator of the accounting practice to notify the applicable professional indemnity insurer of a possible claim or claims against any insurance policy.

Joe Cicerello and Related Parties including Knightsbridge

- 9.17. We believe numerous claims exist against Mr Cicerello and related parties that may total \$407,475, a summary of which is set out below in Table 25. These claims exclude any claims that may exist against Mr Cicerello for breach of duties as a director and officer.

	\$
Disposition of Property to Knightsbridge	347,475
Repayment of Loan and Interest	40,000
Debtor claim for use of Travelshop name	20,000
Total	\$407,475

Table 25: Summary of Estimated Claims against Joe Cicerello and Knightsbridge

- 9.18. Since our appointment, we have noted that Mr Cicerello has ceased to be a director of Knightsbridge, Knightsbridge has changed its name to GTRJ Pty Ltd and he has also ceased to be the sole shareholder with his shares being transferred to his wife and new shares issued to four other persons. Such circumstances alone do not preclude a claim from being successfully pursued.

Maurice Buti and Related Parties

- 9.19. Our preliminary investigations have identified payments of \$295,000 to Mr Buti and his related parties and including a loan repayment and interest within six months of our appointment. These claims exclude any claims that exist against Mr Buti for insolvent trading and breach of duties as a director and officer.
- 9.20. Comments are made below in Section 13 – Possible Recovery Actions regarding the ability of the parties to pay upon any judgment or settle any such claims.
- 9.21. Further investigations to be undertaken, subject to funding, may identify additional claims against the directors and related parties.

10. Insolvent Trading

- 10.1. A Company is insolvent when it is unable to meet its debts as and when they fall due.
- 10.2. The determination of insolvency is a question of fact, at a particular point in time, to be assessed by considering the tests of insolvency known as the “cash flow test” and the “balance sheet test”. Other factors of a commercial and financial nature will also be considered by the Courts. Common law precedents have determined the “cash flow test” as being the more relevant test.

- 10.3. Pursuant to Section 588G of the Act, a director of a company has a duty to prevent a company from incurring a debt when a company is insolvent or there are reasonable grounds to suspect a company is or would become insolvent.
- 10.4. Pursuant to Section 588M of the Act, a liquidator (and in some circumstances a creditor) may recover from a director, losses suffered by creditors from transactions entered into at a time when a company was insolvent.
- 10.5. Section 588H of the Act provides a number of defences for directors in respect of actions under Section 588G and 588M of the Act.
- 10.6. In order to establish a case for insolvent trading against a director, a liquidator must establish that a director or a reasonable person in the director's position ought to have been aware that the company was insolvent at a particular time. Furthermore, the liquidator ought to investigate the financial position of the director in question, prior to pursuing any claim for insolvent trading to establish whether the potential litigation is commercially viable.
- 10.7. As previously noted, we have undertaken only preliminary investigations. A future liquidator would be required to undertake further investigations, subject to suitable and adequate funding. In this regard a detailed cash flow analysis has not been undertaken.

Working Capital

- 10.8. Working capital is representative of a company's capacity to meet its current liabilities by the application of its current assets. A shortfall in current assets to meet current liabilities is an indicator of cash flow insolvency. A working capital ratio of less than 1 indicates a working capital deficiency.
- 10.9. Given the nature of the Companies' business and the necessity of dealing properly with client funds, a working capital deficiency should be a significant concern to the financial health of the Group, and a significant concern to the directors and officers of the Companies.
- 10.10. A decline in working capital position is often a pre-cursor to insolvency, particularly where the working capital position is not managed appropriately.
- 10.11. Our preliminary review of the Companies' records indicates the Group was experiencing a decline in working capital position over an extended period from prior to 30 June 2005.
- 10.12. The audited financial statements for the Companies as at 30 June 2005 identified a working capital deficiency in excess of \$1 million. Set out in Table 26 below is a summary of the working capital deficiency of the Companies as at 30 June 2005.

	\$
TSG	(647,912)
Travelshop	(443,305)
Leisure	186,266
Bella	(128,082)
Total	(\$1,033,033)

Table 26: Summary of Working Capital Deficiency as at 30 June 2005

10.13. Whilst the audited financial statements as at 30 June 2005 were prepared on a going concern basis, the auditor noted an “inherent uncertainty regarding going concern” in respect of the working capital deficiencies noted for TSG, Travelshop and Bella and stated that:

“the ability of [TSG, Travelshop and Bella] to continue as a going concern is dependent upon [TSG, Travelshop and Bella] trading profitably in the future and obtaining additional debt or equity funding”.

10.14. As previously noted, we believe the Companies failed to be sufficiently profitable in future periods, and whilst it did obtain some additional debt and equity funding after 30 June 2005, those sources of funding were inadequate to meet the working capital deficiency needs of the Companies.

10.15. Indeed, the working capital position of the Companies declined after 30 June 2005 as the Companies continued to incur trading losses and was unsuccessful in its pursuit to list TSG on the ASX in late 2005 / early 2006 and again late in 2006 / early 2007, and failed to obtain a private equity injection sufficient to meet the working capital requirements of the business.

10.16. The declining working capital position is also evidenced by:-

10.16.1. Numerous arrangements being entered into with creditors from September 2005, including arrangements for taxation debts and outstanding superannuation owed to employees. Between September 2005 and the date of our appointment, the Group made numerous arrangements with the Australian Taxation Office and on numerous occasions failed to comply with those arrangements;

10.16.2. The utilisation of client funds for working capital purposes and possibly other unknown purposes (refer from paragraphs 10.28 below);

10.16.3. Making regular requests for financial support from the secured creditor from December 2005 for various purposes including:-

10.16.3.1. Provision of guarantees to creditors including numerous landlords, TCF and IATA;

10.16.3.2. Temporary overdraft limits for working capital purposes and resulting in an increase in core debt; and

10.16.3.3. Restructuring of existing current and temporary overdraft facility to term loans, the obtaining of term loan facilities to settle current trade creditor liabilities and share buybacks.

10.17. Set out below as Table 27 is a summary of the working capital position of the Group as at 30 June 2006.

	Audited as at 30 June 2006	MYOB Management Accounts as at 30 June 2006	Total
	\$	\$	\$
TSG	-	(751,728)	(751,728)
Travelshop	148,164	-	148,164
Leisure	(44,542)	-	(44,542)
Bella	-	(199,502)	(199,502)
Working Capital Surplus / (Deficiency)	\$103,622	(\$951,230)	(\$847,608)

Table 27: Summary of Working Capital Deficiency as at 30 June 2006

10.18. However, as noted above, we do not believe the audited financial statements as at 30 June 2006 properly reflect the financial positions of Travelshop and Leisure as at that date nor do we believe the MYOB Management Records properly reflect the financial position of TSG and Bella.

10.19. On the basis of our preliminary investigations, we believe a more accurate representation of the working capital position of Travelshop as at 30 June 2006 may have been a deficiency of approximately \$2.045 million. On this basis, the revised working capital deficiency of the Group may have been \$3.04 million as at 30 June 2006.

10.20. Set out below as Table 28 is the estimated revised working capital deficiency of Travelshop as at 30 June 2006.

	\$
Working Capital Surplus per audited financial statements	148,164
Less:	
Overstatement of Current Assets	(344,385)
Understatement of Current Liabilities	(667,301)
Non-recognition of overdraft	(1,181,434)
Estimated Revised Working Capital Deficiency	(\$2,044,956)

Table 28: Estimated Revised Working Capital Deficiency of Travelshop as at 30 June 2006

10.21. The directors of the Companies were clearly focused upon the growth of the business from early 2005. The growth strategies put significant pressure on the working capital needs, particularly from December 2005 when the initial efforts to list TSG on the ASX failed. As the need for working capital funding grew, there appeared to be recognition of the need to acquire businesses that provided immediate access to available funds.

10.22. Indeed, in August 2006, TSG acquired Orient. During the period August 2006 to March 2007, approximately \$2.083 million was transferred to the Group's centralised treasury. Our analysis indicates that approximately \$1.207 million was applied towards creditors of the Group including related parties, however the direction of funds totalling \$876,000 is unknown at this time.

10.23. We have analysed the working capital position of each of the Companies, details of which are summarised below.

TSG

10.24. Set out below as Diagram 1 is a graphical representation of TSG's historical working capital position per audited and unaudited accounts.

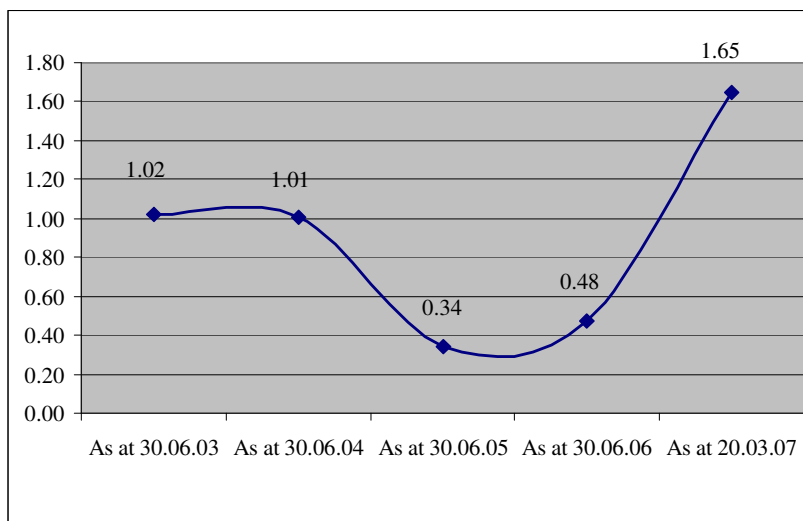


Diagram 1: Movement in Working Capital Ratio for TSG

Travelshop

10.25. Set out below as Diagram 2 is a graphical representation of Travelshop's historical working capital position per audited and unaudited accounts.

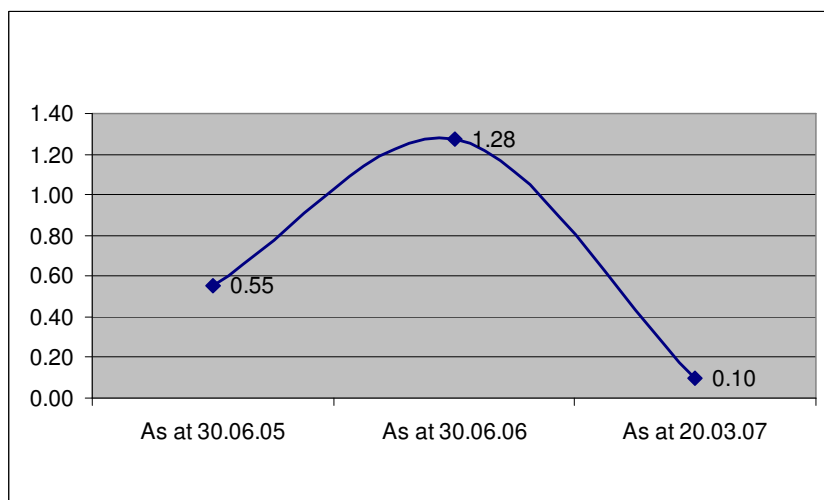


Diagram 2: Movement in Working Capital Ratio for Travelshop

Leisure

10.26. Set out below as Diagram 3 is a graphical representation of Leisure's historical working capital position per audited and unaudited accounts.

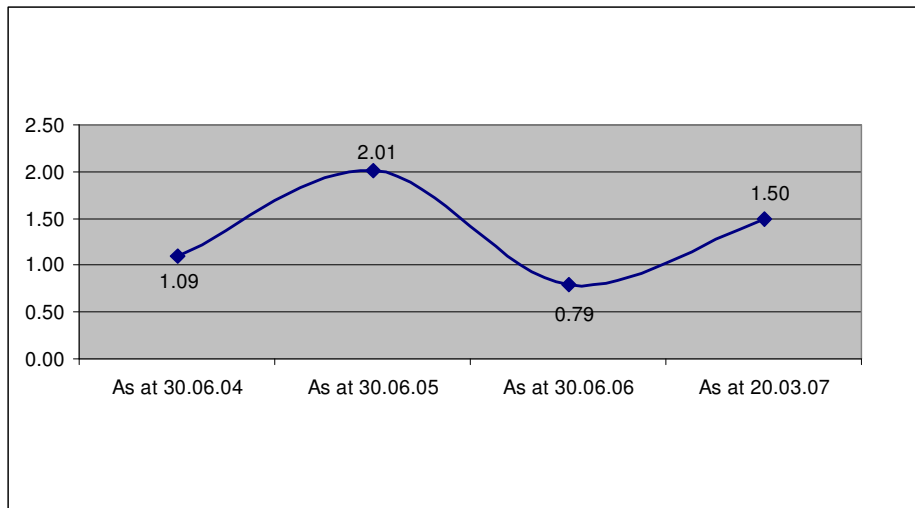


Diagram 3: Movement in Working Capital Ratio for Leisure

Bella

10.27. Set out below as Diagram 4 is a graphical representation of Bella’s historical working capital position per audited and unaudited accounts.

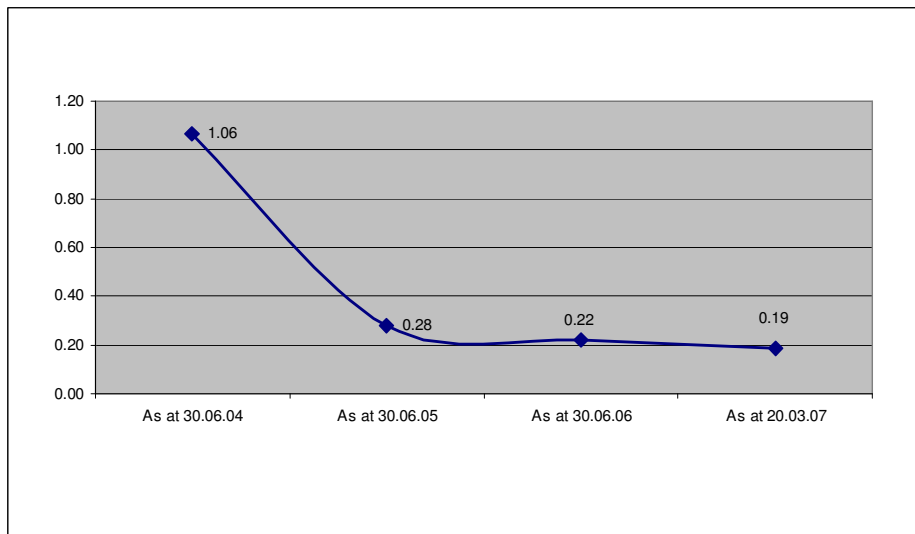


Diagram 4: Movement in Working Capital Ratio for Bella

Client Funds

10.28. Our preliminary investigations indicate that client funds relating to Travelshop, Leisure, Bella and Orient were utilised by the Group for purposes other than the specified designated purpose.

10.29. At or about the time of preparing this report, claims totalling in excess of \$770,000 had been made against the TCF, IATA and numerous credit card providers. Set out below as Table 29 is a summary of claims made.

	\$
TSG	-
Travelshop	592,276
Leisure	174,217
Bella	3,653
Total	\$770,146

Table 29: Summary of Shortfall in Client Funds as at 20 March 2007

- 10.30. In addition to these claims, we understand claims against the TCF in respect of Orient are approximate \$1 million, bringing the shortfall in client funds of the wider Travel Services Group to approximately \$1.8 million.
- 10.31. For the year ended 30 June 2004, TSG, Leisure and Bella relied upon having maintained proper client fund bank accounts for the purposes of retaining TCF membership. Indeed, TSG, Travelshop and Leisure maintained numerous bank accounts at various times through the period 2004 to the date of our appointment, many of which appear to have been opened as trust accounts. If we were to rely upon the audit reports for the year ended 30 June 2004, it would appear that some of those accounts may have been properly operated and maintained as trust accounts.
- 10.32. As at the date of our appointment, numerous accounts remained which were titled trust accounts. However, our preliminary investigations indicate that at some time between June 2004 and the date of our appointment, the accounts were no longer properly maintained as trust accounts and the funds readily used to meet the working capital needs of the Companies. It is also apparent that one such account was provided with a significant overdraft facility in or about March 2006. As at the date of our appointment, the balance of that account was overdrawn in the amount of approximately \$1.1 million. Further comment is made in Section 13 - Possible Recovery Actions regarding possible claims that may arise, subject to further investigations, in regard to client funds / trust account issues.

Aged Creditor Analysis

- 10.33. A monthly analysis of the aging of the creditors' ledgers of each company would normally provide an insight regarding the question of solvency. Such an analysis however has not been possible during the course of our preliminary investigation as it appears the Companies have not maintained an aged creditors' ledger.

Balance Sheet Analysis

- 10.34. A detailed historical summary of the Companies' Statement of Financial Position as at 30 June 2004, 2005, 2006 and as at 20 March 2007 as per the audited financial statements and the Companies' MYOB records, are attached as Annexures E, F, G & H.
- 10.35. Set out below as Table 30 is a summary of the net assets of the Companies as at 30 June 2006.

	Audited at 30 June 2006 \$	MYOB Management Accounts as at 30 June 2006 \$	Total \$
TSG	-	1,302,244	1,302,244
Travelshop	1,982,347	-	1,982,347
Leisure	252,067	-	252,067
Bella	-	(69,645)	(69,645)
Total	\$2,234,414	\$1,232,599	\$3,467,013

Table 30: Summary of Net Assets as at 30 June 2006

- 10.36. Based upon the findings of our preliminary investigation, we believe the net assets of the Companies as at 30 June 2006 may have been materially overstated.
- 10.37. Set out in Table 31 below is a revised Statement of Financial Performance for Travelshop as at 30 June 2006, showing net liabilities of approximately \$1.1 million.

	\$
Net Assets per audited financial statements	1,982,347
Less: Adjustments	
Overstatement of assets per year end journal entry	344,385
Understatement of liabilities per year end journal entry	499,995
Possible understatement of tax liability claiming consolidated group losses	167,306
Non-recoverable related party loan:	
TSG	644,852
Bella	246,801
Additional non-recoverable related party loan	1,181,434
Net Liabilities	(\$1,102,426)

Table 31: Estimated Revised Statement of Financial Position for Travelshop as at 30 June 2006

- 10.38. On this basis, we believe the net assets of Travelshop alone may have been overstated by approximately \$3.1 million as at 30 June 2006.

Possible Time of Insolvency

- 10.39. On the basis of our preliminary investigations, and noting that proper books and records have not been maintained after 30 June 2006, we believe the Company was most likely insolvent as at and from 1 July 2006.
- 10.40. However, given the apparent material anomalies in the financial statements for the year ended 30 June 2006, the Companies may have been insolvent prior to that date.

11. Insolvent Trading Claims

- 11.1. On the basis of our preliminary investigations, it is our opinion that the Companies have traded whilst insolvent, giving rise to a claim pursuant to Section 588G of the Act against the directors including Messrs Ferrone, Buti and Sparks and possibly Mr Cicerello.
- 11.2. As noted above, Mr Ferrone is a bankrupt and accordingly, it is not considered to be commercial to pursue any such claims against Mr Ferrone.

- 11.3. Conversely, our preliminary investigations indicate Messrs Buti, Sparks and Cicerello may have some capacity to settle any such claims. Further details are provided below under Section 13 – Possible Recovery Actions as to the possible capacity of these and other parties to settle claims and / or judgements against them.

Defences

- 11.4. The defences available to directors for insolvent trading, are:
- 11.4.1. When the debt was incurred the director had reasonable grounds to expect that the company was solvent and would remain solvent;
 - 11.4.2. When the debt was incurred the director had reasonable grounds to believe, and did believe that a subordinate was competent, reliable and responsible for providing adequate information about the company's solvency;
 - 11.4.3. When the debt was incurred the director, because of illness or for some other good reason, did not take part in the management of the company; or
 - 11.4.4. The director took all reasonable steps to stop the company from incurring the debt.
- 11.5. The merits of any such defences available to the directors have not been assessed at this time.

12. Duties of Officers

- 12.1. In the course of our preliminary investigations, we have considered whether there have been any breaches by the directors and/or officers in the conduct of their duties pursuant to the Act.
- 12.2. Pursuant to Section 9 of the Act, an officer is defined to include a director, secretary or a person participating in decision making that affects the whole or a substantial part of the business of the corporation or a person in accordance with whose instructions or wishes the directors of the corporation are accustomed to act.
- 12.3. Pursuant to Part 2D.1 of the Act, officers of a company have duties to ensure that:-
- 12.3.1. Section 180 – They exercise their powers and discharge their duties with due care and diligence;
 - 12.3.2. Section 181 – They act in good faith;
 - 12.3.3. Section 182 – They do not use their position to gain an advantage; and
 - 12.3.4. Section 183 – They do not misuse company information to gain an advantage.
- 12.4. Part 2E of the Act requires appropriate disclosures for public companies (in this instance TSG) where related party dealings are contemplated.
- 12.5. Our preliminary investigations have identified numerous possible breaches by the directors and other officers of their duties, in addition to those relating to insolvent trading. An overview is provided below in Section 13 - Possible Recovery Actions.

13. Possible Recovery Actions

- 13.1. Our preliminary investigations have identified numerous possible recovery actions against numerous parties.
- 13.2. The successful pursuit of such actions is, in the absence of a DOCA proposal from directors or other parties, the only avenue available through which a dividend may be forthcoming to creditors including secured and unsecured creditors. The pursuit of such claims will be reliant upon obtaining adequate funding from creditors or independent litigation funding parties to undertake further investigations and actively pursue claims of commercial merit. Further comment is made in Section 20 - Funding.
- 13.3. We believe possible recovery actions may exist against:-
 - 13.3.1. Directors;
 - 13.3.2. Officers;
 - 13.3.3. Related Parties of Directors and Officers;
 - 13.3.4. Professional Advisors under professional indemnity insurance policies; and
 - 13.3.5. Financiers in regard to the possible improper conduct in managing trust accounts.
- 13.4. An overview of the possible claims is provided below.

Directors and Officers

- 13.5. In addition to a claim for insolvent trading against various directors and other voidable transactions with related parties, we believe directors and officers may have breached their duties in relation to the following:-
 - 13.5.1. Section 180 – whereby they have failed, in the exercise of their powers and discharge of their duties, to exercise due care and diligence;
 - 13.5.2. Section 181 – whereby they have failed to act in good faith;
 - 13.5.3. Section 182 – whereby they have used their position as a director or officer to gain an advantage for their own benefit or for the benefit of a related party;
 - 13.5.4. Section 183 whereby directors may have misused company information to gain an advantage for themselves or a related party;
 - 13.5.5. Failure to make the required disclosures and follow the required processes as required by Chapter 2E of the Act dealing with related party transactions of public companies, namely TSG; and
 - 13.5.6. Failure to comply with general law duties to act in good faith and in the best interest of the Companies.
- 13.6. We believe claims of this nature may exist against Messrs Ferrone, Buti, Sparks, Cicerello, Chester and McLaren.

- 13.7. Our preliminary investigations indicate that these parties may have a varying capacity to meet any successful claims against them.
- 13.8. For the purposes of this report we make the following comments:-
- 13.8.1. Ferrone – as noted above, declared himself bankrupt on 16 March 2007. Accordingly, his personal affairs are currently being investigated by an independent trustee in bankruptcy. It would appear that at this time, given the quantum of claims against Ferrone’s bankrupt estate, a distribution to creditors may be unlikely;
- 13.8.2. Buti – up until recently, held numerous directorships in companies other than those related to the wider Travel Services Group. Shortly after our appointment as Administrators, Mr Buti resigned as director from some fourteen (14) companies. Mr Buti also appears to have or have had until recently, interests, including controlling interests, in numerous entities, either directly or indirectly, which involve companies with substantial business operations. These interests also include real property. That said, Mr Buti’s capacity, if any, to satisfy any successful claims, is not known at this time.
- 13.8.3. Sparks – is known to have extensive experience in and knowledge of the travel industry. Our preliminary enquiries indicate that he may hold an interest in various real estate properties. However, Mr Sparks’ ability to settle any claim or judgement is not known at this time.
- 13.8.4. Cicerello – Our enquiries indicate Mr Cicerello holds interests in various real estate properties throughout metropolitan Perth. Until recently, Mr Cicerello also acted as director and sole shareholder of Knightsbridge. The ability of Mr Cicerello to satisfy any claim or judgement is not known at this time.

Professional Advisors

- 13.9. We believe claims may exist against various professional advisors engaged by the Companies since 2004 including the following:
- 13.9.1. Joe Ferrone & Co – the company appears to have provided extensive accounting and consulting services over an extended period. Whilst the company was placed into administration and subsequently liquidation in April 2007, we have requested the liquidators to normally notify the company’s professional indemnity insurer in respect of a likely claim or claims.
- 13.9.2. Auditors – the various companies in the Group utilised two firms of auditors for the years ended 30 June 2005 and 30 June 2006. We believe claims may exist against those firms in respect of the audits undertaken in those years. We have written to both firms requesting that they immediately advise their professional indemnity insurer of a claim or claims.
- 13.10. Possible recoveries of this nature are likely to require the commencement of legal actions and will be subject to the terms of the respective professional indemnity policies, if any. Accordingly, the quantum of the claims and the quantum of the claims allowable under the respective policies are not known at this time.

Possible Claim in Respect of Trust Accounts

13.11. Our preliminary investigations have identified the need for further investigations to be undertaken in respect of bank accounts purporting to be trust accounts. Any such investigations to be undertaken would focus upon bank accounts titled trust accounts but permitted to be overdrawn and the set-off of such balances. Any investigations would be followed by the obtaining of legal advice as to the findings and merits of a claim or claims, if any.

14. Report to ASIC

14.1. Section 438D of the Act requires an Administrator to issue a report to the ASIC as soon as practicable where the Administrator is of the opinion that:-

14.1.1. A past or present officer or employee, or a member, of the company may have been guilty of an offence in relation to the company; or

14.1.2. A person who has taken part in the formation, promotion, administration, management or winding up of the company:-

14.1.2.1. May have misapplied or attained, or may have become liable or accountable for, money or property (in Australia or elsewhere) of the company; or

14.1.2.2. May have been guilty of negligence, default, breach of duty or breach of trust in relation to the company.

14.2. I confirm that, given the findings of our preliminary investigations, a report will be submitted to the ASIC in accordance with Section 438D of the Act prior to the second meeting of creditors to be held on 22 June 2007.

15. Dividend Estimate

15.1. As noted above, the Companies have minimal realisable assets of value. All readily identifiable assets of the Companies have been realised such that further recoveries may be minimal.

15.2. Accordingly, at this time, a dividend is not possible to any form of creditor including secured creditors, priority employees and unsecured creditors.

15.3. Should the Companies be liquidated, employees will be entitled to claim against the Federal Government's GEERS Scheme. Employees should make direct contact with GEERS.

15.4. A dividend may only arise where some of the claims identified above are successfully pursued and judgement monies received from defending parties, and then possibly subject to any funding arrangements and orders of the Court.

16. Administrators' Opinions

16.1. At the forthcoming meeting the creditors of each company may resolve in respect of each company:

16.1.1. That the company be wound up; or

- 16.1.2. That the administration end; or
 - 16.1.3. That the company execute a Deed of Company Arrangement; or
 - 16.1.4. That the meeting be adjourned for up to 60 days.
- 16.2. As required by the Act, we hereby provide our opinion as to what we believe would be in the best interests of creditors.
- 16.3. The opinions provided below are in respect of TSG, Travelshop, Leisure and Bella.

Should the Company Enter a Deed of Company Arrangement

- 16.4. A DOCA proposal has not been forthcoming from the directors or any other parties.
- 16.5. In any case, without a detailed DOCA proposal to consider, I am unable to recommend such a course.
- 16.6. Accordingly, in our opinion, it would not be in the creditors' interests at this time and under these circumstances for the Companies to enter into a DOCA.

Should the Administration End

- 16.7. Should creditors resolve that the Administration end, control of the Companies would revert to the directors without any resolution of creditor claims. As Administrators, we are not empowered to make a distribution to any creditor, subject to secured claims, of any existing debt as at the date of our appointment. The Companies have substantial asset deficiencies and in the absence of any arrangements with creditors, the Companies are unable to pay their debts as and when they fall due.
- 16.8. Accordingly, in our opinion, it would not be in the creditors' interests for the Administration of any of the Companies to end.

Should the Company be Wound Up

- 16.9. In our opinion, it would be in the creditors' interests for each of the Companies to be wound up for the reasons that under a liquidation scenario, and in the absence of a detailed DOCA proposal:-
- 16.9.1. Creditors will have the prospect of a dividend should claims be successfully pursued and recovered; and
 - 16.9.2. Former employees will be able to immediately proceed with a claim against GEERS.

17. Remuneration

- 17.1. In accordance with Section 449E of the Act, we are entitled to such remuneration as is fixed by resolution of the creditors of the Companies at the second meeting. Our remuneration (including our staff) has been calculated on a time basis using the hourly rates set by RSM Bird Cameron Partners from time to time and in accordance with the Insolvency Practitioners' Association of Australia "Statement of Best Practice - Remuneration".

- 17.2. Resolutions to be considered by creditors will be in respect of each company and the various scenarios that may arise.

Administrators' Remuneration

- 17.3. Creditors will be asked to consider and if thought appropriate, resolve:-

17.3.1. In respect of TSG:

“That the remuneration of the Administrators incurred from 20 March 2007 to 22 June 2007 be hereby affixed on a time basis in accordance with the hourly rates set by RSM Bird Cameron Partners from time to time, in the amount of \$75,766 plus GST be approved and paid”;

17.3.2. In respect of Travelshop:

“That the remuneration of the Administrators incurred from 20 March 2007 to 22 June 2007 be hereby affixed on a time basis in accordance with the hourly rates set by RSM Bird Cameron Partners from time to time, in the amount of \$168,028 plus GST be approved and paid”;

17.3.3. In respect of Leisure:

“That the remuneration of the Administrators incurred from 20 March 2007 to 22 June 2007 be hereby affixed on a time basis in accordance with the hourly rates set by RSM Bird Cameron Partners from time to time, in the amount of \$49,385.20 plus GST be approved and paid”;

17.3.4. In respect of Bella:

“That the remuneration of the Administrators incurred from 20 March 2007 to 22 June 2007 be hereby affixed on a time basis in accordance with the hourly rates set by RSM Bird Cameron Partners from time to time, in the amount of \$13,220.50 plus GST be approved and paid”;

- 17.4. Attached as Annexures I and J are schedules in support of the remuneration claimed in respect of TSG, Travelshop, Leisure and Bella detailing the name and position of employee, hourly rate and hours worked.
- 17.5. Also attached as Annexures K, L M, N and O, are further summaries of the remuneration claimed detailing, by company, the work undertaken and summarised by task category by employee, and including a description of the relevant task category.
- 17.6. Detailed descriptions of all work undertaken during the period of the administration are available for inspection by creditors at our Perth office at a mutually agreeable time.

Liquidators' Remuneration

- 17.7. Should creditors resolve that a company be wound up at the forthcoming meeting, creditors will be asked to consider and, if thought appropriate, resolve:-

17.7.1. In respect of TSG:

“That the remuneration of the Liquidators be hereby affixed on a time basis in accordance with the hourly rates set from time to time by RSM Bird Cameron Partners, subject to an initial limit of \$100,000 plus GST beyond which the liquidators may seek further approval and that the liquidators be authorised to make periodic payments on accounts of such accruing remuneration”.

17.7.2. In respect of Travelshop:

“That the remuneration of the Liquidators be hereby affixed on a time basis in accordance with the hourly rates set from time to time by RSM Bird Cameron Partners, subject to an initial limit of \$100,000 plus GST beyond which the liquidators may seek further approval and that the liquidators be authorised to make periodic payments on accounts of such accruing remuneration”.

17.7.3. In respect of Leisure:

“That the remuneration of the Liquidators be hereby affixed on a time basis in accordance with the hourly rates set from time to time by RSM Bird Cameron Partners, subject to an initial limit of \$100,000 plus GST beyond which the liquidators may seek further approval and that the liquidators be authorised to make periodic payments on accounts of such accruing remuneration”.

17.7.4. In respect of Bella:

“That the remuneration of the Liquidators be hereby affixed on a time basis in accordance with the hourly rates set from time to time by RSM Bird Cameron Partners, subject to an initial limit of \$50,000 plus GST beyond which the liquidators may seek further approval and that the liquidators be authorised to make periodic payments on accounts of such accruing remuneration”.

18. Administrators’ Statement of Receipts and Payments

- 18.1. A detailed account of the receipts and payments during the administration period 20 March 2007 to 11 June 2007 is attached for TSG, Travelshop and Leisure as Annexures P, Q and R respectively.
- 18.2. No receipts or payments have been received or made in respect of Bella.
- 18.3. As can be seen, minimal funds are available to satisfy the remuneration and disbursement costs of the administration, let alone the further detailed investigations required to pursue apparent claims.

19. Liquidation – Committee of Inspection

- 19.1. In the event that creditors resolve to wind up the Companies, creditors shall have the opportunity to appoint a Committee of Inspection for the liquidation. The purpose of a Committee of Inspection is to assist the liquidator in the efficient conduct of the liquidation.

- 19.2. At the forthcoming second meeting of creditors, creditors may propose a resolution forming a Committee of Inspection and the members of that Committee. A Committee of Inspection can comprise both creditors and shareholders.
- 19.3. A person will be eligible to be appointed a member of a Committee of Inspection if, and only if, in the case of an appointment by creditors the person is:-
- 19.3.1. A creditor of the company; or
- 19.3.2. The attorney of a creditor of the company by virtue of a general Power of Attorney given by the creditor; or
- 19.3.3. A person authorised in writing by a creditor of the Company to be a member of the Committee of Inspection.
- 19.4. It is our recommendation that a Committee of Inspection be established for the Companies, particularly in light of the numerous legal actions that may be undertaken should funding become available.
- 19.5. I have, prior to the issue of this report, spoken with many of the larger creditors and received an indication that some major creditors would willingly participate as a member of any such committee.
- 19.6. I hereby invite creditors to contact Ms Clare Tonge or Ms Lalitha Samykanno of my office by no later than 5.00pm (EST) on 21 June 2006 should you wish to be a member of a Committee of Inspection.

20. Funding

- 20.1. In order to undertake further investigations into the conduct of the directors and other parties, and particularly to further our enquiries in respect to possible recovery actions and any further actions, funding from creditors and / or an independent litigation funding provider will be essential.
- 20.2. Accordingly, I hereby invite creditors to contact my office by no later than Friday, 20 July 2007 should you wish to fund, or make a contribution to fund, a possible future liquidator.
- 20.3. Should the Companies be liquidated, and adequate funding obtained, we would envisage undertaking the following activities as a priority:
- 20.3.1. Seeking Court orders for the public examination of various parties including directors, officers, auditors and financiers. Through the public examination process we would be seeking the provision of records held by those parties to assist with our investigations;
- 20.3.2. Undertaking investigations into the records held and obtained via the public examination process;
- 20.3.3. Seeking independent legal advice as to the merits of claims; and
- 20.3.4. Actively pursuing claims of commercial merit.
- 20.4. As creditors will no doubt appreciate, all forms of litigation present risks and there is rarely any certainty in terms of success.

- 20.5. In order to successfully litigate a claim the following would be required:
- 20.5.1. The claim must be identified and qualified. Furthermore, the merits of the claim must be assessed. This would involve the taking of legal advice and also possibly an independent assessment of the quantifications of the claim;
 - 20.5.2. Establishment of funding from creditors or an independent litigation funding party;
 - 20.5.3. The action must be litigated with the assistance of a legal team. A settlement may be achieved as evidence is presented to the defendants leading up to a trial. Any negotiated settlement would be less than the amount expected to be achieved by way of a success at trial;
 - 20.5.4. At the conclusion of the trial the Court will make an assessment of the merits of the claim and adjudicate accordingly; and
 - 20.5.5. Recovery of a successful judgement is of course completely dependant upon the defendant's ability to satisfy the judgement.
- 20.6. I confirm already having had discussions with some of the larger creditors regarding the need for funding should the Companies go into liquidation for the abovementioned purposes. I am pleased to advise that during the course of these preliminary discussions, creditors have indicated their likely support for funding albeit at this time unquantified and on terms to be agreed.
- 20.7. Creditors expressing interest in providing funding will be contacted in due course as to mutually agreeable terms of any such arrangements.

Should you have any queries regarding the contents of this report please do not hesitate to contact the undersigned or Ms Clare Tonge of my office.

Dated this 14th day of June 2007

Yours faithfully



NEIL CRABB
Joint and Several Administrator