



The Heat Group Pty Limited ACN 092 941 430
Aware Environmental Pty Limited ACN 134 677 955
Aware Environmental Products Pty Limited ACN 064 573 413
Hiro Brands Limited ACN 169 177 833
Greencare Developments Pty Limited ACN 109 287 989
Chimera Laboratories Pty Limited ACN 620 980 618
Scental Pacific Pty Limited ACN 616 057 759
Doward International Pty Limited ACN 004 500 225

(all in Liquidation)
('the Group')

Statutory Report by Liquidator

6 August 2024

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Glossary

Abbreviation	Description
\$	Australian dollar
\$000s	Thousands of dollars
%	Percent
ACN	Australian Company Number
Act	The Corporations Act 2001
Administrators	David Alexander Hardy, James Henry Stewart and James Douglas Dampney
Administration	The voluntary administration of the Group by the Administrators
AECG	Aware Environmental Consolidated Group consisting of: Aware Environmental Pty Limited ('AE') Aware Environmental Products Pty Ltd ('AEP') Greencare Developments Pty Ltd ('Greencare') Scental Pacific Pty Ltd ('Scental') Chimera Laboratories Pty Ltd ('Chimera')
ARITA	Australian Restructuring Insolvency & Turnaround Association
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
COI	Committee of Inspection
DE	Department of Employment and Workplace Relations
Directors	Mark Dinnison and Paul Docherty
EarlyPay	Cashflow Finance Australia Pty Ltd
ERV	Estimated Realisable Value
FEG	Fair Entitlements Guarantee
FY	Financial Year
GB	Gordon Brothers
Group	The Heat Group Pty Limited ('Heat') Aware Environmental Pty Limited ('AE') Aware Environmental Products Pty Limited ('AEP') Hiro Brands Limited ('Hiro') Greencare Developments Pty Limited ('Greencare') Chimera Laboratories Pty Limited ('Chimera') Doward International Pty Limited ('Doward') Scental Pacific Pty Limited ('Scental')
GST	Goods and Services Tax
Heat CG	Heat Consolidated Group consisting of: The Heat Group Pty Ltd Doward International Pty Ltd
Liquidators	David Alexander Hardy and James Douglas Dampney

Management	Hugh Cattermole (Chief Executive Officer) and Albert Zago (Chief Financial Officer)
NorthQuest	Northquest Pty Ltd
P&L	Profit and Loss
Premises	282-300 Hammond Road, Dandenong South, Victoria, Australia 3175
RBA	Running Balance Account
ROCAP	Report on Company Activities and Property
Voluntary Administrators' Report	Report prepared pursuant to IPR 75-225 and Section 438A of the Act, dated 29 April 2024.
WBC	Westpac Banking Corporation
YTD	Year to date
YTD24 (Nov)	30 November 2023

1 Introduction

We refer to our Voluntary Administrators' Report dated 29 April 2024.

At the meeting of creditors held on 7 May 2024, creditors resolved that the Group be wound up under Section 439C(c) of the Corporations Act 2001 and David Hardy and I were appointed Liquidators of the Group.

We now take this opportunity to report to you on the following matters relating to the liquidation of the Group:

- An update on the progress of the liquidation and our investigations into the Group's affairs;
- The current position in relation to the realisation of assets;
- The likelihood of a dividend being paid in the liquidation.

This report should be read in conjunction with the information contained in our Initial Notice to Creditors dated 8 May 2024 and the Voluntary Administrators' Report.

2 Current position

2.1 Matters addressed during the liquidation

Since our appointment as Liquidators of the Group, the following matters have been attended to:

- Tasks associated with the realisation of the remaining assets of the Group, predominantly relating to the collection of outstanding trade debtors;
- Liaising with employees and DE in relation to the payment of outstanding employee entitlements by the Fair Entitlements Guarantee Scheme;
- Preliminary investigations into the recovery of potential unfair preference payments and other antecedent transactions; and
- Investigations into the pre-appointment affairs of the Group and lodgement of a statutory report with ASIC together with attending to other statutory requirements.

2.2 Financial position of the Group

As outlined in the Voluntary Administrators' Report, the Directors of the Group provided a ROCAP to the Administrators on 30 January 2024. The table below summarises the assets and liabilities disclosed in the Directors' ROCAP.

Please refer to the Voluntary Administrators' Report for further information and breakdown by entity:

\$000s	Ref	ROCAP ERV \$	Liquidators' ERV \$
Assets			
Cash at bank	2.2.1.1	177	165
Debtors	2.2.1.2	13,124	1,254
Inventory	2.2.1.3	5,122	1,010
Plant and equipment	2.2.1.4	-	280
Other assets	2.2.1.5	2,058	865
Total assets		20,482	3,574
Liabilities			
Secured creditors	2.2.2.1	11,065	11,395
Employees claims	2.2.2.2	3,233	3,259
PMSI claims	2.2.2.3	1,801	1,801

\$000s	Ref	ROCAP ERV \$	Liquidators' ERV \$
Unsecured creditors	2.2.2.3	60,815	60,815
Contingent claims	2.2.2.3	-	-
Total liabilities		76,914	77,270
Estimated (deficiency) / surplus		(56,432)	(73,696)

Our comments are as follows:

2.2.1 Assets

2.2.1.1 Cash at bank

As outlined in the Voluntary Administrators' Report, immediately upon appointment we issued instructions to all Australian banks to freeze bank accounts held in the Group's name. The Group maintained accounts with WBC and National Australia Bank (NAB) with \$165k being transferred to the Administrators' post appointment accounts to date.

2.2.1.2 Debtors

The Directors' ROCAP disclosed an outstanding debtor balance of c.\$13.1m at the date of administration. The Administrators' ERV is c.\$1.3m as there will be no realisations available from any intercompany debtors given our appointment to all entities within the Group.

Net debtor collections since appointment are in excess of \$1m and we are continuing our collection efforts in relation to the outstanding balance of the ledger.

2.2.1.3 Inventory

Upon our appointment as Administrators, the Group held stock with a book value of c.\$5.1m as per the Group's books and records.

As advised in the Voluntary Administrators' Report, the Administrators' ERV for inventory of c.\$1m is less than the ROCAP due to:

- obsolete inventory beyond that identified by the Directors;
- additional rework and investment required to return certain inventory to a saleable quality; and
- discounted offers received due to incomplete inventory records together with the general impact of the Administrators' appointment.

Across the voluntary administration, inventory sales of \$0.4m have been achieved.

2.2.1.4 Plant & equipment

As previously advised, NorthQuest holds a registered security interest with respect to a number of key manufacturing assets. The Administrators engaged with NorthQuest in an attempt to realise the manufacturing lines on a consolidated basis to maximise interest from potential buyers.

Ultimately, NorthQuest was not agreeable to the Administrators proposed sale strategy, and therefore the Administrators instructed a property agent to conduct an on-site sale of assets not subject to NorthQuest's security.

The Administrators recovered \$280k net of realisation costs.

2.2.1.5 Other assets

As outlined in the Voluntary Administrators' Report, the Directors disclosed c.\$2.1m of other assets within their ROCAP, comprising mainly of the Group's IP.

The Administrators realised \$865k for the Group's IP through an expedited sale process.

2.2.2 Liabilities

2.2.2.1 Secured creditors

WBC and EarlyPay hold General Security Interests over all assets of AECG and Heat CG respectively. The amount owing under WBC's facilities upon the appointment of Administrators was c.\$11m. The amount owing under EarlyPay's facilities upon appointment was c.\$0.4m.

Further information on the estimated return to WBC and EarlyPay is outlined at Section 4 of this report.

2.2.2.2 Employee claims

The estimated outstanding employee entitlements position is presented below for Heat and AE, the only two employing entities in the Group:

Employee entitlements (\$000s)	Heat	AE	Total \$
Unpaid wages	25	82	107
Unpaid superannuation	60	213	272
Annual leave	76	335	411
Long service leave	134	234	368
PILN	138	759	896
Redundancy	251	955	1,206
Total	682	2,577	3,259

We understand the Department of Jobs and Small Business is currently reviewing claims that may be eligible to be paid by FEG.

2.2.2.3 PMSI, trade and other unsecured creditors

The Directors disclosed PMSI, trade and other unsecured creditor claims totalling \$62.6m in their ROCAP as summarised below:

PMSI, trade and other unsecured creditors \$000s	Heat	AE	AEP	Hiro	Greencare	Chimera	Scental	Doward	Total
Trade creditors	1,942	13,605	-	1,246	1,680	-	-	-	18,473
PMSI creditors	65	1,736	-	-	-	-	-	-	1,801
Statutory creditors	3,413	6,059	-	-	-	-	-	-	9,472
Related party creditors	9,855	16,668	-	6,346	-	-	-	-	32,870
Total	15,275	38,069	-	7,592	1,680	-	-	-	62,616

The Administrators note that:

- AECG lodged its tax obligations with the ATO on a grouped tax reporting basis. Whilst the ROCAP only records statutory creditor liabilities for AE, the other AECG entities may be liable for these amounts on a joint and several basis;
- Greencare was the tenant of the Premises and significant unpaid rent existed as at the date of our appointment. AE is the guarantor of the lease of the Premises and we understand that the landlord may have a significant make good claim; and
- Proof of debts in relation to PMSI, statutory, trade and other unsecured creditor claims (excluding intercompany amounts) totalling \$30.4m have been received to date.

2.3 Summary of receipts and payments

A summary of the receipts and payments in the liquidation to date is attached at **Annexure A**.

3 Investigation into the Group's affairs

A summary of our preliminary investigations into the Group's affairs is provided below and we will keep creditors informed of any material developments.

3.1 Voidable transactions

3.1.1 Unfair preferences

Section 588FA of the Act gives the Liquidator the power to recover certain transactions that have had the effect of conferring a priority, preference or advantage to the creditor within six months of the commencement of the winding up (the relation back period).

Our initial investigations have identified potential unfair preference payments made to creditors of the Group in excess of \$2.0m. These payments were made by the Group to 18 parties during the relation back period.

The Liquidators are reviewing each of these payments to determine the available level of evidence together with the commercial merits of each claim.

3.1.2 Uncommercial transactions

Section 588FB of the Act requires the Liquidator to investigate transactions which may be deemed to be uncommercial, having regard to the detriment to the Group (if any) suffered as a consequence of the transaction in the period two years prior to the appointment.

In addition, Section 588FDA of the Act refers to "unreasonable director-related transactions" and requires the Liquidator to investigate such transactions, having regard to the detriment to the Group (if any) suffered as a consequence of the transaction.

From the information available and reviewed to date we have not identified any transactions which would constitute uncommercial transactions or unreasonable director-related transactions.

3.1.3 Unfair loans

Section 588FD of the Act requires investigations of transactions which may be deemed to be unfair loans to the Group. A loan to the Group is considered to be unfair if and only if, interest on the loan is extortionate, or the charges in relation to the loan were extortionate.

From the information available and reviewed to date we have not identified any transactions which would constitute unfair loans to the Group.

3.1.4 Voidable transactions – related parties

Section 588FE(4) of the Act requires investigations of transactions which may be deemed to be insolvent transactions with a related party entered into within 4 years of the commencement of the winding up.

From the information available and reviewed to date we have not identified any transactions which would constitute voidable transactions with related parties.

3.2 Insolvent trading

Section 588G of the Act provides that directors are obliged to prevent a company from:

- Incurring a debt whilst insolvent; or
- Becoming insolvent by incurring a debt.

If a contravention of Section 588G can be established, then Section 588M empowers a Liquidator (or a creditor under certain circumstances) to recover compensation from a director for any loss or damage suffered as a consequence of any such contravention.

The Voluntary Administrators' Report sets out our comments and findings regarding the indicators of insolvency identified from the information available to us.

Based on our investigations to date it is our preliminary opinion that the Group was insolvent from the date of our appointment as Administrators on 2 January 2024. Further, Group entities within the Heat CG and AECG may have been insolvent from at least 17 August 2023, being the date in which Heat CG and AECG failed to pay the first instalment of their ATO payment plans.

Given the number of insolvency indicators present prior to this date, the date of insolvency may be earlier. The Liquidators investigations in this respect are ongoing.

Section 588H of the Act provides a number of statutory defences available to the Directors which would have to be considered in deciding whether to commence an insolvent trading action.

Any decision to commence an action against the Director for insolvent trading must have regard to the following:

- The quantum of the claim;
- The funding of the claim whether that is utilising the Group's assets or via litigation funders;
- The costs of litigation and the unknown likelihood of success; and
- The Directors' capacity to meet a claim for compensation.

Our investigations regarding insolvent trading, and the financial capacity of the Directors to meet any potential actions that may be identified, are ongoing and we will continue to update creditors as appropriate.

We note that Section 588R entitles creditors to commence proceedings under Section 588M against the Directors in their own right subject to the consent of the Liquidator.

Should creditors have any further information that may assist our investigations into the conduct of the Group's affairs, they should communicate details in writing to our office **within 7 days from the date of this report**.

Should any creditor be willing to fund the costs and expenses to commence potential proceedings against the Directors please contact Hannah McConologue of this office on 03 9288 6461 or hannah1@kpmg.com.au.

4 Return to creditors

The estimated outcome to creditors remains unchanged to that communicated in the Voluntary Administrators' Report.

The estimated dividend calculations are an estimate only and may change due to:

- The final amount realised from the collection efforts in relation to any outstanding debtor balances;
- Any final expenses relating to the asset realisation activities undertaken;
- Any employee entitlement contribution orders sought by the liquidators or FEG pursuant to s588ZA of the Act;
- Any amounts recovered from voidable transaction and insolvent trading claims as noted in section 3;
- The cost of litigation to recover any potential voidable transactions; and
- Final proving of creditor claims.

The following table outlines an estimated outcome for each class of creditor based on actual realisations to date and estimated future realisations and costs:

Estimated Outcome Statement \$000s (excl. GST)	Heat (ERV)	AE (ERV)	AEP (ERV)
P&E	-	280	-
IP	133	-	703
Sundry sales	-	15	14
Trading costs attributable to realisation	(22)	(77)	(61)
Administrators' fees	(58)	(128)	(294)
Legal fees	(62)	(51)	(217)
Funds available to secured creditor from non-circulating assets	-	39	144
Cash at bank	16	135	14
Inventory	79	324	17
Trade and other receivables	48	730	1,320
Trading costs attributable to realisation	(21)	(275)	(103)
Administrators' fees	(118)	(359)	(224)
Legal fees	(48)	(213)	(125)
Net proceeds from circulating assets	-	342	900
Less: Liquidators fees and disbursements	(51)	(121)	(21)
Less: Legal fees and other professional costs	Unknown	Unknown	Unknown
Less: Priority employee entitlements	(682)	(2,591)	-
Funds available to secured creditor from circulating assets	-	-	900
Funds available to unsecured creditors	-	-	-
Other recoveries (voidable transactions if applicable)	Unknown	Unknown	Unknown
Secured Creditor Claim	409	11,000	11,000
Total funds available to Secured Creditors	-	39	1,044
Priority Creditor Claim	682	2,591	-
Total funds available to Priority Creditors	-	221	879
Unsecured Claims	14,108	19,674	5,128
Total funds available to Unsecured Creditors	-	-	-
Estimated surplus / (deficiency)	(15,303)	(32,744)	(13,182)
Estimated dividend (cents in \$)			
Secured creditor	nil	0.36	9.49
Priority employee creditors	nil	8.53	nil
Unsecured creditors	nil	nil	nil

For clarity, we confirm there are no asset realisations in the other Group entities (i.e. Hiro, Greencare, Chimera, Scental, and Doward) and no funds exist to enable a distribution to any class of creditor.

5 Liquidators' remuneration and internal disbursements

Creditors will recall from our Initial Notice to Creditors issued on 8 May 2024 that, in accordance with the Initial Remuneration Notice (IRN) provided to creditors during the Voluntary Administration, the Liquidators' remuneration

will be fixed on the basis of time spent by the Liquidators and their staff of an appropriate level having regard to the nature and complexity of the work, and calculated by reference to the hourly rates set out in the IRN.

We estimate fees for the Liquidation of the Group's affairs at \$240,000, plus applicable GST and disbursements. Full details of the calculation and composition of the Liquidators' estimated remuneration was provided in our Remuneration Approval Request dated 29 April 2024. The estimated remuneration for the liquidation was approved at the meeting of creditors held on 7 May 2024.

It should be noted that if, during the liquidation, any unanticipated issues arise, it may be necessary to revisit the fee estimate. If we become aware that the liquidation costs will exceed the approved amounts, we will advise you accordingly.

An information sheet concerning approval of remuneration in external administrations can be obtained from ASIC at www.asic.gov.au.

6 Conclusion

The following matters will continue to be progressed:

- Realising the remaining assets of the Group;
- Completing our investigations into the Group's affairs;
- Pursuing recoveries, subject to the completion of our investigations;
- Payment of distributions to Secured and Priority Unsecured Creditors as appropriate; and
- Completing our reporting to ASIC and attending to statutory obligations.

At this stage we do not anticipate that we will write to you again unless any additional information becomes available that otherwise alters the information contained in this report.

We expect to have completed this liquidation within 12 months, noting this dependent on the outcome of the investigations.

Should you have any questions, please contact Hannah McConalogue of this office on 03 9288 6461 or hannah1@kpmg.com.au.

Dated this 6th day of August 2024



James Dampney
Liquidator

Annexures

A – Receipts & Payments

\$'000	Heat	AE	AEP	Hiro	Greencare	Chimera	Scental	Doward	Total
Receipts									
Opening Cash	223	891	2,075	0	-	-	-	1	3,190
Trade and other receivables	-	4	0	-	-	-	-	-	4
Interest Income	1	4	11	-	-	-	-	0	16
Other Income	45	351	0	-	-	-	-	-	397
Total receipts	269	1,251	2,086	0	-	-	-	1	3,608
Payments									
Appointee Fees	(102)	(550)	(318)	-	-	-	-	-	(969)
Appointee Disbursements	-	(14)	-	-	-	-	-	-	(14)
Legal Fees & Disbursements	(89)	(118)	(197)	-	-	-	-	-	(404)
Return to Secured Creditor	(17)	-	-	-	-	-	-	-	(17)
GST Paid	(16)	(40)	-	-	-	-	-	-	(55)
PAYG Paid	(2)	(48)	-	-	-	-	-	-	(50)
Other trading expenses	(24)	(13)	(363)	(0)	-	-	-	-	(400)
Total payments	(250)	(782)	(878)	(0)	-	-	-	-	(1,909)
Cash at bank (as at 2 August 2024)	20	470	1,208	0	-	-	-	1	1,698