Laura Ashley (Australia) Pty Ltd (Administrators Appointed) ACN 004 817 323 (“the Company”)

Report to Creditors Pursuant to Section 439A of the Corporations Act 2001 (Cth)

16 May 2016

About this report: a guide for creditors

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Purpose of this report

- The Administrators are required to prepare this report under the Act. We are required to provide creditors with information about the Company's business, property, affairs and financial circumstances.
- This report and its attachments contain details about the forthcoming second meeting of creditors to be held on 26 May 2016. It also contains our opinion and recommendation about the future of the Company and what is considered to be in the creditors' interests. Creditors are required to decide whether:
  - the Company should execute a DOCA, or
  - the administration of the Company should end, or
  - the Company should be wound up.

  Alternatively, creditors can vote to adjourn the meeting for up to 45 business days to allow more time to make their decision.

Information included

- This report contains the information the Administrators are required by law to include, plus other information considered materially relevant to creditors to enable them to make an informed decision about the Company's future.
- The Table of Contents on the following page lists the sections of this report. A glossary and certain other information, including details about the Administrators' claim for remuneration, is included in appendices.

Key messages and recommendations

Whilst this report must be read in its entirety, pages 5 to 7 contain a summary of the items considered particularly important for creditors to be aware of. This includes a summary of our opinion and recommendation to creditors.

Details and forms for the forthcoming creditors' meeting

All details, forms and instructions relating to the meeting have been included with the covering letter and other documents attached to this report.

Questions and help

Please contact us if you are unsure about any of the matters raised in this report and the impact that any decision about the Company's future may have on you.

Table of Contents

1. Key Matters

1. Key Matters

- Set out below is a summary of the key points and recommendations that are detailed in this report. So that you are fully informed, please read this summary in conjunction with the remainder of the report including the terms of reference contained in Appendix 1 and any other attachments.

Key areas	Commentary	Analysis
Administrators' recommendation	■ In the Administrators' opinion, given the financial position of the Company, the results of investigations, and that no alternative is proposed, it is in creditors' best interests that the Company proceed to liquidation.	Section 2 and 9
Administrators' strategy and major actions	■ The Administrators' strategy for the administration has been to support the Company to continue to trade whilst seeking expressions of interest for either a sale of the Company's business or a recapitalisation of its balance sheet. ■ The Administrators have: ▪ Rationalised costs through the progressive close down of stores, overhead staff redundancies and other cost minimisation strategies; ▪ Achieved a conditional sale of the Company's business; and ▪ Engaged with major customers, suppliers and creditors throughout the Administration process. ■ The Administrators also convened and held the First Meeting of Creditors and three (3) Committee of Creditor Meetings.	Section 3 and 4
Explanations for the Company's circumstances	■ The Administrators initial investigations indicate that the failure of the Company may be partially attributed to the following factors: ▪ A general lack of controls and financial reporting and management discipline, partially as a result of the failed implementation of a new Management Information System in July 2013. ▪ An improperly funded expansion, a build up of stock, losses in certain stores and the Made to Measure business. ▪ A renewal of its store footprint, which involved significant capital investment from June 2014 in the opening of nine (9) new stores, the refurbishment of seven (7) existing stores, and the closure of seven (7) underperforming stores. ▪ An inability to obtain new and appropriate stock due to cash flow constraints. ▪ Adverse movements in the exchange rate and purchases that were made largely unhedged against the deterioration of the AUD/USD exchange rate over the last 12 months. ▪ Ongoing trading losses, partially as a result of poor buying decisions on behalf of the Company. ▪ Challenging retail conditions in a highly competitive environment.	Section 3

1. Key Matters

Key areas	Commentary	Analysis
Proposal for a deed of company arrangement	No Deed of Company Arrangement has been proposed.	Not Applicable
Administrators' investigations and avenues for other recoveries in a liquidation	▪ The Administrators have conducted a preliminary investigation into the affairs of the Company as at and prior to their appointment. ▪ The Company may be presumed to be insolvent on the basis that it failed to maintain adequate books and records since 1 July 2013. ▪ Setting aside the statutory presumption of insolvency mentioned above, the Administrators' preliminary view is that the Company was probably insolvent from June 2015 and remained so up until the Administrators' appointment on 7 January 2016. Other indicia of insolvency exists that suggests the Company may have been insolvent from June 2014. ▪ The Administrators consider potential claims for voidable transactions, such as unfair preference payments, could be in the vicinity of $3.9 million. ▪ The Director may have breached certain duties under the law as a company director, including trading whilst insolvent, which may constitute a breach of Sections 180 and 588G of the Act. It is uncertain at this stage as to whether the Director would be able to satisfy any judgement arising from a successful insolvent trading claim made in a liquidation. An insurance policy existed which may respond to and thus indemnify the Company for a successful trading whilst insolvent claim, subject to policy limits. ▪ The Administrators shall be lodging a report with ASIC pursuant to Section 438D of the Act with respect to various potential breaches of the Act by the Company and the Director. Any potential breaches identified are considered of a civil, not criminal, nature.	Section 6

1. Key Matters

Key areas	Commentary	Analysis
Estimated outcome for creditors	The estimated quantum and potential timing of returns to different classes of creditors are shown below. They are based on the information presently available.	Section 7

Summary of Estimated Outcomes

	Liquidation		DOCA
	Cents in $	Timing	Cents in $
Secured Creditors	0 to 62 cents	12+ months	N/A
Employee Superannuation	36 to 100 cents	12+ months	N/A
Employee Entitlements – FEG Funded	100 cents	3 to 4 months	N/A
Employee Entitlements – Not FEG Funded	0 to 100 cents	12+ months	N/A
Ordinary Unsecured Creditors	0 to 10 cents	12+ months	N/A

The key factors and variables that impact the estimated return to creditors include:

- The completion of the conditional sale agreement for the sale of the Company's assets as a going concern;
- The recoverability of voidable and other antecedent transactions, and in particular a trading whilst insolvent claim, by any liquidator; and
- The extent creditors' claims vary to those detailed in the Company's records or otherwise known.

Key areas	Commentary	Analysis
Remuneration	Under Section 449E(1)(a) of the Act the Administrators sought and received approval from the Committee of Creditors for their remuneration as follows: ▪ $998,570.00 (plus GST and disbursements) for the period 1 January 2016 to 29 February 2016; and ▪ $550,000.00 (plus GST and disbursements) for the period 1 March 2016 to 30 April 2016. Under Section 449E(1)(b) of the Act, the remuneration of the Administrators (and either the Deed Administrators or Liquidators, if appointed) can be fixed at the Second Meeting of Creditors. Details of our proposed remuneration and resolutions are included in our Remuneration Approval Report.	Section 8

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2. Recommendation on the Company’s Future

2. Recommendation on the Company's Future

In the Administrators' opinion, given the financial position of the Company, the results of our investigations, and that no alternative is proposed, it is in the creditors' best interests that the Company proceed to liquidation.

Options available to creditors	Option 1: Execute a DOCA	Option 2: Administration end	Option 3: Liquidation
Description	Whether it would be in the creditors' interests for the Company to execute a DOCA.	Whether it would be in the creditors' interests for the administration to end.	Whether it would be in the creditors' interests for the Company to be wound up.
Key factors to considers	As no DOCA has been proposed, creditors cannot resolve to accept a DOCA at this time.	The Company is insolvent with insufficient cash to pay all due debts and no confirmed prospects of obtaining external funding.	A proposal for a DOCA has not been submitted for consideration and it is not appropriate that the administration ends as the Company is insolvent. Terminated employees may have access to Federal Government assistance via the FEG Scheme, which is only available in liquidation. The opportunity to recover uniquely available antecedent transactions also exist in a liquidation.
Our opinion	It is **not** in the creditors' best interests that the Company execute a DOCA.	It is **not** in the creditors' best interests that the administration should end.	It **is** in the creditors' best interests that the Company be wound up.
Recommended option	Unable to recommend	Not recommended	**Recommended**
Potential to adjourn the meeting to a future date	▪ Creditors may adjourn the second meeting for up to 45 business days. This may be appropriate to either assist in facilitating the sale, or to allow time for a DOCA proposal to be submitted. However we note that neither the Director nor any other party have approached the Administrators advising they are contemplating a DOCA proposal. ▪ The sale is not conditional on the Company being in voluntary administration. The Administrators will advise creditors at the forthcoming meeting if it is considered beneficial for the Company to remain in voluntary administration in support of the sale. ▪ It will then be a matter for creditors to decide if they wish to adjourn the meeting.		

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2. Recommendation on the Company's Future
2.2. Implications of Liquidation for Key Stakeholders

The Administrators have reached a conditional agreement for the sale of the Company's business.

The Administrators recommend that the Company proceed to liquidation.

Stakeholder	Implications of Sale of Business and Liquidation
Employees	• Majority of remaining employees are expected to be offered employment by the Purchaser, thereby providing an avenue for ongoing employment. • Former staff whose employment has been terminated either prior to or during the Administration process may be eligible for assistance from the Fair Entitlements Guarantee Scheme ("**FEG**") for the payment of their outstanding entitlements (excluding superannuation). • Some return may also be available in respect of outstanding superannuation. The Administrators are still determining the total value of superannuation outstanding as at the date of their appointment.
Customers	• Assuming that the conditional sale the Administrators have executed is completed, customers will continue to have access to Laura Ashley products in Australia. • Customers who hold gift vouchers issued prior to the Administrators' appointment will rank as unsecured creditors of the Company.
Landlords	• The Purchaser of the business has indicated a desire to retain as many of the Company's current sites as possible. • The Administrators understand that the Purchaser has made contact with all landlords directly to commence negotiations of new leases. • Landlords' claims for rent or other costs outstanding as at the date of the Administrators appointment represent an unsecured claim against the Company.
Ordinary Unsecured Creditors	• Many of the Company's ordinary unsecured creditors will have an opportunity to establish an ongoing business relationship with the Purchaser as a result of the sale of the Company's business. • A return of up to 15 cents in the dollar is forecast to unsecured creditors, depending upon the factors outlined in section 7 of this report.

3. Background Information

3. Background Information

Appointment of Administrators

- Messrs Ross Blakeley, Quentin Olde and John Park were appointed Joint and Several Administrators of the Company by resolution of the Director on 7 January 2016 pursuant to Section 436A of the Act.
- On appointment, the Administrators assumed control of the Company, its operations and assets, communicated with all key stakeholders including employees and creditors and implemented controls for purchasing, banking, management and financial reporting.
- The Administrators' appointment supersedes the powers of the Director and company officers to make decisions and perform management functions.

Administrators' prior involvement and independence

- In accordance with Section 436DA of the Act, creditors were provided with a declaration of independence, relevant relationships and indemnities ("**DIRRI**") with the Administrators' first communication to creditors.
- The DIRRI included the circumstances that led to the appointment of Mr Blakeley, Mr Olde and Mr Park as Administrators.
- A copy of the DIRRI is enclosed at Appendix 2. There has been no change to the position as stated in the original DIRRI.

First meeting of creditors

- In accordance with Section 436E of the Act, the first meeting of creditors was held on Tuesday, 19 January 2016.
- Creditors were provided with a brief update on the circumstances surrounding the Administrators' appointment as well as on the progress of the Administration to date.
- Creditors were advised of the Administrators' intention to seek an extension of the convening period.
- It was recommended to the creditors that a Committee of Creditors be formed. Accordingly a resolution was passed by the creditors present at the meeting to appoint a Committee. Details of the Committee are enclosed at Appendix 3.
- A copy of the minutes of the first meeting of creditors can be made available upon request.

Committee of Creditors

- Meetings of the committee of creditors have been held on 29 January 2016, 23 March 2016 and 12 May 2016.
- The Committee has been provided with regular updates as to the progress of the Administration, in particular ongoing trading and the sale of the Company's business.
- The committee has also passed two resolutions in favour of the Administrators' fees, which are discussed at section 8 of this report.
- At the meetings held on 29 January 2016 and 23 March 2016, resolutions were proposed by the Administrators to extend the convening period and the Committee resolved to support the Administrators' proposed applications.

Administrators' application to extend the convening period

- On 3 February 2016, the Administrators made an application in the Supreme Court of Victoria that the statutory period afforded to an administrator to convene the second meeting of creditors (usually 20 to 25 days) be extended by 60 days.
- This afforded the Administrators further time to:
  - Advance their investigations into the financial affairs of the Company prior to their appointment;
  - Conduct a thorough campaign for the sale of the Company's business; and

3. Background Information

- Develop alternative realisation strategies for the sale of the Company's assets should a sale of business become unlikely.

- On 3 February 2016, The Administrators were granted a 60 day extension to the convening period with it concluding on 4 April 2016.
- On the basis that a sale of the business on a going concern basis was considered likely, on 29 March 2016 the Administrators sought and were granted a further extension to the convening period, with the second extension to expire on 19 May 2016.

Second meeting of Creditors

- In accordance with the order of the Supreme Court of Victoria dated 29 March 2016, the Administrators are required to hold the second meeting of creditors by no later than 26 May 2016.
- Accordingly, accompanying this report is a notice of the second meeting of creditors to be held on 26 May 2016 at Chartered Accountants Australia and New Zealand, Level 3, Bourke Place, 600 Bourke Street, Melbourne, Victoria, 3000 at 3.00pm. Registration for the meeting will commence at 2.30pm.
- Teleconference facilities are available for the meeting. Please contact this office should you wish to attend the meeting via telephone.

Conduct of the Administration

- Since the commencement of their appointment, the Administrators have undertaken the following broad tasks:
  - Provided notification of the appointment to all stakeholders;
  - Made an assessment of the Company's current financial position including an assessment of store performance;
  - Continued to trade the business and establish controls to facilitate the ongoing operations;
  - Managed operations from a trading perspective on a daily basis;
  - Conducted assessments of individual stores to review their continued viability and profitability;
  - Closed a number of unprofitable stores;
  - Adjudicated on claims pursuant to the Personal Property Securities Act ("**PPSA**");
  - Communicated with a significant number of gift card and lay-buy customers;
  - Collated information to enable an expression of interest campaign to be conducted for the sale of the business and conducted a sale campaign;
  - Liaised with various interested parties and assessed stock realisation options available to the Company;
  - Negotiated the sale of the Company's business;
  - Assessed outstanding employee entitlements and communicated same to the current and former employees; and
  - Investigated the affairs of the Company.

3. Background Information

History of the Company

- The Company was registered on 13 April 1970 and trades as "Laura Ashley" under a licence agreement with LAUK. The current director, Mr Daryl Chait, was appointed on 25 June 2007 following his acquisition of the business.
- The Laura Ashley brand specialises in the sale of women's fashion and homeware in a traditional British style.
- Upon the Administrators' appointment, the Company traded from 38 stores nationally, whilst also generating significant sales from its online store.
- This licence also covers the Laura Ashley operations in New Zealand which are conducted by a wholly owned subsidiary. This business is not directly impacted by the voluntary administration of the Company.
- Sales for the financial year ending 30 June 2015 totalled approximately $42 million. The company also employed approximately 400 full time, part time or casual staff as at the date of the Administrators' appointment.

Ongoing Trading

- Upon appointment, the Administrators undertook an immediate assessment of the Company's business to determine whether ongoing trade was possible.
- It was determined that:
  - Reasonable prospects for the sale of the Company's business as a going concern existed; and
  - In any event, realisation of the Company's assets (primarily stock) outside of a business sale would be best achieved through ongoing trading.
- Accordingly, the Administrators have continued to trade, albeit on a restricted basis. Trading performance has been continually assessed during this period.
- As a result of this ongoing assessment, 17 Company stores have closed and a number of employee positions have been made redundant.
- It is the Administrators' intention to continue to trade whilst completion of the conditional sale of business is sought.

Sale of Business

- The Administrators have conducted an expression of interest campaign for the Company's business on a going concern basis.
- This campaign resulted in a number of expressions of interest from various parties.
- As a result of this process, the Administrators have entered into a conditional sale agreement with the Purchaser for the sale of the Company's business and assets on a going concern basis.
- Further information in relation to the sale is provided at section 4 of this report.

Company information and historical performance

- Appendix 4 includes the following information about the Company:
  - Names of directors and officers;
  - Corporate structure, including existing shareholders;
  - Details of security interests and charges held over the Company;
  - Our comments about the existence and form of financial statements prepared by the Company; and
  - A summary of the historical financial performance of the Company along with a preliminary analysis and comment.

3. Background Information

Contributing factors to the Company's difficulties

Director's Views

- The Director identified the following as reasons why the Company was placed into voluntary administration:
  - Failed rollout of the financial reporting system;
  - Rapid expansion of stores;
  - Drop in the value of the AUD and associated increases in inventory costs;
  - Closure of the Company's Made to Measure division; and
  - Withdrawal of bank support.

Administrators' Views

- In the Administrators' view, the following factors have contributed to the demise of the Company:
  - An improperly funded expansion, a build up of stock, losses in certain stores and the Made to Measure business;
  - A renewal of its store footprint, which involved significant capital investment from June 2014 in the opening of nine (9) new stores, the refurbishment of seven (7) existing stores, and the closure of seven (7) underperforming stores;
  - An inability to obtain new and appropriate stock due to cash flow constraints;
  - Adverse movements in the exchange rate and purchases that were made largely unhedged against the deterioration of the AUD/USD exchange rate over the last 12 months;
  - Ongoing trading losses, partially as a result of poor buying decisions on behalf of the Company;
  - Challenging retail conditions in a highly competitive environment;
  - Lack of and/or poor financial reporting, systems and controls; and
  - Financially supporting related entities.

4. Strategy and Trading Performance

4. Strategy and Trading Performance
4.1. Overview

- The Administrators' strategy since the date of their appointment has, broadly speaking, been fourfold:
  1. Attending to statutory and administrative duties;
  2. Determining the current financial position of the Company and investigating its affairs prior to the Administration;
  3. Preserving value in the business through continuing to trade; and
  4. Exploring options to maximise the outcome for creditors, in particular through a going concern sale.
- Specifically, the Administrators have attended to the following:

Task Area	Tasks
Statutory and Administration	■ Notified statutory authorities, creditors and other parties of the appointment; ■ Notified the Director of his statutory duties and requested completion of the RATA; ■ Convened and held the first meeting of creditors; ■ Convened and held the first, second and third meetings of the Committee of Creditors; ■ Engaged with stakeholders including licensor, employees, trade and secured creditors; ■ Applied to and received from, the Supreme Court of Victoria, two (2) extensions to the convening period; and ■ Compiled this report.
Financial Position and Investigations	■ Met with the Director and other staff to determine the current financial position of Company; ■ Reviewed and analysed available company records; ■ Conducted searches of relevant public registers including ASIC, the Victorian Office of Land Titles and the Personal Properties Securities Register; ■ Undertook a review of transactions occurring within six (6) months prior to the appointment of the Administrators to determine existence of any voidable transactions; and ■ Formed a preliminary view as to the nature of certain potential contraventions of the Act and potential recoveries in a liquidation.

4. Strategy and Trading Performance
4.1. Overview (cont.)

Task Area	Tasks
Trading and Value Preservation	■ Determined to continue trading the Company's business; ■ Assessed trading profitability and cash flow of the business as a whole and at a store level; ■ Obtained the support of the licensor and major secured creditor; ■ Undertook a progressive store rationalisation strategy; ■ Engaged with the various landlords seeking agreements to extend the statutory rent free periods and negotiated more favourable temporary terms in order to continue trading; and ■ Engaged with major suppliers.
Asset Realisation Options	■ Commissioned a valuation of the Company's assets; ■ Engaged with various third parties to determine what options exist for the sale of the Company's inventory; ■ Sought expressions of interest from parties in relation to a possible recapitalisation of the Company or sale of its business and assets; ■ Facilitated due diligence for interested parties; and ■ Negotiated a conditional sale of the Company's business and assets.

Summary

- The Administrators have carefully considered the historical and current trading performance of each of the stores. The Administrators have closed unprofitable stores and negotiated with landlords and suppliers to keep certain stores open as long as possible where they may have added to the going concern value of the business or assisted in an orderly wind down.
- Contemporaneously, the Administrators conducted an operational restructure to reduce overheads.

Revenue

- February and March are traditionally the slowest trading months for retail. This trend compounded the issues facing the Administrators.
- Overall sales were exceptionally high immediately following the appointment of the Administrators and have declined since. This is believed to be a result of loyal customers purchasing items due to the perception that these items may not be available should Laura Ashley completely cease to trade.
- The Administrators introduced refreshed stock (discussed below) and undertook promotional activities in March, which saw an uplift in sales for the period of the promotional activities.

Inventory

- Inventory levels were exceptionally low upon the Administrators' appointment at 37% and 58% of last years' fashion and homeware holdings respectively. Low stock levels were evident to the Administrators during store visits.
- The low inventory levels are a reflection of poor trading conditions last year and the inability of the Company to invest in new stock, which in turn has affected sales performance.
- The Administrators worked with management to identify the most urgent and best performing stock items, and negotiated with suppliers to purchase these items at a discount. This stock was largely released to stores in late March.
- The Administrators have maintained stock levels in line with the reduced store footprint of the store network.

Store Rental

- In addition to the seven (7) day rent free period afforded the Administrators under Section 443B of the Act, the Administrators negotiated extensions with supportive landlords which allowed the Administrators additional time to seek a sale on a going concern basis and plan a more orderly store rationalisation.
- The rent relief achieved has been a significant contributing factor in the Administrators being able to continue operations whilst a sale of business was sought.

Store Closures

- Upon appointment, the Company operated 38 stores nationwide.
- With input from key Laura Ashley staff, and following detailed analysis and assessment, 17 unprofitable stores which did not offer any potential purchaser any benefits or assist in an orderly wind down were closed.
- Employees at these stores have either been transferred to other locations or been made redundant and have had their outstanding entitlements communicated to them.

Overhead Reductions

- As a result of store closures and the closing of the Company's Made to Measure department, a number of positions were also made redundant at the Company's head office and warehouse.
- This included making the Director's position as Chief Executive Officer redundant.

4. Strategy and Trading Performance
4.3. Store Rationalisation

It was immediately identified that the Company had insufficient inventory to stock its store footprint.

Upon appointment there were limited stock options available to replenish these shortages.

A number of the stores closed by the Administrators had been identified by management for closure prior to the appointment of the Administrators.

- Overall it was considered that the Company's footprint was too large for the business to sustain likely due in part to a rapid store expansion undertaken in the period between 2014 and 2015.
- Accordingly, in consultation with key Laura Ashley staff, the Administrators undertook a progressive close down of certain stores.
- Key reasons/drivers for store closures include:
  - Low or negative store contribution (even after rental relief);
  - Onerous lease terms;
  - Deemed to be of limited strategic value to interested parties due to location within centre, foot traffic, etc.;
  - Proximity of other Laura Ashley stores; and
  - Lack of inventory available to stock footprint.
- The reduced store footprint was considered to be more attractive to a potential purchaser of the business or alternatively more manageable in an orderly wind down.

Store Closure Timeline

27 January 2016
- Elizabeth Street, Victoria
- Fountain Gate, Victoria
- Richmond, Victoria
- Harbourtown, Victoria
- Robina, Queensland
- Brisbane, Queensland
- Raine Square, Western Australia

10 February 2016
- Brighton, Victoria
- Geelong, Victoria
- Doncaster, Victoria
- Balgowlah, New South Wales
- Newcastle, New South Wales

26 February 2016
- Moorabbin, Victoria
- The Glen, Victoria
- Bondi Home, New South Wales
- Miranda, New South Wales
- Norwood, South Australia

4. Strategy and Trading Performance
4.4. Sale of Business

The Administrators are pleased to confirm that a conditional agreement for the sale of the Company's business and assets has been achieved.

The sale is scheduled to complete on 24 May 2016, but will be dependent upon the Purchaser's negotiations with Landlords and Laura Ashley UK.

Campaign to Sell the Company's business

Process

- After conducting a review of the options available, the Laura Ashley business was formally offered for sale by way of an expression of interest campaign.
- The campaign commenced shortly after the Administrators' appointment with:
  - An advertisement placed in the Australian Financial Review on 21 January 2016;
  - A number of unsolicited approaches received; and
  - A number of parties identified and approached by the Administrators.
- The table below summarises the interest generated.

Summary of Interested Parties

Item	No.
Interest expressed	28
NDA signed and returned	16
Information memorandum provided	16

- 16 parties entered into confidentiality agreements and were provided with an Information Memorandum and certain other ad-hoc information as and when requested.
- The Administrators received two (2) offers to purchase the Company's business and assets considered broadly capable of acceptance.
- The Administrators have also extensively engaged with Laura Ashley UK to understand their appetite to either (a) purchase the business outright; or (b) support a sale of the business to a third party and on what terms.
- Laura Ashley UK recently also met with two (2) of the interested parties.

Outcome of Process

- The Administrators are pleased to confirm that a conditional sale agreement has been executed with the Purchaser.
- The key terms of the sale agreement are as follows:

Sale Price	Withheld
Assets to be acquired	Stock Plant and Equipment Intellectual Property (excludes warehouse)
Conditions precedent	Execution of licence agreement Reaching agreement with landlords on leases

- Creditors will appreciate that the sale is subject to confidentiality. Thus at this stage, sale price details cannot be disclosed.
- The Administrators stress that as at the date of this report, the conditions precedent remain outstanding.
- The Administrators are hopeful however that these conditions precedent will be fulfilled prior to the second meeting of creditors, at which time an update will be provided to creditors.

4.4. Sale of Business (cont.)

The sale of business represents on balance the best outcome possible for creditors of the Company.

Outcome for Creditors

- The Administrators consider the sale of the Company's business represents on balance, a superior outcome for creditors compared to the orderly wind down of the Company's business.
- The sale in particular has the following benefits:
  - The general creditor pool benefits from the sale of the Company's business assets because a majority, if not all, remaining employees are likely to transfer to the purchasing entity which avoids the crystallisation of significant retrenchment liabilities;
  - A more certain value in a timely manner is recovered with respect to the Company's main physical assets, stock, store fitouts and office equipment;
  - The value attributed to certain fixed assets exceeds what would be available for those assets if they were to be realised via other means, such as auction; and
  - The sale will reduce the possible large landlord claims due to leases being granted to the Purchaser.

4. Strategy and Trading Performance
4.5. Alternatives to Sale of Business

Alternative Strategies to Sale of Business

- The objective of a voluntary administration is to maximise the chance of a company, or as much as possible of its business, continuing in existence or, failing that, results in a better return for the Company's creditors than would result from an immediate winding up.
- Accordingly the Administrators considered alternative strategies available in order to enhance the return to creditors should a sale of the Company's business on a going concern basis not materialise.
- These strategies included:
  - Engaging a stock realisation agent to act on behalf of the Administrators to realise the Company's stock through an online sale; or
  - Conducting a progressive close down of the Company's stores, realising stock from the Company's existing stores under the control of the Administrators and Laura Ashley staff; or
  - Engaging a merchant to manage a controlled wind down of the business, whilst also underwriting a minimum return to the Company.
- The Administrators sought submissions from a number of prospective agents.
- Ultimately, the Administrators have determined that directly managing a progressive close down of the stores should the conditional sale for the Company's business not complete, will lead to the best alternative outcome, on the following basis:
  - Flexibility will be required with the stock realisation process considering the sale that is on foot for the Company's business;
  - Based on the proposals received from the agents, the forecast outcome for creditors was not materially better than if the Administrators continue to sell down the Company's stock in their own right; and
  - The benefit of any "upside" in value recovered for the stock remains with the Company and its creditors, as opposed to with the agents.
- The Administrators are in a position to immediately adopt a progressive close down strategy should the conditional sale of the Company's business not complete.

5. Financial Position

5. Financial Position
5.1. Director's Report as to Affairs

Report as to affairs by the Director

- Upon appointment the Administrators requested the Director of the Company provide a statement about the company's business and assets in the form of a RATA as required by Section 438B(2) of the Act.
- The Director submitted a RATA, a summary of which is adjacent.
- Creditors should note that the RATA is the Director's estimate only and does not reflect the Administrators' views as to the financial position of the Company.
- The Administrators have also prepared a preliminary estimate of the financial position of the Company as at the date of their appointment. Note this does not take into account the value ascribed to each asset in the sale agreement for the Company's business and assets.
- Key issues relevant to the Administrators' assessment include:
  - The Director appears to have valued stock at full retail value; and
  - Unsecured claims against the Company will ultimately be subject to the proof of debt process in the event a dividend is available and are therefore subject to change.

Estimated position - 7 January 2016

		Directors RATA		Administrators Estimate	
		Book Value	ERV	Book Value	ERV
	Note	$	$	$	$
Assets not subject to specific security interests					
Interest in land		0	0	0	0
Sundry debtors	1	565,421	0	10,000	0
Cash on hand	2	95,007	95,007	95,007	95,007
Cash at bank	3	730,376	730,376	0	0
Stock	4	6,389,142	14,000,000	5,104,591	Withheld
Work in progress / raw materials	5	1,847,823	4,000,000	0	0
Plant and equiptment	6	10,074,849	100,000	10,347,445	Withheld
Other assets	7	42,000	28,160	46,284	0
Totals assets not specifically charged		**19,744,618**	**18,953,543**	**15,603,327**	**Withheld**
Assets subject to specific security interests	8	65,978	Not Disclosed	30,000	15,000
Less amounts owing	8	(47,898)	Not Disclosed	(175,000)	(300,000)
Net assets subject to specific charges		**18,080**	**Not Disclosed**	**(145,000)**	**(285,000)**
Amounts payable in advance of secured creditors	9	2,330,648	Not Disclosed	3,987,201	3,987,201
Amounts owing and secured by debenture or floating charge	10	5,326,440	Not Disclosed	5,376,102	5,376,102
Total claims		**7,657,088**	**Not Disclosed**	**9,363,303**	**9,363,303**
Unsecured creditors	11	10,747,125	Not Disclosed	13,334,370	13,334,370
Surplus / (Deficiency)		**1,358,485**	**Unknown**	**(7,239,346)**	**Withheld**

Notes to the estimated position are provided overleaf.

5.1. Director's Report as to Affairs (cont.)

Note 1

The Director has disclosed trade debtors of $565,421. This includes debtors due from Director-related parties of $482,606 which are not considered collectable. There are debtors from independent third parties totalling $44,917, however these are in excess of 120 days due. The Administrators have written to all unrelated debtors requesting immediate payment.

Note 2

Cash on hand represent cash floats at stores.

Note 3

Cash at bank represents the amount held in the Company's bank account at appointment. This was set off by the Bank against liabilities due by the Company to the Bank. This is discussed at Section 5.3.

Note 4

The Director's ERV considers stock at retail value. The Administrators consider that value of stock available to meet the claims of creditors is considerably less than this once costs to realise the stock are considered.

Note 5

The Director has included at work in progress the total cost of stock on order with overseas suppliers. This does not include the costs that would be required to have the stock released. The large majority of this stock only had minimal (if any) deposits paid against it with significant further payments required to have the stock released and available for sale.

Note 6

The Administrators' estimate is as per the fixed asset register of the Company.

Note 7

The Administrators understand the Company is the owner of 400 Telstra shares. The Administrators are exploring alternatives for realisation of these shares with the share registry.

Note 8

This represents the net position of leased equipment. There does not appear to be any surplus available to creditors. Not all finance companies have responded to the Administrators' information requests.

Note 9

This represents potential employee liabilities. The Director's estimates did not include any crystallised redundancies. The Administrators have estimated employee liabilities on the basis no further redundancies occur.

Note 10

This represents the Company's indebtedness to the Bank for a number of different facilities.

Note 11

The Administrators expect unsecured creditor claims to exceed the book value provided by the Director after accounting for various claims including:

- Lease break fees;
- Customers whose orders the Company did not complete; and
- Receipt of invoices not previously entered into the Company's accounting system.

5. Financial Position
5.2. Historical Financial Information

The Administrators' key observations in respect of the Company's historical financial performance and position are provided here.

The Administrators have been unable to satisfy themselves as to the basis of preparation of historical financial information and have therefore placed little reliance on it.

Company staff have indicated that the process for preparing this information was not rigorous.

Historical Financial Performance

- Appendix 4 details the historical financial performance of the Company.
- Externally-prepared financial statements have not been completed for the Company since FY2014.
- Sales were stagnant between FY2014 and FY2015 despite the Company opening 9 new stores, investing in the refurbishment of 7 other stores and closing 7 underperforming stores during that period.
- Occupancy costs increased as would be expected due to the investment into the store footprint.

Summary Financial Performance

	Externally Prepared		Internal	Draft
	FY2013	FY2014	FY2015	6 mths to Dec '15
Sales and other Income	50,366,755	45,014,265	45,994,248	20,568,697
Gross Profit	**31,706,279**	**28,171,841**	**28,683,523**	**11,413,740**
Expenses				
Royalty payments	1,229,556	914,864	1,083,416	607,901
Occupancy costs	9,903,032	9,966,273	10,462,145	5,001,898
Payroll expenses	12,565,592	11,459,232	11,586,235	5,651,499
Other Costs	5,401,300	4,687,492	4,264,405	1,339,243
Total Expenses	**29,099,480**	**27,027,861**	**27,396,201**	**12,600,541**
Net operating profit	**2,606,799**	**1,143,980**	**1,287,322**	**(1,186,801)**

Historical Financial Position

- Enclosed at Appendix 4 is the detailed historical financial position of the Company as per its records.
- The accounts for FY2015 and the 6 months to December 2015 are internally prepared and have not been independently reviewed.
- Significant related party assets are recorded in the FY2015 and December 2015 balance sheets (total of $2.6 million at December 2015). The collectability of amounts is unknown.
- There are significant current liabilities to employees, trade creditors and the Company's secured creditor.
- The Administrators do not consider that the positive Net Asset position depicted below accurately represents the Company's true financial position.

Summary Financial Position

	Externally Prepared		Internal	Draft
	FY2013	FY2014	FY2015	6 mths to Dec '15
Current Assets	13,353,042	12,370,023	16,517,000	11,886,000
Non-Current Assets	9,025,234	10,941,447	9,947,000	11,733,000
Total Assets	**22,378,276**	**23,311,470**	**26,464,000**	**23,619,000**
Current Liabilities	7,119,791	6,999,086	9,351,000	12,386,000
Non-Current Liabilities	4,519,267	4,429,186	1,686,000	1,457,000
Total Liabilities	**11,639,058**	**11,428,272**	**11,037,000**	**13,843,000**
Net Assets	**10,739,218**	**11,883,198**	**15,427,000**	**9,776,000**

5. Financial Position
5.3. Creditors

Secured Creditors

PPS Registered Creditors

- A summary of the status of PPS registered creditors is provided below:

List of Security Holders	
PPS Registrations'	**Nature of security/relationship**
Commonwealth Bank of Australia Limited	Discussed below
Capital Finance Australia limited	Unknown
Pro-pac Packaging (Aust) Pty Ltd	Unknown
Macquarie Leasing Pty Ltd	Unknown
Basford Brands Pty Ltd	Withdrawn security registration
De Lage Landen Pty Ltd	Finance agreements for IT equipment and software
Konica Minolta Business Solutions Australia Pty Ltd	Finance agreements for printing equipment
Paperlinx Australia Pty Ltd	Withdrawn security registration
Standard Finance Limited	Finance agreements for warehouse equipment
Crown Equipment Pty Ltd	Withdrawn security registration

- Capital Finance, Pro-Pac Packaging and Macquarie Leasing have not responded to the Administrators' requests for information.

Commonwealth Bank of Australia

The Company had the following funding facilities with the CBA as at 7 January 2016:

Summary of CBA Facilities as at 7 January 2016	
Facility	**Balance owing ($)**
Trade finance	3,820,194
Bank guarantees	833,920
Business transaction account	33,797
Business bill facility	538,874
Market rate loan	149,377
Total facilities	**5,376,162**

- The total exposure includes interest, costs and fees, and reflects the CBA's exposure after it had exercised a right of set off for bank accounts which were in credit.
- In this regard, on 12 January 2016, the CBA notified the Administrators that it had terminated two outstanding derivatives transactions and exercised a right of set-off in respect of the Company's pre-appointment credit bank balance of $730,377; the CBA applied this credit amount against two market rate loan facilities, reducing one to nil and resulting in a partial reduction of the other.
- The Administrators have considered whether the CBA is entitled to set off this amount and have determined that they are entitled to do so.
- The CBA have confirmed the balance of the facilities as at 21 March 2016 is $5,535,770. Interest, costs and fees continue to accrue in respect of this exposure.

Unsecured Creditors

- The Administrators provide below a summary of the current estimated unsecured creditors.
- This amount is expected to increase significantly in the event of a complete wind down of the Company's affairs as consequential liabilities crystallise to landlords and financiers.
- Unsecured creditors will also increase to the extent that the secured creditors' indebtedness is not met by circulating and non-circulating assets.
- Any successful preference recoveries from creditors may also increase the overall unsecured creditor pool.

Unsecured Creditors Preliminary Estimate		
Detail	**RATA**	**Administrators' Estimate**
Trade Creditors	6,313,869	7,345,992
Customer deposits	0	198,128
American Express	1,402,923	1,403,788
Australian Taxation Office	1,375,592	1,375,592
Laura Ashley UK	1,654,741	2,510,871
Lease break fees	0	500,000
Total	**10,747,125**	**13,334,371**

5. Financial Position
5.4. Employee Entitlements

Employee Entitlements

- The Company employed approximately 400 employees at appointment on a full time, part time or casual basis.
- The Company has a significant debt due with respect to its superannuation obligations. This is discussed separately below.
- As a result of a number of store closures and other changes made by the Administrators, a number of positions have been made redundant. The following summarises the employee entitlements due at appointment or crystallised as a result of redundancies:

Employee Priority Entitlements	Current Employees ($)	Terminated Employees ($)	Total ($)
Wage Related Claims			4,725
Superannuation			2,722,011
Annual Leave	261,128	155,452	416,580
Leave Loading	8,849	5,459	14,308
Long Service Leave	230,218	165,487	395,705
Redundancy		309,846	309,846
Payment in Lieu of Notice		124,026	124,026
Total Entitlements Outstanding	**500,195**	**760,270**	**3,987,201**

- Employees who transfer to the purchaser will retain their leave entitlements with the purchaser.
- Transferring employee entitlements will not crystallise with the Company, however the terms of the sale provide for a downward adjustment to the purchase price for leave entitlements taken on by the purchaser.

Superannuation Obligations

- The Superannuation Guarantee (Administration) Act 1992 imposes interest and administrative charges on unpaid superannuation obligations. These can be significant where superannuation has been outstanding for an extended period.
- The total amount (inclusive of the superannuation contribution/shortfall and interest and administrative charges) becomes payable to the ATO. The ATO is then tasked to receipt and allocate any funds collected in this regard to the relevant employee superannuation funds.
- In a voluntary administration, this means the ATO is entitled to prove for the amount of outstanding superannuation in place of the employee.

Superannuation Audit

- On 11 August 2015, the ATO wrote to the Company advising it that the ATO had received advice that the Company had not met its superannuation guarantee obligations and required an audit of the Company's superannuation obligations.
- On 16 November 2015, the ATO wrote to the Company advising them that their audit had concluded.
- The audit covered the period 1 July 2011 to 31 March 2015. The audit concluded that the Company failed to meet its superannuation guarantee obligations for the period 1 April 2014 to 31 March 2015.
- The Administrators also note that the Company failed to comply with its superannuation guarantee obligations for the period 1 April 2015 to 6 January 2016, but did make some payments for the quarter ending June 2015.

5. Financial Position
5.4. Employee Entitlements (cont.)

- The Administrators have liaised directly with the ATO in respect of outstanding superannuation pursuant to the SGC. The Company's records indicate superannuation guarantee charges are outstanding from the June 2014 quarter onwards totalling $1.8 million.
- The ATO have further advised their records indicate the December 2010 to June 2011 quarters remain outstanding, with the Company's total SGC liability being $2.7 million.
- The potential outstanding SGC liability is tabled below:

Estimated Superannuation Liability

Quarter	Super Contributions Outstanding ($)	SGC Interest ($)	Admin Fee ($)	Total SGC Liability ($)
June 2014	87,471	14,181	2,780	104,432
September 2014	151,898	20,933	4,700	177,531
December 2014	280,749	13,903	7,640	302,293
March 2015	285,000	24,908	8,340	318,248
June 2015	274,217	27,328	7,880	309,426
September 2015	282,572	21,116	7,880	311,568
December 2015	280,749	13,903	7,640	302,293
January 2016	26,811	735	2,390	29,936
Total	**1,669,468**	**137,008**	**49,250**	**1,855,726**
Plus Potential Additional Liability				
December 2010	176,295	96,878	6,280	279,453
March 2011	185,854	97,447	6,620	289,921
June 2011	193,518	96,693	6,700	296,910
Total Potential Liability	**2,225,136**	**428,025**	**68,850**	**2,722,011**

Effect on employees – liquidation scenario

Position as priority creditors

- Employees are afforded a priority in the winding up of a company compared to ordinary unsecured creditors. The order of priority for typical employee claims is as follows:
  i. Amounts due in respect of wages, superannuation and superannuation guarantee charge outstanding as at the date of the appointment of Administrators; followed by
  ii. Amounts due in respect of leave of absence and other amounts due under the terms of an industrial instrument; followed by
  iii. Retrenchment payments including redundancy and pay in lieu of notice.

Return to employees if the Company is wound up

- Section 7 includes details of the estimated return to employee creditors if the Company is wound up and a liquidator appointed.

Government assistance available if the Company is wound up

- If there are insufficient funds available to employees from the Company's property, eligible employees may be entitled to lodge a claim for their unpaid entitlements (excluding superannuation) under the Federal Government's FEG Scheme.
- Details about FEG can be read at: https://www.employment.gov.au/fair-entitlements-guarantee-feg

Effect on employees – DOCA scenario

- At the date of this report, no DOCA proposal has been put forward.
- If a DOCA is proposed subsequent to the issue of the report, employees should note that the FEG dcheme is not available to employees in the event that the Company executes a DOCA.
- However, generally speaking, all employee entitlements are usually met in full in order for a DOCA to be accepted.

6. Investigations, Offences and Voidable Transactions

6. Investigations, Offences and Voidable Transactions
6.1. Overview

Duty to investigate

- The law requires the Administrators to investigate and specify whether there appears to be any voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act.
- We have sought to ascertain whether the Company was insolvent at any particular point in time prior to our appointment as Administrators, in order to determine a point in time from which these provisions may apply.

Relevance of insolvency and liquidation

- The ability to challenge voidable transactions and recover money/property for creditors is contingent on two elements:
  - The Company being placed into liquidation; and
  - A liquidator being able to establish that the Company was insolvent at the time it entered into any particular transaction, or that the Company became insolvent as a consequence of that transaction.

Work performed

- We have made enquiries into the financial affairs of the Company. In this section, we set out our preliminary views and findings about:
  - Offences that may have been committed.
  - The solvency position of the Company.
  - Existence of voidable transactions – including unfair preferences/loans, uncommercial transactions, arrangements to avoid employee entitlements, and unreasonable director related transactions.
  - Charges that may be voidable.
  - Whether there is the prospect of a claim for insolvent trading.
- Please note that the investigations we have undertaken are only indicative of the actions that may be possible in the event of liquidation.

Date of insolvency

- The Administrators' preliminary view is that the Company was probably insolvent from June 2015 and remained so up until the Administrators' appointment on 7 January 2016. Other indicia of insolvency exist that suggests the Company could have been insolvent from June 2014.
- Furthermore, a statutory presumption of insolvency may exist which may deem the Company to be insolvent due to a lack of maintaining adequate books and records from July 2013.
- Our key workings and other analysis are contained in Appendix 5.
- In the appendix we have also included some general comments and information about recoveries via voidable transactions, insolvent trading and common factors that indicate insolvency.
- The summary of our findings and views on the Company's solvency position are on the following pages.

Creditors' information sheet and other explanations

- Provided at Appendix 6 is an information sheet to assist creditors in understanding potential offences under the Act, recoverable transactions, and insolvent trading.
- Creditors should read this information in conjunction with our comments in this section of the report.

Relevance of liquidation versus DOCA

- At this point in time, no party has proposed a DOCA.
- If a DOCA was proposed, creditors should note that voidable transactions and other actions uniquely available to a liquidator are not available if the Company executes a DOCA.
- If a DOCA is proposed following issuing this report, creditors will be notified accordingly.

6.2. Potential Offences that may have been Committed

Potential Offences

- Given the Company's circumstances, the Administrators consider it likely that certain contraventions of the Act may have been committed by the Director.
- Whilst not specifically commenting on the severity of these offences, it is the Administrators' professional experience that contraventions of this nature are commonly associated with failed companies, and do not necessarily reflect any fraudulent or other criminal wrongdoing on the part of the Director.
- However, the contraventions are heightened in this case due to the state of the Company's records and the age and extent of outstanding employee superannuation. Further, the Director has also been the director of another Company that entered into Voluntary Administration approximately 11 months prior to this Company doing the same.

Care and Diligence (Section 180 of the Act)

- Section 180 of the Act requires a director or other officer of a corporation to exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they:
  - Were a director of a corporation in the corporation's circumstances; and
  - Occupied the office held by, and had the same responsibilities within the corporation as, the director or officer.
- The Administrators are of the view that the Director may have breached Section 180 of the Act as he did not take the appropriate steps to fully inform himself of the Company's financial position and performance, and allowed the Company to continue to trade whilst insolvent.
- Whilst the Company did seek to implement a new financial reporting system, this system was not properly implemented and steps were not taken to rectify the position. This led to current and accurate financial information not being available to the Director to make fully informed decisions.

Opinion about books and records (Section 286(1) of the Act)

- Section 286(1) of the Act requires a company to keep written financial records that correctly record and explain its transactions and financial position and performance, and would enable true and fair financial statements to be prepared and audited.
- In considering compliance with this section, since our appointment we have:
  - Reviewed various financial reports provided to us to help us understand the Company's asset and liability positions;
  - Reviewed various correspondence files and documents relevant to the Company's financial position and performance of the Company;
  - Undertaken investigations and reviews incorporating financial records and data; and
  - Discussed the Company's finance function, processes and record keeping practices with its director and management.
- In the Administrators' opinion, as at the date of their appointment the financial records of the Company appear to not have been maintained in accordance with Section 286 of the Act.
- Further analysis of the records maintained by the Company is provided at Annexure 5.

Insolvent Trading (Section 588G of the Act)

- It is the Administrators' preliminary view that the Director may have contravened section 588G of the Act.
- Section 588G of the Act imposes a positive duty on a director to prevent insolvent trading by a company.
- Further analysis and discussion in relation to this contravention is provided overleaf.

6. Investigations, Offences and Voidable Transactions
6.3. Insolvency and liability for Insolvent Trading

Summary of findings

- We summarise the key findings from our investigations into the Company's solvency position as follows:
  - The Company has been unable to produce timely and accurate accounts from July 2013 onwards;
  - As at the date of the Administrators' appointment, the Company had unpaid and overdue taxes that date back to June 2014. The Company also failed to meet a majority of its superannuation obligations from this time;
  - Substantial arrears of in excess of $1.9 million were owing to the UK based licensor of the Laura Ashley business, Laura Ashley UK from August 2014;
  - In the lead up to the Administrators' appointment, the Company was experiencing a poor relationship with its financiers, with approximately 95% of its accounts frozen and CBA's facilities were repayable on demand;
  - Some trade suppliers would only supply the Company on "Cash on Delivery" terms and a number of trade creditors had invoices that remained unpaid well beyond the normal 30 day terms. In some instances creditors were paid in excess of 120 days; and
  - A preliminary review of the Company's accounts indicates that in the twelve (12) months preceding the Administrator's appointment, the Company received a significant number of statutory and legal demands due to the non-payment of invoices;
  - In addition to non-payment of invoices, Company was in default on its leases with 27 demand letters received from lawyers on behalf of landlords;
  - Loans and payments to related parties were considered non-recoverable. This is discussed in further detail overleaf.

Solvency review – indicators of insolvency

Factor	Date Prevalent	Details
Inability to produce accurate financial information	Jul-13	As discussed, the Company's accounting software impacted on the Company's ability to generate accurate financial information.
Arrears of statutory liabilities	Mar-14	The Company was in arrears of it's payroll tax obligations to the state revenue offices of Victoria and Western Australia and its tax obligations to the Australian Taxation Office.
Inability to meet superannuation payments for employees	Apr-14	Superannuation guarantee charge obligations are outstanding from the quarter ended June 2014
Creditors paid outside terms / special arrangements	Dec-14	The Company had a number of payment arrangements in place with creditors at December 2014.
Legal action threatened or commenced	Jan-15	There are letters of demands from creditors of the Company as early as January 2015.
Default on rental payments	Apr-15	The earliest evidence that the Company was defaulting on its rental agreements were in April 2015.
Inability to obtain new or alternative funding	Dec-15	CBA advised that they would no longer provide financial support to the Company.

6.3. Insolvency and liability for Insolvent Trading (cont'd)

Estimated date of insolvency

- The Director advised the Administrators that it was a challenge to know the Company's financial position at any given time given the lack of information available from the Company's accounting system.
- The Director has indicated that problems with the Company's computer system have impacted on the maintenance of the books and records since the new system (Microsoft Dynamics AX) rollout was attempted in July 2013.
- It appears that the Company has failed to maintain adequate books and records since this date that would enable true and fair financial statements to be prepared and audited. Accordingly, this indicates a statutory presumption of insolvency from July 2013.
- The Administrators' investigations have revealed evidence to suggest that the Company was insolvent from June 2014 onwards as detailed below.
- However, there is strong evidence that the Company was probably insolvent from June 2015 and remained so up until the time of the Administrators appointment on 7 January 2016.

Indicators for insolvency from June 2014

- The primary reasons for our views include:
  - Bank accounts not reconciled since June 2013;
  - The Company has not been able to produce management accounts for approximately three (3) years;
  - The Director advised that only limited information relating to sales, performance to budget and bank statements were available to him to monitor the Company's position since the failed implementation of the Microsoft Dynamics AX accounting system which we understand to be around July 2013;
  - The Company had unpaid superannuation from the quarter ending June 2014;
  - The Company missed lodgements deadlines for 2013 and 2014 income taxation returns with the ATO;
  - The Company was subject to a repayment arrangement with the ATO in respect to its integrated client account debt in March 2014, December 2014, March 2015 and August 2015; and
  - The Company was consistently in default on its leases with 27 demand letters received from lawyers on behalf of landlords from the period commencing 14 April 2015 to 30 December 2015.

Indicators for insolvency from June 2015

- In addition to the above, additional and heightened indicators that the Company was insolvent include:
  - 31% of the Company's aged payables as at June 2015 were aged between 90 and 120 days and 26% were greater than 120 days;
  - The Company only partially complied with some of its superannuation obligations from the quarter ending June 2015, with evidence of non-payment for subsequent quarters; and
  - The Company has significant tax debt, with the ATO actively pursuing recovery including:
    - The Company received a notice of legal action with respect to its Business Activity Statement debt in July 2015;
    - The Company was subject to a payment plan for its debt from August 2015; and
    - The Company's approval to defer GST on imported goods was revoked in June 2015 due to overdue tax lodgements.

6. Investigations, Offences and Voidable Transactions
6.3. Insolvency and liability for Insolvent Trading (cont'd)

Preliminary view on liability for insolvent trading

- Based on our estimated date of insolvency, the potential claim for insolvent trading may be at least in the order of $7.5 million. This is a preliminary indication based on the amount of invoices outstanding at appointment raised subsequent to June 2015.
- If the Company was wound up and a liquidator appointed, further work would be performed on the solvency position of the Company to determine whether there is a benefit to creditors in pursuing the Director for insolvent trading.
- Creditors should refer to Appendix 5 and 6 for additional information on insolvency and pursuing insolvent trading claims generally.

Director's capacity to pay claims by a liquidator

- When considering whether to pursue an insolvent trading claim against a director, the Administrators must consider the Director's capacity to respond to a claim.
- The Director declined to initially answer questions about his personal financial position in a questionnaire provided to him shortly after the Administrators' appointment.
- The Administrators have since written to the Director twice requesting he provide a declaration of his personal financial position in this regard. At the date of this report no response has been received.
- Consequently, the Administrators have obtained publically available information regarding his personal financial position including directorship and property searches. These investigations reveal that the Director was one of the joint registered proprietors of a property located at 24 Curraweena Road, Caulfield South, Victoria.
- We note the following in respect of this property:
  - The Director purchased this property for $970,000 with settlement occurring on or around 6 January 2012 in his own name;
  - The Director transferred half of his ownership in this property to whom we understand to be his wife on 7 March 2013 for no consideration;
  - There is a registered mortgage on title to the CBA; and
  - According to realestate.com.au the Property was sold on 28 February 2016. We understand that settlement may not yet have occurred.
- The limited information available in respect of the Director's personal financial position means that the Administrators are unable to determine what capacity (if any) the director has for meeting a claim of trading whilst insolvent.
- The Company held a Management Liability insurance policy which may respond to an insolvent trading claim. Accordingly the Administrators have notified the Director of the potential of an insolvent trading claim and also notified the insurer.
- The policy provides a limit for claims of this nature of $5 million.
- Further work would be required of a liquidator (if one is appointed) to determine whether the director or the insurance policy would in fact respond to a claim for trading whilst insolvent.

6. Investigations, Offences and Voidable Transactions
6.4. Unfair Preferences

Introduction

- Transactions (including a payment of money) between the Company and an unsecured creditor in the period 7 July 2015 to 6 January 2016 (i.e. six months prior to the appointment of the Administrators) may constitute an unfair preference if the Company was insolvent at the time of the transaction and the creditor received more than they would have in the winding up. A claim will be unsuccessful if the party benefiting from the transaction did not suspect and should not have suspected the Company was insolvent.
- Unfair preference payments made be voidable and recoverable by a liquidator, if appointed.
- In analysing possible preference payments the Administrators undertook the following:
  - Reviewed payments made by the Company in the six (6) months prior to the Appointment Date to identify any round sum payments made to creditors;
  - Reviewed the movement in the overall indebtedness of creditors to determine any material improvement in their position;
  - Sought advice from the Director and staff of any payment plans entered into with creditors; and
  - Reviewed the Company's records to ascertain whether any letters of demand had been served and investigated any payments made to those creditors.

Findings

- Investigations to date have identified payments made by the Company to 40 creditors during the relation back period totalling $3.9 million that may represent possible unfair preference payments. These include:
  - $1.8 million in potential preference payments to one (1) creditor; and
  - The balance of potential unfair preference payments are spread across the creditors of the Company, with individual payments ranging in value from $4,000 to $234,000.
- Further investigations will be required in this regard to substantiate any unfair preference claims, including to determine factors such as the true nature of any payment and the relevant creditors' knowledge of possible insolvency.
- In our experience, once such payments are analysed and "filtered", the final potential claims for unfair preferences usually decrease. However we would expect a significant percentage of the payments identified to ultimately be the subject of claims by a liquidator as unfair preferences.

6. Investigations, Offences and Voidable Transactions
6.5. Position of related parties

Related Party Transactions

- Payments to related parties may be recoverable for the benefit of creditors pursuant to section 588FB of the Act as uncommercial transactions or pursuant to section 588FDA of the Act as unreasonable director-related transactions.
- The question to be asked is whether a reasonable person in the Company's circumstances would have entered into the transactions, having regard to:
  - The benefits (if any) to the company of entering into the transactions;
  - The detriment to the company of entering into the transactions;
  - The respective benefits to other parties to the transactions of entering into the transactions; and
  - Any other relevant matter.
- For an uncommercial transaction, the Company must also be or become insolvent from the transaction.
- Insolvency is not required to be proved with an unreasonable director-related transaction.

Transactions with the Director

- The Director held the position of Chief Executive Officer of the Company until the date of our Appointment.
- The Director's remuneration and other payments for the two (2) years prior to the Administrators' appointment is summarised in the table below:

Director Related Transactions

Details	FY2014 ($)	FY2015 ($)	YTD ($)
Wages	450,000	450,000	225,000
Superannuation	0	0	0
Personal credit cards	Unknown	Unknown	170,000
Funds received outside of wages	Unknown	Unknown	234,616
Total	**450,000**	**450,000**	**629,616**

  - The Company's PAYG records do not reconcile with the annual amounts the Director has received in wages. The Director's wages appear to be largely in excess of the values declared to the ATO.
  - The Administrators investigations have revealed numerous transactions made by the Director for personal expenses using the Company's corporate American Express Card.
  - The Director received payments from the Company's CBA account outside of payments processed by payroll.
- The above transactions will be further investigated during the course of the liquidation, should creditors elect to place the Company into liquidation.

6. Investigations, Offences and Voidable Transactions
6.5. Position of related parties (cont'd)

Preliminary view on related entities

- The Administrators are aware that numerous related parties exist, a number of which have transacted with the Company over the two (2) years prior to our appointment.
- The table below provides a summary of related party transactions that are known to the Administrators over the two (2) years preceding their appointment. Details of each related entity are discussed overleaf.

Reported Related Entity Transactions between 7 January 2014 and 7 January 2016

Entity	Officeholders	Shareholders	Details	Credits ($)	Debits ($)	Net Balance Owing ($)
Sprouters Pty Ltd	Daryl Chait	Daryl Chait	Operates café	125,905	23,413	102,492
Parque Pty Ltd		Daryl Chait	Operated FAT clothing chain (recently ceased trading)	246,183	111,144	135,039
Evocative Interiors Pty Ltd		I Can Fly Pty Ltd Milwidsky Holdings Pty Limited Navrod Pty Ltd Florabelle Imports Pty Ltd	Connected to Made to Measure business	37,952	-	37,952
Eleven Degrees South Pty Ltd		Daryl Chait	Charged management and other fees to the Company	1,243,171	803,867	439,304
FAT 4 Equity Group Pty Ltd		Selwyn Ashley Cohen Florabelle Imports Pty Ltd I Can Fly Pty Ltd Milwidsky Holdings Pty Limited Navrod Pty Ltd	Unknown	244,369	56,457	187,912
I Can Fly Pty Ltd		Daryl Chait	Unknown	-	-	-
PZ Group Pty Ltd		Daryl Chait	Unknown	-	-	-
Navrod Pty Ltd		Daryl Chait	Unknown	-	-	-
Buddy Corporation Pty Ltd		Elfvale Pty Ltd Daryl Chait	Unknown	-	-	-
LA Equity Group Pty Ltd		Selwyn Ashley Cohen Florabelle Imports Pty Ltd I Can Fly Pty Ltd Milwidsky Holdings Pty Limited Navrod Pty Ltd	Unknown	-	-	-
Laura Ashley (New Zealand) Pty Ltd		Laura Ashley (Australia) Pty Ltd	Subsidiary of the Company	1,152,201	609,240	542,961
Total				**3,049,780**	**1,604,121**	**1,445,659**

- It is noted that the amounts provided in the table are based on the Company's accounting systems only. They may not necessarily be cash transactions. Further transactions may exist that have not been recorded in the accounting system. The aforementioned transactions and any additional transactions would be further investigated during the course of a liquidation.

6. Investigations, Offences and Voidable Transactions
6.5. Position of related parties (cont'd)

Position of Related Parties

- We note the following in respect of the below related parties:
  - Sprouters Pty Ltd operates the café within the South Melbourne store. There are a number of transactions between the Company and this entity including payments made by the Company on behalf of this entity to suppliers. These transactions have not been recorded in the Company's accounting system.
  - Parque Pty Ltd ran the clothing store FAT. As with Sprouters Pty Ltd, payments were made by the Company on behalf of this entity to overseas suppliers.
  - Parque Pty Ltd was placed into Voluntary Adminstration on 17 April 2015 with John Coyne and James Koutoukos of BRI Ferrier appointed. There was a subsequent Deed of Company Arrangement ("DOCA") entered into by Eleven Degrees South Pty Ltd ("EDS") for which the Company paid on behalf of Eleven the amount of $282,000 and all associated legal fees.
  - EDS also purportedly provided consulting services to the Company. The nature of these services is unknown.
  - Evocative Interiors Pty Ltd was established to operate the Company's Made to Measure division. The Company made payments on behalf of the entity to the ATO and suppliers that were not recorded in the Company's accounting system.
  - Laura Ashley (New Zealand) Pty Ltd ("LANZ") operated as a subsidiary of the Company. The Company provided administrative and management services to LANZ which accrued against Intercompany Receivables. Payments to this entity as detailed in the summary of related parties previously consist of accrued administrative and management charges ($289,214) and invoices that were paid on behalf LANZ for YTD16 ($862,986).
- Further investigations will be performed with respect to the above entities by a liquidator, if appointed.

6. Investigations, Offences and Voidable Transactions
6.6. Voidable Transactions

- We set out below our preliminary findings in relation to potential recoveries from voidable transactions in a liquidation scenario including our view on the likelihood of there being substantiated and supportable claims. Where applicable, we have included our estimate of possible recoveries along with any other pertinent information.

Area	Our view	Comments
Unfair preferences	Possible claims	■ We have reviewed the payments made by the Company during the period leading up to appointment, taking into account the potential date of insolvency of the Company. ■ We consider that there may be preferential payments to 40 creditors during the potential relation back period totalling $3.9 million.
Uncommercial transactions	Possible claims	■ Further consideration is warranted to determine whether any of the related party transactions may constitute uncommercial transactions.
Unfair loans	No claims	■ We are not aware of any potential unfair loans that would likely result in property being recovered for the benefit of creditors.
Unreasonable director related transactions	Possible claims	■ Our investigations to date have found a number of payments to the Director and related entities. Further investigations are required into whether any of these transactions are voidable as a against a liquidator. The liquidator would also need to consider the ability of the Director to respond to any of these claims.
Related entity benefit	Possible claims	■ Our investigations to date have revealed a number of transactions with related entities that could result in property being recovered for the benefit of creditors. The liquidator would need to consider the ability of these related entities to respond and repay any of these claims.
Arrangements to avoid employee entitlements	No claims	■ Our investigations to date have not revealed the existence of any such arrangements.
Voidable charges	None	■ Our investigations have not revealed any charges or registered security interests that would be void against a liquidator.

6. Investigations, Offences and Voidable Transactions
6.7.Other Investigations

New Zealand Operations

- Laura Ashley (New Zealand) Pty Ltd ("**LANZ**") is 100% owned by the Company.
- It operates four (4) stores - two (2) in Auckland, two (2) in Christchurch plus a webstore under the same licence that the Company operates.
- The New Zealand ("**NZ**") operations have 32 employees; 4 managers, 3 assistant managers, 15 part time staff and 10 casual employees.
- The last financial statement prepared by the external accountants, Cohen Fasciani, were prepared in 2011.
- The Administrators were advised that:
  - The Company sells product to LANZ at export prices of cost plus 15%. This is invoiced through an intercompany loan account;
  - A recharge every month of 10-15% of turnover is recorded to cover management fees. The Company provides head office functions such as payroll, accounting, IT, and other head office functions; and
  - Periodically, money is transferred to pay down the intercompany loan account as detailed in the table to the right.
  - Sales are directly deposited into a NZ bank account, and costs are paid directly from this account. The Company director, Daryl Chait, has control of the New Zealand bank account.
- The Administrators have put monitoring controls in place and have agreed with the Director to continue to provide limited supply of inventory at cost plus 15%.

Summary of NZ Subsidiary Loan

	Loan Balance ($)			
	Jun-13	**Jun-14**	**Jun-15**	**Dec-15**
Loan to LANZ	1,856,665	1,989,042	2,041,000	2,075,000

7. Estimated Return to Creditors

7. Estimated Return to Creditors

Return Available for Creditors

- This section discusses the Administrators' preliminary view on the potential outcome for all classes of creditors.
- Given that no DOCA has been proposed the Company is likely to proceed into liquidation. There is therefore, in effect, three avenues of recovery for creditors, namely:
  - Non-Circulating Assets (also referred to as fixed assets and including goodwill, plant and equipment, fixtures and fittings);
  - Circulating Assets (in this case, inventory and debtors); and
  - Voidable and antecedent transaction recoveries uniquely available to a Liquidator.

Priority to Recoveries

- After allowing for the remuneration and costs associated with the voluntary administration and any liquidation, a liquidator is required to apply the various types of recoveries in the following order:
  a) Where a secured creditor has a general security interest over all of the Company's assets, all proceeds from the realisation of non-circulating assets must first be applied to the secured creditors indebtedness. In all scenarios there will be no surplus funds available to any other class of creditors from these assets.
  b) Any voidable and antecedent transaction recoveries made by a liquidator must first be applied to satisfy all priority employee claims. Any surplus funds after payment of priority employee claims are available to unsecured creditors.
  c) Where there is a shortfall to priority employees from point b) above, the liquidator must first apply all recoveries from circulating assets to priority employee claims. The secured creditor has a priority to any surplus funds available after priority employees claims are met. In all scenarios it is unlikely that surplus funds from circulating assets will exist for distribution to ordinary unsecured creditors.

Impact of Related Party Claims

- There are no limitations imposed on the ability of related parties to claim in the liquidation of the Company.

7. Estimated Return to Creditors

Outcome for Creditors

- The Administrators have considered the estimated outcomes to creditors under a range of scenarios, considering a range of variables.
- Significant work has been completed in calculating the various expected returns under different scenarios, however the Administrators are unable to disclose any detailed analysis due to the confidential nature of the sale, which is still conditional at the time of writing this report.
- The Administrators consider that the following key variables exist which will impact the likely return to creditors:

Variable	Range
Sale consideration	Withheld
Realisable value of inventory if the sale does not complete	Withheld
Potential recoveries (if any) from voidable transactions	Nil to $3.9 million
Potential recovery from an insolvent trading claim	Nil to $5 million
Quantum of priority employee creditor claims	$2.6 million to $4.9 million
Quantum of ordinary unsecured creditor claims	$20 million to $27 million
Liquidator's fees, if appointed, in conducting the liquidation including pursuing recoveries	$535,000 to $935,000

- The estimated outcome for creditors, after considering the above factors, is summarised in the following table:

Summary of Estimated Outcomes

	Liquidation Dividend	
	Cents in $	Timing
Secured Creditor	0 to 62 cents	12+ months
Employee Superannuation	36 to 100 cents	12+ months
Employee Entitlements – FEG Funded	100 cents	3 to 4 months
Employee Entitlements – Not FEG Funded	0 to 100 cents	12+ months
Ordinary Unsecured Creditors	0 to 10 cents	12+ months

- Please note that this is a preliminary assessment of the possible outcome available for creditors. It is subject to change and may vary considerably.
- Employees can access the FEG scheme to recover their entitlements without awaiting the outcome of a liquidation. The Department of Employment is entitled to a subrogated priority claim for entitlements they pay.
- In order for a full return to priority creditors to occur, sufficient recoveries will be required in respect of the recoveries uniquely available to liquidators as discussed in section 6 of this report.
- Returns to unsecured creditors will be dependent upon both sufficient recoveries from the liquidators' recoveries as well as the sale of the Company's business completing.
- The liquidator will not be in a position to make any return to creditors until such time that the total pool of funds available to meet creditor claims is determined. This is not expected to be known for at least 12 months.

8. Administrators’ Remuneration

8. Administrators Remuneration

Remuneration

- The Administrators' first circular to creditors indicated their intention to claim remuneration on a time basis.
- Pursuant to Section 449E(1)(a) of the Act, the Administrators sought approval of their professional fees for the period 7 January 2016 to 29 February 2016 of $998,570 (plus GST and disbursements) from the Committee of Creditors at the Second Committee Meeting.
- At the Second Committee Meeting the Committee resolved to approve the Administrators' remuneration in full.
- At the third meeting of the Committee of Creditors, the Committee resolved to approve the Administrators' remuneration for the period 1 March 2016 to 30 April 2016 in the amount of $550,000 plus GST and disbursements. Actual time incurred was approximately $633,000 with the above resolution reflecting a discount of approximately $83,000.
- The Administrators' have incurred fees in the amount of $118,904 for the period 1 May 2016 to 13 May 2016.
- Pursuant to section 449E of the Act, the Administrators' remuneration can be fixed at the Second Meeting of Creditors.
- Accompanying this report is the Administrators' Remuneration Request Approval Report seeking approval from the Creditors of the Company for the following periods as detailed in the table to the right.

Period	Amount ($) plus GST and Disbursements
Administration	
1 May 2016 to 13 May 2016 - actual	118,904
14 May 2016 to 26 May 2016 – maximum estimate	150,000
Liquidator (if Appointed)	
From 26 May 2016 – Interim estimate	300,000
Total Remuneration Approval Sought	**568,904**

- The Administrators' remuneration is based on the firm's hourly rates as at 1 January 2016 which were distributed with the notice of the first meeting.
- The Administrators will only draw remuneration based on actual time incurred and as such, if a lower amount is incurred then the Administrators will only draw the lower amount.
- The amount listed for liquidator's remuneration is an interim estimate only. Further fees will be incurred particularly if voidable transactions and a claim of trading whilst insolvent are pursued.
- The liquidator would seek further approvals for additional fees from creditors or a Committee of Inspection (if appointed) during the course of a liquidation.

Administrators receipts and payments

- A summary of receipts and payments since the date of our appointment to 15 May 2016 is enclosed with the Remuneration Request Approval Report.

9. Administrators' Opinion

9. Administrators' Opinion

What Creditors Can Decide at the Meeting

- At the upcoming second meeting, creditors are required to decide whether:
  - The Company should execute a DOCA;
  - The administration of the Company should end, and control be passed back to the Director;
  - The Company should be wound up; or
  - The meeting be adjourned up to 45 business days.
- In accordance with the requirements of Section 439A(4)(b) of the Act, the Administrators must provide an opinion on each of the above options, and state whether the option is in the creditors' interests.

Administrators' Opinion on Voidable Transactions

It is the opinion of the Administrators that there are payments made by the Company which could be considered voidable as against any liquidator. This has been discussed in Section 6 of this report.

Administrators' Opinions on the Options Available to Creditors

1. Execution of a Deed of Company Arrangement

- As no offer for a DOCA has been proposed, creditors cannot resolve to accept a DOCA at this time. ***Therefore, the Administrators do not consider it would be in the creditors' interests for the Company to execute a DOCA.***
- It remains an option for creditors to consider whether they may wish to adjourn the meeting on 26 May 2016 to allow time for a DOCA proposal to be submitted.

2. The Administration comes to an end

- If the creditors vote for this alternative, control of the Company would revert to the Director following the meeting to be held on 26 May 2016.
- The Company is insolvent with no cash to pay the Company's debts and no confirmed prospects of obtaining external funding. ***Therefore, we do not consider that it would be in the creditors' interests for the administration to end.***

3. The Company is wound up

- ***The Administrators consider that it is in the creditors' interests for the Company to be wound up.*** The Administrators' reasoning for their opinion includes:
  - The Company is clearly insolvent;
  - It is not appropriate that the Administration ends for the reasons noted above;
  - No proposal for a DOCA has been forthcoming;
  - Claims uniquely available to a liquidator, including for unfair preference payments and trading whilst insolvent, may exist;
  - Terminated employees may be eligible to receive assistance in the partial payment of their entitlements from FEG; and
  - Prospects of a dividend for all classes of creditors are enhanced through a liquidation.

9. Administrators' Opinion

4. The meeting be adjourned up to 45 business days

- It may be in the interest of creditors to adjourn the second meeting of creditors up to 45 business days to allow the sale contract for the Company's business and assets to settle.
- Keeping the Company under Administration preserves the moratorium against lessors and other secured creditors recovering their security, allowing the business to continue to trade.
- A further update will be provided at the second meeting on whether the Administrators consider the meeting should be adjourned.

Should you have any queries regarding any aspect of this report, please contact Mr Mark Hellwege of this office.

Ross Blakeley
Joint and Several Administrator

Appendix 1 – Glossary and terms of reference

Glossary and Terms of Reference

Item	Definition
Act	Corporations Act 2001 (Cth)
Administrators	Ross Blakeley, Quentin Olde and John Park
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office (incorporating the Deputy Commissioner of Taxation, as applicable)
AUD / ($)	Australian Dollar
BAS	Business Activity Statement
Director	Mr Daryl Chait
DIRRI	Declaration of independence, relevant relationships and indemnities
DOCA	Deed of Company Arrangement
Excel	Microsoft Excel software suite
ERV	Estimated realisable value
FEGS	Fair Entitlements Guarantee Scheme
FY2014, FY2015	Financial years ended/ending 30 June 2014 and 30 June 2015.
GST	Goods and Services Tax, as applicable in Australia
LAUK	Laura Ashley United Kingdom (Licensor of the Company)
PPSA	Personal Property Securities Act
RATA	Report as to Affairs
SGC	Superannuation Guarantee Charge
The Company	Laura Ashley (Australia) Pty Ltd
YTD	Financial year to date to 7 January 2016

Terms of reference

- This report has been prepared for the creditors of Company to assist them in evaluating their position as creditors and in deciding on the Company's future. None of the Administrators, FTI Consulting or its staff shall assume any responsibility to any third party to which this report is disclosed or otherwise made available.
- This report is based on information obtained from the Company's records, the Director and management of the Company and from our own enquiries. While we have no reason to doubt the veracity of information contained in this report, unless otherwise stated we have proceeded on the basis that the information provided and representations made to us are materially accurate, complete and reliable. Nothing in the nature of an audit, review or assurance or procedures have been performed. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of the information in this report.
- This report may contain prospective financial information, including estimated outcomes for creditors, and other forward looking information. As events and circumstances frequently do not occur as expected, there may be material differences between estimated and actual results. We take no responsibility for the achievement of any projected results or events.
- We reserve the right to alter any conclusions reached on the basis of any changed or additional information which may become available to us between the date of this report and the second meeting of creditors.
- Creditors should seek their own advice if they are unsure how any matter in this report affects them.

Appendix 2 – Declaration of Independence, Relevant Relationships and Indemnities

Appendix 3– Committee Members

Committee of Creditors Members

Committee of Creditors Members	
Creditor	**Proxies**
Laura Ashley Limited	Victoria Nomikos
Scentre Group Ltd	John Warn Timothy O'Keefe
Pop Digital	Annie To
Sunny Fly	Evelyn Ooi
Gutnam Nominees Pty Ltd	Judith Gutman
BQ Design Pty Ltd	Toby Gray
Karrin Galagher	
Tamra Clayton	
Rowena Klein	

Appendix 4 – Company Information

Appendix 4 – Company Information
Statutory Information

Corporate Statutory Information	
ACN	004 817 323
Registered Office	C/- Cohen Fasciani Pty Ltd Suite 29, Level 3, 25 Claremont Street SOUTH YARRA VIC 3141
Principal Place of Business	112 Buckhurst Street SOUTH MELBOURNE VIC 3205
Directors	Daryl Chait
Former Directors	Alan Milwidsky
Secretary	Daryl Chait
Security Interest Holders	Capital Finance Australia Limited Commonwealth Bank of Australia Pro-pac Packaging Pty Ltd Macquarie Leasing Pty Ltd De Lage Landen Pty Ltd Konica Minolta Business Solutions Australia Pty Ltd Standard Finance Limited Crown Equipment Pty Ltd
Shareholders	LA Equity Group Pty Ltd

Appendix 4 – Company Information
Historical Financial Information

Notes to historical financial performance

- The Company has not had externally prepared financial accounts compiled since FY2014. The Administrators have therefore had to rely upon internally prepared accounts for FY2015 and draft accounts for the 6 months to December 2015.
- The Administrators make the following preliminary observations with respect to the Company's historical performance:
  - Despite a capital investment into the store network of $6.4 million between 2013 and 2015 sales remained relatively flat.
  - As a likely result of this investment there is an increase in occupancy cost, distribution costs and a minimal increase in payroll expenses.
  - Although a non-cash item, but impacting on the Company's financial performance, no depreciation expense is included in the Draft accounts prepared to December 2015. Therefore the cost of the store expansion has not been reflected in the performance.

Historical Financial Performance

	Externally Prepared		Internal	Draft
	FY2013 ($)	**FY2014 ($)**	**FY2015 ($)**	**6 mths to Dec '15 ($)**
Sales	49,846,508	44,429,545	45,373,522	20,263,360
Cost of Sales	18,660,476	16,842,424	17,310,725	9,154,957
Gross Profit	**31,186,032**	**27,587,121**	**28,062,797**	**11,108,403**
Other Income	520,247	584,720	620,726	305,337
Expenses				
Distribution Expenses	1,292,369	1,120,739	1,354,448	552,569
Royalty Payments	1,229,556	914,864	1,083,416	607,901
Occupancy Costs	9,903,032	9,966,273	10,462,145	5,001,898
Payroll Expenses	12,565,592	11,459,232	11,586,235	5,651,499
Other Costs	4108931	3,566,753	2,909,957	786,674
Total Expenses	**29,099,480**	**27,027,861**	**27,396,201**	**12,600,541**
Net Operating Profit	**2,606,799**	**1,143,980**	**1,287,322**	**(1,186,801)**

Appendix 4 – Company Information
Historical Financial Information (cont.)

Notes on historical Financial Position

- The Company's current assets include the following:
  - Receivables of $482,606 from related parties such as Parque Pty Ltd (Subject to a Deed of Company Arrangement) and Evocative Interiors Pty Ltd where the collectability is unknown.
  - Balances payable from customers who had paid deposits for made to order, made to measure and other home products where the Company had not been able to purchase the goods (from suppliers) due to cash flow issues.
  - Work in progress that includes the total value of stock on order with overseas suppliers. This does not adjust for the costs the Company would incur to have the stock released. The majority of this stock only had minimal (if any) deposits paid against it with significant further payments required to have the stock released and available for sale.
  - A loan receivable from Laura Ashley (New Zealand) Pty Ltd ($2.075 million in Dec 2015).
- Most of the Company's assets (but for cash at bank) are considered illiquid.
- Other non-current assets include office equipment, plant and equipment (warehouse) and store fit out.
- The Company has significant current liabilities such as:
  - Superannuation (disclosed at $1.2 million in December 2015)
  - General employee liabilities (annual leave, etc.)
  - Trade creditors (including landlords)
  - Royalty payments due to Laura Ashley UK

Historical Balance Sheet

		Externally Prepared		Internal	Draft
	Notes	FY2013 ($)	FY2014 ($)	FY2015 ($)	6 mths to Dec '15 ($)
Current Assets					
Cash and cash equivalents		1,737,064	538,640	560,000	434,000
Trade receivables	1	1,163,152	1,108,825	1,178,000	981,000
Inventories	2	9,646,670	9,708,030	12,738,000	8,396,000
Other Current Assets	3	806,156	1,014,528	2,041,000	2,075,000
Total Current Assets		**13,353,042**	**12,370,023**	**16,517,000**	**11,886,000**
Non-Current Assets					
Financial Assets	4	42,365	42,365	42,000	42,000
Property, Plant and Equiptment	5	7,002,519	8,841,159	9,905,000	11,691,000
Intangible Assets	6	123,685	68,881	0	0
Other Non-Current Assets	7	1,856,665	1,989,042	0	0
Total Non-Current Assets		**9,025,234**	**10,941,447**	**9,947,000**	**11,733,000**
Total Assets		**22,378,276**	**23,311,470**	**26,464,000**	**23,619,000**
Current Liabilities					
Trade and Other Creditors	8	3,363,137	2,616,073	2,788,000	6,049,000
Borrowings	9	3,042,251	3,777,941	4,250,000	3,760,000
Short-term provisions	10	714,403	605,072	2,313,000	2,577,000
Total Current Liabilities		**7,119,791**	**6,999,086**	**9,351,000**	**12,386,000**
Non-Current Liabilities					
Borrowings	11	3,535,004	3,519,141	630,000	539,000
Long-term provisions	12	984,263	910,045	1,056,000	918,000
Total Non-Current Liabilities		**4,519,267**	**4,429,186**	**1,686,000**	**1,457,000**
Total Liabilities		**11,639,058**	**11,428,272**	**11,037,000**	**13,843,000**
Net Assets		**10,739,218**	**11,883,198**	**15,427,000**	**9,776,000**

Appendix 5 – Investigations – Analysis and Information

Appendix 5 – Investigations – Analysis and Information
Failure to Keep Proper Accounting Records

Books and Records

- Section 286 of the Act requires that a company must keep written financial records that:
  - Correctly record and explain its transactions, financial position and performance; and
  - Would enable true and fair financial statements to be prepared and audited.
- Failure to maintain books and records may give rise to a presumption of insolvency pursuant to Section 588E of the Act. This presumption may be relied upon by a liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to Part 5.7B of the Act.
- The Company's implementation of the new accounting system, Microsoft Dynamics AX ("**AX**"), led to several record keeping deficiencies within the Company. These deficiencies resulted in the failure of the Company to maintain financial records according to the standard required by Section 286 of the Act.
- Furthermore, financial records must be kept for seven (7) years after the transactions covered by the records are completed.
- The table overleaf summarises the types of records that the Administrators would typically expect in a company with similar circumstances to that of the Company to maintain, along with some comments as to the adequacy of the records maintained by the Company.

Appendix 5 – Investigations – Analysis and Information
Failure to Keep Proper Accounting Records (cont.)

Records Maintained by the Company

Records Description	Maintained	Date of Failure to Maintain Records	Comments
Financial Management Related Records			
Chart of Accounts	No	Unknown	No evidence was found of a Chart of Accounts being prepared by the Company.
General Ledger	No	July 2013	Records in the Company's old accounting software, AS/400, did not reconcile with information in the new accounting system, AX. Sales information was generated from AS/400 and expenses were maintained in AX.
Management Accounts	No	July 2013	From July 2013 onwards, no management accounts were generated.
Forecasts and Budgets	Limited	N/A	Budgets and forecasts were prepared based on the information obtained from AX. Given the apparent deficiencies with respect to the information in AX, this function was limited.
Bank reconciliations	No	Never	No evidence was found of bank reconciliations ever being performed by the Company.
BAS & GST returns	Yes	N/A	Tax records were maintained manually outside of the Company's accounting software.
Accounts Payable	Limited	N/A	Accounts payable function was maintained in AX and excel.
Accounts Receivable	Limited	N/A	Accounts receivable was maintained outside of the Company's accounting software.
Sales	Limited	N/A	Sales was maintained using the Company's old accounting software, and had limited functionality. Sales information was not to a standard where financial statements could be generated.
Inventory (Inventory management, product costing & Warehouse)	No	Unknown	Inventory was maintained in AX. The Administrators are aware of circumstances where: i) Stock not in the possession of the Company was recorded in the inventory system; and ii) Incorrect costings were used for various products.
Non-Financial Management Related Records			
Staff Information - Payroll	Yes	N/A	The payroll function was maintained using Micropay and Meridian.
Company Leases	Yes	N/A	Hardcopy records were maintained by the Company's acccountant.
Superannuation Records	Yes	N/A	Superannuation records were maintained despite lack of payments.

Appendix 5 – Investigations – Analysis and Information
Potential Recovery Actions available to a Liquidator

Introduction

- Part 5.7B of the Act gives a liquidator (but not an administrator) the right to commence certain legal proceedings to recover money, property or other benefits for the benefit of the unsecured creditors of a company.
- When recovering certain antecedent transactions, namely those constituting unfair preferences, uncommercial transactions or insolvent trading, a liquidator must be satisfied and potentially demonstrate to the satisfaction of a court, that the Company was insolvent at the time of the transaction.
- In all but the clearest of cases, proving insolvency can be a relatively complex exercise, contentious and ordinarily involves a measure of time and expense. Legal advice on the merits of claims is normally required.

General and commercial considerations

- Creditors should note that recovery actions:
  - Have the potential to add to the funds available to Creditors;
  - Are usually expensive, lengthy and have unpredictable outcomes;
  - Should not be commenced unless defendants have the financial resources to satisfy any judgment; and
  - Must be funded out of the existing assets or if such assets do not exist, by Creditors or by external litigation funders (who are likely to require a significant share of the proceeds of any judgment as a condition of funding the litigation).

Date of insolvency

- In order to ascertain if there were any insolvent transactions entered into by a company, it is first necessary to determine the date a company became insolvent.
- Proving the date on which a company became insolvent is an essential element of recovery actions with respect to unfair preferences, uncommercial transactions and insolvent trading.
- Recovery actions require the liquidator to prove that the particular company was insolvent at the time of the transaction, or in the case of an insolvent trading action, when the debt was incurred.

What is insolvency?

- Solvency is defined in s 95A of the Act as when a company is able to pay all its debts as and when they become due and payable. A company that is not solvent is insolvent.
- Whether a company is able to meet its debts as they become due is essentially a “cash flow” test rather than a “balance sheet” test (although its balance sheet is relevant).
- Consideration of the entire financial position of a company at any single point in time is required to establish if it is insolvent.
- This includes factors such as the value of the company’s assets relative to its liabilities and the nature of these assets and liabilities. Also, the extent to which cash is expected to be generated from future trading activities, or available from alternative sources is relevant to considering a company’s solvency position.

Appendix 5 – Investigations – Analysis and Information
Indicia of Insolvency

Factors to take into account

- The following are some general indicators of insolvency that are typically considered in assessing the solvency position of any company:
  - Continuing trading losses.
  - Cash flow difficulties.
  - The company experiencing difficulties selling its stock, or collecting debts owed to it.
  - Creditors not being paid on agreed trading terms and/or either placing the company on cash-on-delivery terms or requiring special payments on existing debts before they will supply further goods and services.
  - Failure to pay Commonwealth and state taxes when due (e.g. pay-as-you-go instalments are outstanding, goods and services tax (GST) is payable, or superannuation guarantee contributions are payable).
  - Cheques being returned dishonoured.
  - Legal action being threatened or commenced against the company, or judgements entered against the company in relation to outstanding debts.
  - Reaching the limits of funding facilities and inability to obtain appropriate further finance to fund operations—for example, through:
    - negotiating a new limit with current financiers; or
    - refinancing or raising money from another party.
  - Ability to produce accurate financial information on a timely basis that shows the company's trading performance and financial position or that can be used to prepare reliable financial forecasts.
  - Company directors having resigned, citing concerns about the financial position of the company or its ability to produce accurate financial information on the company's affairs.
  - Qualified audit opinions on the grounds there is uncertainty that the company can continue as a going concern.
  - The existence of defaults, or a likelihood to default, on agreements with financiers.
  - Employees, or the company's bookkeeper, accountant or financial controller, raising concerns about the company's ability to meet, and continue to meet, its financial obligations.
  - It is not certain that there are assets that can be sold in a relatively short period of time to provide funds to help meet debts owed, without affecting the company's ongoing ability to continue to trade profitably.
  - Holding back cheques for payment or issuing post-dated cheques.

Source: *ASIC Regulatory Guide 217 - Duty to prevent insolvent trading: Guide for directors*

ASIC's view is that these are some of the factors that a reasonable person would take into account when determining whether a company is insolvent. The list of factors is not intended to be exhaustive. There may be other factors that would indicate to a reasonable person that a company may be insolvent.

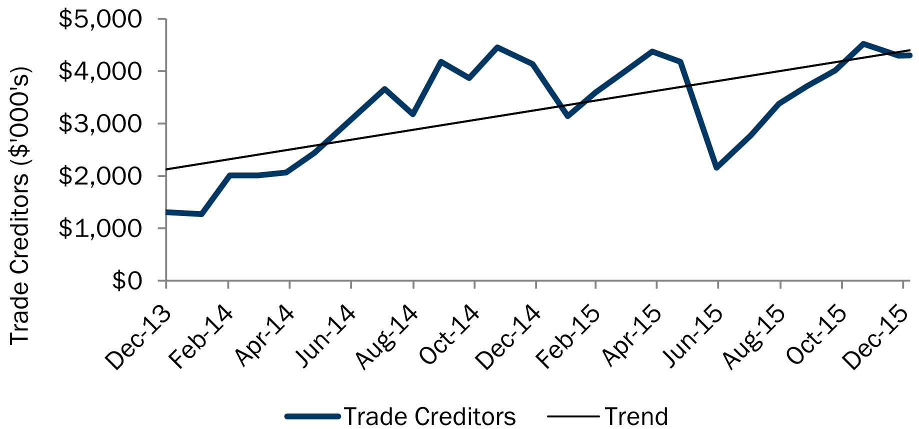
Appendix 5 – Investigations – Analysis and Information
Indicia of Insolvency (cont'd)

- The Administrators have considered a range of factors particularly relevant to the Company's circumstances in determining a preliminary view as to its insolvency.
- Given the lack of Company records available to the Administrators, financial analysis with respect to insolvency was limited.
- Our findings are provided below:

Build Up of Trade Creditors

- The graph below shows the Company's trade creditor balances from December 2013 until December 2015.
- The trend line shows a steady increase in monthly trade creditor balances for the period 31 December 2013 to 6 January 2016 moving from approximately $1.3 million to $4.3 million by January 2016.

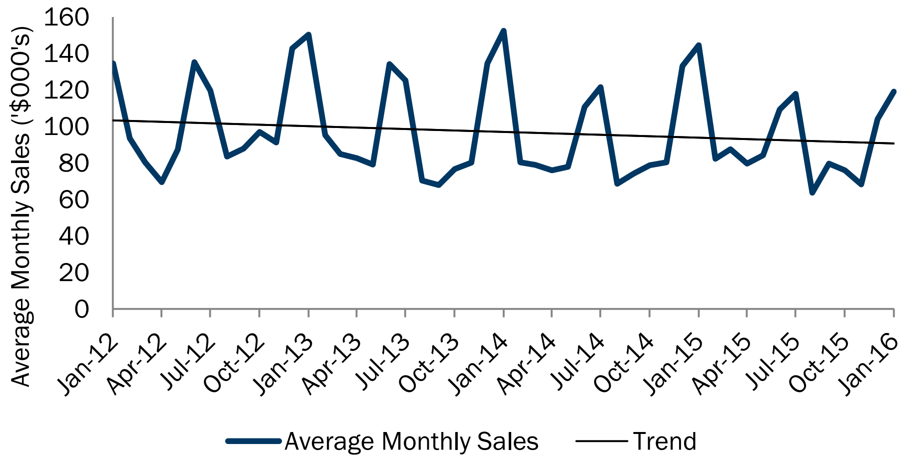
Trade Creditors



Ongoing Losses – Monthly Sales

- We do not have sufficient information to consider the Company's monthly trading losses.
- The graph below shows the Company's average monthly sales based on the number of open stores from January 2012 to January 2016.
- The trend line on the graph indicates the sales progressively declined over the period. This is despite a significant capital investment of $6.4 million into the store network over the latter part of the period and the opening of several stores.
- This decline is also reflective of a deterioration in the retail sector.

Monthly Sales

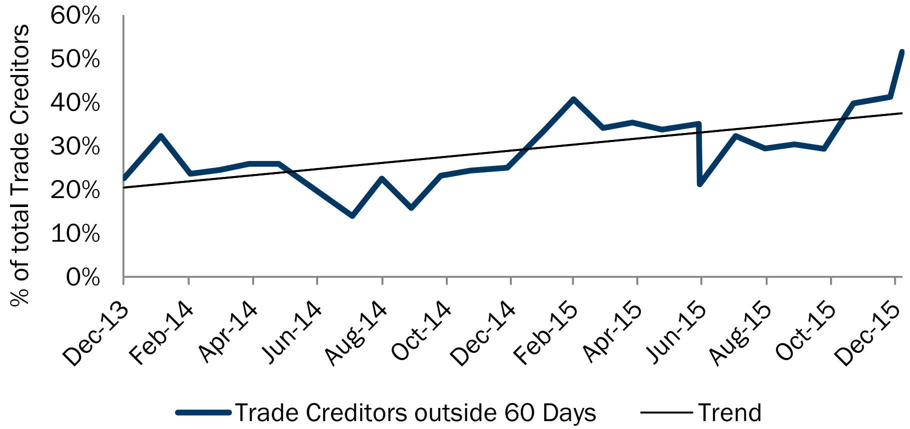


Appendix 5 – Investigations – Analysis and Information
Indicia of Insolvency (cont'd)

Creditors not being paid on agreed trading terms

- The graph to the right shows the percentage of the Company's payables in excess of 60 days from December 2013 until appointment.
- Payment terms of 60 days are in excess of commercially acceptable terms in most industries.
- On average from December 2013 to December 2015 29% of the Company's creditors were outstanding on terms in excess of 60 days.
- The graph shows the proportion of payables outside of 60 days grew from 21% in June 2015 to 52% by January 2016.
- This is an indication that the Company faced increasing difficulty in paying creditors from June 2015 onwards.

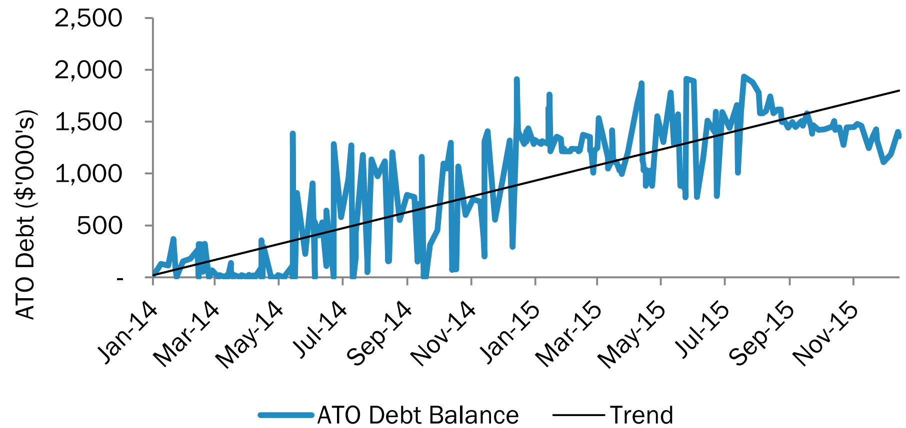
Creditors outstanding beyond 60 Days



Build up of Taxation Debt

- The graph to the right represents the build up of debt due to the Commissioner of Taxation over the period from 1 January 2014 until 6 January 2016.
- This shows the ATO debt grew from approximately $25,000 in January 2014 to $1.3 million in January 2016 and indicates the Company had on-going and increasing difficulty in paying its taxes when due.
- This debt primarily consists of withholding taxes from wages ($994,614) and GST ($347,053). The remaining balance is made up of penalties and interest.
- Based on further information supplied by the ATO, the Company was subject to four (4) payment plans throughout the period analysed: March 2014, December 2014, March 2015 and August 2015.
- This amount does not include amounts due with respect to superannuation and penalties.

Build up of Debts to the Commissioner of Taxation



Appendix 5 – Investigations – Analysis and Information
Indicia of Insolvency (cont'd)

Non-Payment of Superannuation

- As indicated at Section 6 the Company has unpaid superannuation from the quarter ended June 2014.
- The Company was subject to an audit of its superannuation obligations for the period 1 January 2011 to 31 March 2015 which found unpaid superannuation was outstanding for the period 1 March 2014 to 31 March 2015.
- The Company has then failed to meet the majority of its superannuation obligations from this point.

Legal and Statutory Demands

- The tables opposite are the product of a review undertaken by the Administrators of correspondence received from creditors with respect to outstanding debts.
- This preliminary review has largely focused on correspondence received from landlords.
- It appears that on at least 11 occasions landlords referred the collection of rent to their lawyers.
- In addition (and subsequent to), the Company received 15 individual Notices of Default with respect to leases over the period of April 2015 to December 2015.
- The earliest indication of default the Administrators have seen to date relates to rent from April 2015.
- The Company received one Statutory Demand with respect to non-payment of a property lease.
- The Administrators also note that there were at least 21 instances where trade suppliers referred the collection of a debt due by the Company to a debt collector and/or legal representative.
- On one occasion the legal representative of a landlord wrote to Laura Ashley UK outlining the Company's breaches with respect to a lease.

Demands from Creditors Generally	
Legal Demands (Suppliers)	21
Legal Demands (Landlords)	27
Stautory Demands	1

Demands from Landlords

Store	Statutory Demand	Notice of Default	Legal Letters
Elizabeth Street		2	
Melbourne Central	1		
Bundoora		4	
Balgowlah			1
Birkenhead			2
Canbera Centre			1
Brisbane			
Indooroopilly			2
Robina			4
Claremont Court		4	
Karrinyup		3	
Raine Square		2	1
Total	**1**	**15**	**11**

Appendix 6 – Information Sheet for Creditors

Appendix 7 – Administrators' Remuneration Report