KordaMentha

Wynyard Group Limited
Wynyard (NZ) Limited
(Administrators Appointed)

Administrators' Report to Creditors for the purposes of the joint Watershed Meeting

31 January 2017

Contents

1 Introduction

Purpose of this report

This report is provided to creditors of Wynyard Group Limited (Administrators Appointed) ('WGL') and Wynyard (NZ) Limited (Administrators Appointed) ('WNZL') (each a 'Company' and together 'the Companies') for the purpose of the watershed meeting. The watershed meeting is the meeting at which creditors of the Companies have the opportunity to vote on the future of the Companies.

This report records our opinion as to the course of action which is in the best interests of creditors of the Companies and contains information to help you make a decision as to how you will vote at the watershed meeting. However, if you have further queries, please contact us at the addresses set out in the report.

Our opinion as to the course of action which is in the best interests of creditors of each Company is set out at Section 8. In brief, in our opinion it would be in the best interests of creditors for each of WGL and WNZL to be placed in liquidation.

Background

The Administrators were appointed to each of the Companies on 25 October 2016.

While a company is in administration, the administrator:

- Has control of the company's business, property, and affairs; and
- May carry on that business and manage that property and those affairs; and
- May terminate or dispose of all or part of that business, and may dispose of that property; and
- May perform any function, and exercise any power, that the company or any of its officers could perform or exercise if the company were not in administration.

In addition, the administrator must call a first creditors' meeting, and a creditors' watershed meeting. The first creditors' meeting of the Companies took place on 4 November 2016.

This report is the Administrators' report pursuant to s239AU(3)(a) of the Companies Act 1993 ('Act') for the purposes of the creditors' watershed meeting.

This report addresses two Companies. WGL is the holding company. The operating company is WNZL. WGL and WNZL are New Zealand companies.

The wider (consolidated) business incorporated subsidiary companies in Australia, Canada, the United Kingdom and the United States. These subsidiaries are in insolvency administrations in their respective jurisdictions. We are not the administrators of these entities.

Purpose of the watershed meeting

The creditors' watershed meeting will be held on 8 February 2017 at Simpson Grierson, Level 28, Lumley Centre, 88 Shortland Street, Auckland at 2.00 pm.

The Notice of Meeting is included with the enclosed Circular to Creditors.

The meeting is an opportunity for creditors of the Companies to consider and vote on the options for the future of the Companies. The three potential resolutions for each company are:

1. that the company execute any proposed Deed of Company Arrangement ('DOCA'); or
2. that the company be placed into liquidation; or

3. that the Administration of the company should end and control of the company be returned to the Directors.

In order for any resolution to be approved, the resolution must receive support from more than 50% of each Company's creditors by number, and more than 75% of each Company's creditors by value.

There is no DOCA proposal put up by the Companies or the Administrators. Our opinion is that both Companies should be placed into liquidation. At the watershed meeting the creditors will therefore be asked to vote on:

1. a resolution that each Company be placed into liquidation (and if passed, the relevant Company will be in liquidation immediately and the Administrators will be the Liquidators); and, if such liquidation resolution fails,
2. a resolution that the administration of each such Company should come to an end and control of the Company be returned to the Directors.

When considering the above resolutions, it should be taken into account that the Companies are insolvent and have no ability to continue to trade. If creditors do not resolve to liquidate the Companies (with the result that the Companies would return to the control of the Directors), we consider the Director(s) would most likely themselves seek liquidation of each of the Companies. In our opinion it is not in creditors' best interests for the Companies to return to the control of the Directors, in those circumstances.

Restrictions

Please note this report contains information derived from various sources including WGL and WNZL. The information has not been verified to third party sources.

The report should be read together with the restrictions at Appendix 1.

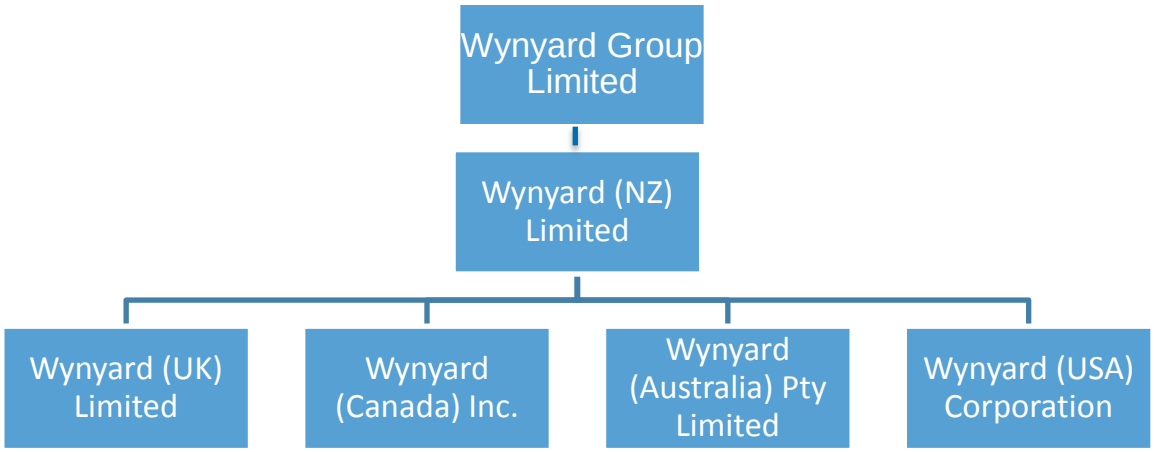
2 Wynyard group structure

2.1 Overview

WGL was incorporated on 20 December 2011 as a fully owned subsidiary and new business unit of Jade Software Corporation Limited. Shareholdings in WGL were distributed in specie to existing shareholders in Jade and Jade was no longer a beneficial shareholder in WGL at the time of the initial public offer ('IPO') in June 2013. Following the IPO, WGL was a public company registered and traded on the New Zealand Stock Exchange ('NZX'). The ongoing trading relationship with Jade is described at section 3 below.

The Wynyard group structure as at our appointment date, 25 October 2016, is shown in Figure 1.

Figure 1: Wynyard Group Structure



2.2 Wynyard Group Limited ('WGL')

- In its last published annual report as at 31 December 2015, WGL reported issued share capital of $139 million. Further shares were issued after that date in March 2016, at a value of $30 million.
- At 31 December 2015 WGL reported 3,707 quoted security holders. 70.23% of issued capital was held by the largest nine quoted security holders.
- Directors of WGL at the date of our appointment were:
  - Richard Paul Dellabarca (appointed 31 May 2016)
  - Louis Elder Grever (appointed 1 April 2015)
  - John David Guy Haddleton (appointed 1 April 2013) (Chairman)
  - Fiona Ann Oliver (appointed 19 April 2016)
  - Craig Paul Richardson (appointed 20 December 2011)
  - Martin Andrew Riegel (appointed 31 May 2016).
- Director resignations in the previous 12 months were:
  - Susan Ruth Peterson (retired 20 June 2016)
  - Richard John Twigg (20 June 2016)
  - Murray James Horn (23 May 2016).

2.3 Wynyard (NZ) Limited ('WNZL')

- WNZL operated the business in New Zealand and Dubai.

- WNZL is also the holding company of the offshore subsidiaries in Australia, Canada, the United Kingdom and the United States. Each of these subsidiaries is in an insolvency administration in its respective jurisdiction. The respective insolvency practitioners will report to creditors of each of the offshore subsidiaries.
- WNZL owned all intellectual property in the group, and supplied service and support to its customers and subsidiaries.
- At the time of our appointment, WNZL employed 135 staff. In the offshore subsidiaries, another 87 staff were employed.
- The director of WNZL at the date of our appointment was Craig Paul Richardson (appointed 26 March 2013).
- Murray Grafton Page (the group's former CFO) had resigned as a director on 27 May 2016.

3 Wynyard group business

3.1 Business

Wynyard operated globally in the business of developing, distributing, marketing and selling software. Its products addressed risk management, intelligence and investigations in the finance, government and critical national infrastructure sectors.

At the time of voluntary administration, Wynyard's software product streams were:

- Government:
  - Advanced Crime Analytics (ACA)
  - Investigations Case Management (ICM)
- Commercial:
  - Wynyard Risk Management (WRM)
  - Financial Crime (FC)
  - Cognevo

The ACA, ICM and FC products were derived from products originally developed within Jade.

The origin of the WRM business (then known as Methodware) had been acquired by Jade in 2007.

The products were transferred by Jade into the Wynyard group structure. Jade's shareholding in WGL was then distributed to Jade shareholders in specie in March 2013. The IPO followed in June 2013.

Cognevo is a further extension and development which was developed by Wynyard itself, derived from the ACA product.

In addition, the group ran several enterprise accounts in a back to back arrangement with Jade. These were not Wynyard products and arose from an umbrella services agreement between Jade and WNZL. The enterprise accounts represented 20% of revenue and yielded a small margin to the group.

Jade and the Wynyard group had entered into an umbrella services agreement in May 2013 under which Jade provided certain back office business, software maintenance and server hosting services to Wynyard. At the time of our appointment Wynyard had commenced a project to become more autonomous from Jade in regard to these services, but implementation was in its earliest stages. At the date of our appointment Wynyard remained heavily reliant on Jade in order to continue to trade. The servers and infrastructure provided by Jade were critical to Wynyard's day-to-day operations. This arrangement presented complications in the early stages of the administration.

3.2 Bases of operation

Wynyard operated in New Zealand, Australia, Dubai, Canada, the United Kingdom and the United States. Its products achieved differing levels of penetration in the different markets.

3.3 Interreliance of bases of operation

WNZL contributed the intellectual property in the software products, administrative services, software support and development, and other services. Offshore subsidiaries provided sales and support services to customers, but relied on support from WNZL in terms of rights to license software, and for software engineering services. While financial records were maintained for each subsidiary, the performance in each

jurisdiction relied on inputs from other jurisdictions such that there was considerable interreliance between the jurisdictions in order to commercialise the products.

3.4 Intellectual property common between products

Wynyard's products combined its own intellectual property with proprietary software code owned by others and/or open source software code. Use of proprietary software owned by others gave rise to royalty payment obligations. While each Wynyard product stood alone in its own functionality, certain intellectual property components were referenced by a number of products such that the majority of products comprised a combination of unique elements, and shared elements.

The inter-reliance of the bases of operation and the sharing of referenced components between products were convenient in the going concern environment but have given rise to a number of complexities in the realisation of the product streams in the administrations.

3.5 Capital raising and funding timeline

In this section we refer to various information published in support of capital raisings, provided to us by the directors. We understand further information was published via announcements to NZX. We have not included reference to other NZX announcements and this report is not a comprehensive record of all information provided by the group or otherwise available to the market.

3.5.1 Initial public offer ('IPO')

WGL listed on the NZX on 19 July 2013.

The issuers of the prospectus for the IPO were WGL (as to new shares) and Jade Software Corporation Ltd (as to certain existing shares). Jade held no beneficial shareholding in WGL.

The IPO sought a maximum of $73 million to be applied as set out in Figure 2.

Figure 2: Forecast maximum funds raised under IPO

	$m
Purchase price - Intellectual property rights acquired from Jade	23.6
Repay intercompany debt - Jade group	10.0
Repay advance from Jade for operating expenses	2.0
Costs of the Offer	3.6
Funding to support Growth Strategy	25.8
Subtotal	65.0
Permitted oversubscriptions	5.0
offer of certain existing shares	3.0
Total maximum to be raised under the Offer	**73.0**

Financial performance was forecast in the prospectus for the IPO as shown in Figure 3.

Figure 3: Forecast financial performance

	FY13 (9 months) $'000	FY14 $'000
Revenue	16,781	27,037
EBITDA (loss)	(2,658)	(3,506)
(Loss) attributable to owners	(8,802)	(10,367)

The FY13 nine month forecast reflected that the consolidated group would trade only for nine months from 1 April to 31 December 2013. 1 April 2013 was the date at which the consolidated group was set up for the

purpose of the IPO. On a full 12 month basis for FY13 (from January to December 2013), the business was forecast to generate revenue of $21 million and to suffer losses attributable to owners of $10 million.

The FY13 consolidated financial statements reported net proceeds from capital contributed at $66 million, and confirmed that cash of $23.6 million was applied to the purchase of intangible assets from Jade, and that a net $10 million of borrowings from Jade was repaid. Costs of the offer were reported at $3.5 million.

On this basis Jade received $33.6 million from the proceeds of the IPO; and WGL retained $29 million to fund its operations.

The IPO diluted pre-existing shareholding interests by 55%.

The actual trading performance of the group is summarised in section 4 below. While revenues were materially consistent with forecasts in FY13 and FY14, losses attributable to owners were greater than forecast at $10.1 million and $22.2 million respectively.

3.5.2 March 2014

In March 2014 the group sought further capital of $35 million.

The Investor Update supporting the capital raising reported:

- The new capital was needed to accelerate Wynyard's global growth strategy across 2014-16.
- The accelerated growth strategy would enable Wynyard to target c.$47 million of revenue in FY2015.
- The FY13 revenue forecast had been exceeded.
- Wynyard had opened new offices in the United States and the United Arab Emirates ('UAE').
- Staff had increased from 106 to 151 FTE. Expert staff headcount was reported at 170.
- Revenue in FY14 was forecast at $31 million (an increase from the IPO forecast of $27 million).
- The new growth capital would be allocated to:
  - Nearly double the size of Wynyard's global sales, marketing and professional services team
  - Accelerate US Justice sector penetration and sales
  - Increase revenue through technology partners and systems integrators
  - Bring forward investment in big data ingestions and crime prevention functionality.

The required capital was raised with certain applications being scaled back. The public issue price was $2.36.

3.5.3 June 2015

In June 2015 the group sought a further $45 million in capital.

The Investor Presentation supporting the capital raising reported:

- A dual listing on the Australian Stock Exchange was planned for the third quarter of 2015.
- 245 expert staff across NZ, USA, Canada, UK and the Middle East.
- Larger revenue contracts and trailing recurring revenue will trend net cashflows towards breakeven in FY17.
- Larger contracts create contract execution timing and revenue recognition uncertainty.
- The rationale for the capital raising was to:
  - Expand Wynyard's sales, global operations and partnership network
  - Extend Wynyard's market leading big data analytics platform and launch of Wynyard Saas in the Americas
  - Service growing working capital needs due to larger deals.

- Actual and amended forecast performance summarised as:

	FY13 (12 months) Actual $m	FY14 Actual $m	FY15 Forecast $m
Revenue	22	26	40-45
Expenses	(27)	(39)	(55)
EBITDA (Loss)	(5)	(13)	(12)

- New licence revenue growth was noted at greater than 200% with recurring revenue at 40% due to implementation lead time.

We have not reconciled these figures to other reports but they are broadly consistent with other published information. EBITDA is measured prior to depreciation and amortisation so does not reflect the full loss attributable to owners.

The FY15 consolidated financial statements issued in March 2016 confirmed proceeds from capital contributed in the year at $43 million. The public issue price was $1.60. Financial performance reported in these statements may be summarised as:

	FY15		
	Forecast $m	Actual $m	Variance $m
Revenue	40-45	26	(14-19)
Expenses	(55)	(57)	(2)
EBITDA (Loss)	(12)	(31)	(19)
All other items		(13)	
(Loss) attributable to owners		(44)	

The EBITDA variance as against forecast was a result of a revenue shortfall. The Group advised that a conditional contract signed during FY15 had not been declared unconditional by year-end. Revenue guidance would have been achieved if revenue from that contract had been recorded in FY15. (NB: We have not reconstructed the income statement to assess the impact on EBITDA.)

3.5.4 February 2016

In February 2016 the group sought another $30 million in capital.

The Investor Update supporting the capital raising reported:

- Continued focus on larger contract growth strategy with the objective of increasing average total contract value, increasing sales and margins.
- Recognition of potential larger contract timing risks including execution, revenue recognition and working capital. This risk was also highlighted in the June 2015 presentation and materialised during FY15.
- Constrained recruitment from third quarter 2015 and establishment being held at around 300 FTE.
- $37 million of large contracts signed in fourth quarter 2015 (of which one for $27 million was conditional).
- Current qualified pipeline exceeds $90 million.
- Funds to be used to cover working capital requirements and repay any amounts drawn under a short term facility (if necessary).
- Wynyard's largest shareholder had provided a short term $10 million facility. A condition of any drawdown was that the Board must be confident that the company can raise sufficient capital to repay any amount drawn down.

- FY16 revenue expected to be in the range $54-$65 million, plus revenue associated with the conditional contract once revenue was recognised.
- Cost and cash management will be prioritised to ensure the transition to profitability is on track:
  - No material changes to staff levels and right-sized if revenue targets are not achieved;
  - Product development costs will decline from 65% to 31% of income and continue to track towards 20%;
  - Non-core operations are under review.
- FY15 revenue of $26 million and a net loss after tax of $44 million.

Management accounts for FY16 confirmed receipt of $30 million in capital contributions. The issue price was $0.85 per share.

The trajectory of performance to the date of administration was lower than indicated by the Investor Update of February 2016. In September 2016 the group published its interim report to 30 June 2016 which recorded revenue of $13 million in the six months, marginally higher than had been achieved in the comparable period in FY15. Within that report, revenue guidance for the year was revised to $27-30 million excluding large government opportunities. By the end of September 2016, revenues were reported at $18 million.

4 Wynyard group performance

In this section we consider the historical trading performance of the Wynyard business. Given the global interreliance of the business, we address the historical trading performance at the consolidated WGL level. For the FY13-15 values, we have relied on the group annual reports filed at the Companies Office. In addition to public filings at the Companies Office, the group filed various announcements with NZX, which are available for public review.

4.1 Highlights

The group reported a range of performance highlights in its annual reports. We summarise certain of the highlights from the FY14 and FY15 annual reports as below. October 2016 comparatives have been derived from management accounts. Numbers italicised are estimates. We have not estimated revenue per employee in the FY16 period as that would require estimation of licence sales from 26 October to 31 December 2016, which would be speculative:

Figure 4: Wynyard performance highlights

	FY13	FY14	FY15	Oct-16
Full time equivalent employees	151	228	297	*222*
Recurring revenue as % of total	59%	53%	51%	*61%*
Revenue per employee ($000)	162	134	*100*	
Revenue by region (% of total)				
Americas	9%	8%	13%	*17%*
Europe, Middle East & Africa	27%	37%	36%	*41%*
Asia Pacific	64%	55%	51%	*42%*

4.2 Consolidated trading performance

We tabulate the historic financial performance below. These figures have been derived from the group's consolidated financial statements ('CFS') and management accounts. Balance date in each financial year is 31 December. FY13 was the first year of operation following the public issue, and comprises nine months only.

Figure 5: Consolidated financial performance of Wynyard Group

	9m 2013 CFS $'000	FY2014 CFS $'000	FY2015 CFS $'000	9m 2016 Mgmt Ac $'000
Revenue	16,982	26,048	26,259	17,985
Expenditure	(22,437)	(38,712)	(57,112)	(48,131)
(Loss) before depreciation, amortisation, financing and tax	(5,455)	(12,664)	(30,853)	(30,147)
Depreciation and amortisation	(5,099)	(9,752)	(13,317)	(14,951)
(Loss) before financing and tax	**(10,554)**	**(22,416)**	**(44,170)**	**(45,097)**
Net finance income	280	1,326	817	412
(Loss) before income tax	**(10,274)**	**(21,090)**	**(43,353)**	**(44,685)**
Income tax credit/(expense)	136	(1,160)	(702)	-
(Loss) attributable to owners	**(10,138)**	**(22,250)**	**(44,055)**	**(44,685)**

On this basis the group:

- Was not able to capture the growth required to support its 'land and expand' strategy and the related cost base, despite achieving significant sales with a number of customers.
- Reported trading losses in each year. The prospectus registered in June 2013 for the IPO, referred to a prospective income (loss) attributable to owners of ($8,802k) in 2013 and ($10,075k) in 2014 respectively. The loss in 2014 was double the prospectus forecast.
- Fell short on the revenue guidance for FY15 and FY16 published during its capital raising process. We have not revisited the specific forecasts which the group relied on to compile the periodic revenue

guidance. However the risks in revenue guidance had been well signalled from (at least) the Investor Presentation in June 2015. We understand the conditional contract announced by Wynyard in FY15 would on its own have contributed licence revenue of $14 million plus recurring revenue. Ultimately that contract remained conditional at the date of appointment of administrators.

We have not undertaken a comprehensive review of the historic financial reports. However we do note two matters concerning costs:

- Staff cost increases were the largest single contributor to expenditure growth:
  - between FY13 and FY14 (on an annualised basis), estimated at $6.6 million
  - between FY14 and FY15, at a further $14 million
  - between FY15 and FY 16 (on an annualised basis), estimated at a further $6.5 million.
- The 2016 results include the effect of additional one-off costs of $11.5 million as a result of the group's strategic review. This included write downs and provisions against asset values.

4.3 Consolidated cashflows

Consolidated cashflows in the same periods may be summarised as below.

Figure 6: Consolidated cashflows of Wynyard Group

	9m 2013 CFS $'000	FY2014 CFS $'000	FY2015 CFS $'000	9m 2016 Mgmt Ac $'000
Receipts from customers	13,700	22,841	25,107	17,044
Payments to suppliers and employees	(18,752)	(38,224)	(58,130)	(51,908)
Interest and taxes	(199)	437	330	(390)
Net cashflows from operating activities	**(5,251)**	**(14,946)**	**(32,693)**	**(35,254)**
Purchase of assets	(24,582)	(1,320)	(1,760)	(702)
Capitalisation of software	(5,965)	(11,639)	(16,987)	
Net cashflows from investing activities	**(30,547)**	**(12,959)**	**(18,747)**	**(702)**
Subtotal- cash applied to operations and assets	**(35,798)**	**(27,905)**	**(51,440)**	**(35,956)**
Net proceeds from capital contributed	66,073	35,061	43,053	30,022
Costs of issue of new shares	(3,491)	(990)	(1,162)	(727)
Loans received (paid)	(10,018)			
Net cashflows from financing activities	**52,564**	**34,071**	**41,891**	**29,295**
Net increase/(decrease) in cash	**16,766**	**6,166**	**(9,549)**	**(6,661)**
Opening cash	270	17,205	24,468	14,921
Closing cash and cash equivalents	**17,036**	**23,371**	**14,919**	**8,260**

The group's operations and investments in assets and software (in aggregate at between $27 million and $51 million annually) have been funded by capital introduced by its shareholders. The group reported net proceeds from capital contributed by its shareholders totalling $174 million over its existence.

The majority of assets purchased related to software and contracts associated with software, and were acquired from Jade at the outset. Other investments in software comprise capitalisation of a portion of operating costs in accordance with accounting conventions.

Trade creditors have been paid current and in some cases in advance for term services. This mirrors in part the group's practice of billing certain services in advance.

4.4 Performance by product

We are advised the group has not kept statements of financial performance by product.

We have sourced a pro forma FY16 Profit and Loss statement from the group's dataroom used in the sale process for the WRM in the period leading up to administration. The statement indicates a net loss before tax for the year of $894k. The counterpart for the FC product in the same dataroom indicated a net loss before tax of $257k.

We do not have such statements for ACA, ICM, or Cognevo. However our discussions with accounting staff indicate that none of these products operated above breakeven on a line of business basis. This is consistent with the group's historic consolidated statements of financial performance which we have summarised above.

In particular we understand Cognevo has absorbed very significant costs in development, and was forecast to require material further investment.

The 2013 prospectus recorded that the group had incurred cumulative losses and did not expect to be profitable in the near future while it continued to pursue growth opportunities.

4.5 Cash burn

Cash burn is the rate at which a business uses available cash. As is evident from the summary of annual statements of cashflows, Wynyard consumed considerable volumes of cash for both its operations and investment activities. The cash consumption was met primarily from capital contributed by shareholders.

The commentary to the June 2016 Interim report advised that cash burn had been $4.8 million monthly in the first half of the year, but was targeted to reduce to $2.4 million per month over the second half of the year. That reduction was not delivered. If it had been, it seems highly likely the group would still have required further capital by the end of FY16. The cash reported as available at June 2016 (at $14.7 million) would have funded operations for six months in the absence of a large contract being realised.

At the date of administration, Wynyard group (on a consolidated basis) held cash equivalent to NZD3.7 million across all its bases of operation. This was lower than one month's cash burn from operations.

Of this monthly burn, $2.7 million was incurred in New Zealand. At the date of administration, $1.6 million was available to fund operations (equivalent to around two weeks' operations) and the costs of administration in New Zealand.

4.6 Events prior to voluntary administration

We are advised that in the period leading up to voluntary administration, in addition to its revenue generating activities, Wynyard undertook a number of initiatives to preserve its opportunities to capitalise on its investment in its business. We are advised these included:

- Separation of business streams to rationalise the businesses including the product sets, services offered, and physical footprint.
- Cost reduction including staff costs and overhead. We have not examined the outcome of this and the prior initiative in any depth. While certain staff redundancies are observable, the effect of one-off costs masks any longer term benefit which might have been targeted.
- Non-core asset sales in relation to WRM and FC. This initiative targeted generating $7-10 million, by August 2016. These sale processes were unsuccessful.
- Sale of the Government business stream. In early May 2016 a timetable was agreed to deliver a sale process with indicative bids by August/September and a close in November 2016. This process had not progressed materially before administration.
- Development of Cognevo as a sustainable, stand-alone business. We are advised that, immediately prior to administration, Cognevo was on track to deliver against its targets for 2016. Considerable investment was still required.

- Two specific significant sales prospects for installations of software products. These were pursued aggressively but could not be closed despite the group's long pursuit of them. One of these was the conditional contract announced in 2015 which would have realised $14 million in licence sale revenue plus recurring revenue.
- Negotiation of a credit facility. A short term credit facility was negotiated with a substantial shareholder. Ultimately this was not drawn.
- Further alternative access to capital. In the days prior to administration discussions about a potential rights issue were held with certain institutions and high net worth individuals. We are advised that while positive indications were initially received, the group was subsequently advised that it was unlikely that the cornerstone shareholders would commit any funds.

On 25 October 2016, the directors resolved that the Companies were insolvent or may become insolvent and appointed the administrators.

Wynyard invested heavily in entering new markets, acquiring new customers and developing products. It secured some large contracts with substantial customers across its government and commercial product ranges. Despite those achievements, a pipeline of potential customers and the prospect of further large contracts, Wynyard was unable to generate sufficient revenue from the competitive markets in which it operated to sustain the cost base of its operations (including maintaining existing products and developing new products). Expressed in the alternative, the cost base of operations was too great for the revenue which Wynyard was able to generate from its products, in the timeframe and within the resources it had available.

If the Companies are placed into liquidation (as recommended), the liquidator will review the manner in which the business was traded, in more detail.

5 Financial position at administration: WGL and WNZL

We summarise the financial position of each Company as at the date of administration as below. These figures are as reported in each Company's records and have not been audited or adjusted for known issues arising in the course of the administrations.

Figure 7: Financial position of WGL and WNZL

	Ref	WGL $000	WNZL $000
Assets			
Cash	1	209	1,991
Deposits and sundry receivables	2	75	433
Fixed Assets	3		1,531
GST	4		176
Intangible assets	5		6,884
Investments	6		7
Prepayments and bonds	7		1,028
Receivable from subsidiary	8	171,010	5,991
Software assets	9		29,118
Trade and other receivables	10	14	991
Unbilled revenue	11		1,562
Total assets		**171,308**	**49,711**
Liabilities			
Accruals	12		1,786
Payable to parent	13		171,177
Rental bond	14	60	
Revenue in advance	15		1,164
Trade and other payables	16		1,969
Total liabilities		**60**	**176,095**

1. **Cash**

   On our appointment, WGL and WNZL had combined cash of $2.2 million.

   In WNZL, the cash included monies held in trust pursuant to the Tax Administration Act 1994. The net cash available for operations and the costs of administration in WNZL was $1.6 million.

2. **Deposits and sundry receivables**

   This relates to deposits paid for property, services provided and employee insurances.

   We are seeking recovery of these where possible.

3. **Fixed assets**

   These comprise furniture and fittings, and office and computer equipment based in New Zealand and Dubai.

   We have realised the fixed assets where possible.

4. **GST**

   This has been collected.

5. **Intangible assets**

   This includes certain brands, and the residual value of certain customer contracts following amortisations.

   Intangible assets have been realised (where possible) in the context of the software asset sales. Realisations have been well below the group's carrying values.

6. **Investments**

   Investments held by WNZL are its shareholdings in its subsidiaries in Australia, Canada, the United Kingdom and the United States.

   We do not expect these investments to yield realisations.

7. **Prepayments and bonds**

   This relates to prepaid royalties and rental bonds for premises.

   We are seeking recovery of these where possible. As contractual obligations have not been fulfilled we expect nominal recovery, if any.

8. **Receivable from subsidiary**

   WGL recorded receivables from WNZL. This was money received from the shareholders of WGL, advanced to WNZL to fund the business in New Zealand and globally. WNZL recorded receivables from its subsidiaries in Australia, the United Kingdom and the United States.

   These receivables are stated at book value and collection is contingent on the outcome of the insolvency administrations of the subsidiaries in those jurisdictions.

9. **Software assets**

   The software assets include capitalised and purchased software. WNZL capitalised a portion of its software development costs in accordance with accounting conventions.

   These are stated at book value following amortisations in accordance with the Company's policies. The majority of the software assets have been realised in the administrations. Recoveries have been well below carrying values.

10. **Trade and other receivables**

    Trade and other receivables relate to a mixture of work in progress already billed and historical software support services. Customers are typically billed at the end of the month for accrued work in progress.

    These are stated net of provisions and almost without exception are subject to debtor/creditor offset and dispute. The collectability of these receivables will depend on whether contractual obligations have been fulfilled. Nominal realisation is expected.

11. **Unbilled revenue**

    Unbilled revenue includes accrual of costs on projects for specific customers and any applicable interest.

    As the projects have not been completed, the costs are not billable. The collectability of unbilled revenue is unlikely based on unfulfilled contractual obligations.

12. **Accruals**

    WNZL records various accruals primarily for obligations to staff.

13. **Payable to parent**

    WNZL reports payables to its shareholder WGL. These are advances made by WGL to WNZL from the proceeds of capital issues, for the purpose of the software business.

14. **Rental bond**

    WGL had a liability at appointment date for a rental bond not paid.

15. **Revenue in advance**

    This liability is a result of WNZL's practice of billing for software support for 12 months in advance. The revenue in advance liability is the unexpired portion of those charges.

16. **Trade and other payables**

WNZL reports payables to trade and other creditors. We note a small number of these creditors relate to services/products provided for the Group as a whole. Creditors were normally paid on the 20th of the month.

5.1 Creditor ranking in liquidation

We summarise the creditor position of the Companies in the context of liquidation as below.

1. **Preferential creditors**

Certain obligations to staff are accorded statutory priority in a liquidation, to a limit of $22,160 per person. Qualifying staff entitlements are estimated at $2.1 million but this will need to be finalised in the liquidations. Staff entitlements above this level rank as unsecured claims. These obligations are payable by WNZL.

Company records indicate there are no other preferential creditors.

2. **Secured creditors**

The group had two secured creditors holding General Security Agreements ('GSA') at the date of our appointment. The first has since been discharged in order to be able to realise assets of WNZL. A second GSA remains in place to protect Stock Exchange charges. No sum is outstanding currently on this security.

Certain other Specific Security Agreements were in place, primarily in WNZL. These have been satisfied where necessary in order to realise assets, or goods have been returned to suppliers. This applies also to certain suppliers of goods who traded under retention of title terms, and who had not been paid for goods supplied.

3. **Unsecured creditors**

To date we have received creditor claims totalling $6.1 million in WNZL and $430k in WGL. This includes the non-preferential portion of staff entitlements, but in WNZL does not include the intercompany payable to WGL ($171 million). Unsecured creditors in a liquidation will include:

- Suppliers of goods and services to WGL and WNZL who have not been paid.
- Any portion of the obligations to staff which exceeds the sum accorded preferential status.
- Customers who have paid for services which have not been supplied.
- Parties who can prove they have been caused loss by Wynyard.

The liquidators will call for claims to be filed, in due course.

6 Events in the Voluntary Administrations

As is evident from the initiatives undertaken by the Companies prior to administration (see section 4.6 above), many of the issues which an administrator would ordinarily examine in the early stages of an administration had already been canvassed and initial steps had been taken. This included testing the potential for realisation of product streams, and the opportunities for restructuring the business or to procure ongoing working capital.

The lack of cash to support trading the business limited options open to the Administrators to either an immediate closedown or an immediate tailored realisation strategy.

The strategy adopted entailed:

- Maintaining the Cognevo product on a status quo basis. We had a level of confidence that a sale could be achieved in the limited timeframe allowed by available cash; albeit that this entailed a measure of risk.
- For the products for which we could not establish a sufficient level of confidence in a prompt sale, reducing engineering and support staff costs to the minimum necessary while we sought interest from potential purchasers. Costs were limited to those immediately necessary to maintain a core “know how” capacity for due diligence and handover of the products to any potential purchasers.
- Maintaining the Companies’ infrastructure to permit a short sale, due diligence and handover period.
- Ceasing or minimising all other cash burn.

Alongside this realisation strategy we also undertook any available steps to reduce the impact of the Companies’ breaches of contracts with their customers. Insolvency administrators in other jurisdictions followed a similar approach. This means that creditor claims will be lower than they otherwise would have been.

Our current expectation is that the actual outturn will more than double the result an immediate closedown would have yielded. The majority (if not all) of this benefit will accrue to staff preferential claims.

6.1 Realisation of Assets

In the administration we have realised all the assets of the Companies which we believe are realisable, save for one product stream. The assets realised include:

- The Cognevo product. Administrators in Australia and the United Kingdom also participated in this sale. The sale generated money for creditors and preserved 27 jobs in New Zealand. The sale required each of the three administrations to provide assets and core know-how to the purchaser. Negotiation of the sale was complicated by the involvement of differing jurisdictions.
- The Financial Crime product and the Companies’ interests in the Investigations Case Management product. This sale preserved money for creditors and maintained 8 jobs in New Zealand.
- The Wynyard Risk Management product. This sale generated money for creditors and preserved 2 jobs in New Zealand.
- Various chattels including furniture and equipment.
- Debtors (excluding intercompany receivables, if any).

The one product stream which remains to be realised is the ACA product. We continue to pursue potential sale opportunities. Intercompany receivables will be determined once the outcomes of the administrations in other jurisdictions are known.

6.2 Funds and assets available to liquidators of WGL and WNZL

We currently hold $70k which we expect to be available to the liquidators of WGL, and $1.8 million which we expect to be available to the liquidators of WNZL (both subject to final costs and further realisations). An account of receipts and payments will be filed with the Registrar of Companies in the prescribed form within 20 working days of the end of the administration.

Assets which remain to be realised by the liquidators will comprise the ACA product stream and any distributions available from the subsidiaries of WNZL.

In light of the preferential interests in the funds in WNZL, we do not anticipate that the liquidators will have access to material funding for the purpose of investigations of voidable transactions and breaches of duty. Our preliminary views on such actions are discussed at section 7.3. Similarly, we do not anticipate that there will be material funds for unsecured creditors of either company.

7 Options available to creditors

In a voluntary administration there are generally three courses of action available to creditors:

1. Approval of a DOCA. A DOCA is an agreement between a company and its creditors as to how the debts of the company may be restructured and how the affairs of the company may be conducted; or
2. The administrations end and the companies return to the control of their directors; or
3. The companies are placed in liquidation.

7.1 Deed of Company Arrangement ('DOCA')

No DOCA has been proposed in regard to either of the Companies.

We do not believe there are any options to restructure debts to permit the group or either of the Companies to continue to trade. Even if existing debt were reduced to nil, the group still forecast cash deficits in ongoing trading and restructuring. Before it was placed in administration, the group had exhausted capital raising options to fund the ongoing cash deficit.

7.2 Administrations end and companies return to control of directors

The Companies' intellectual property and other assets have been realised in the course of the administration (save, as noted, for the ACA product). The Companies have no operational business but do have cash. The cash available is insufficient to meet the obligations of the Companies. In our view the directors would be likely to seek the appointment of liquidators if the company were handed back to them.

In this case the issue of voidable transactions would not arise (see below), and the issue of potential breaches of duty in the conduct of the Companies would be unlikely to be raised (see below).

We do not believe it is in creditors' best interests for the administrations to end and the companies to be handed back to the directors.

7.3 Liquidation

Liquidation is a statutory process governed by the Act. Liquidation is the process of winding up the affairs of a company when it is unable to meet its obligations to its creditors or it has otherwise reached the end of its useful life.

The Liquidators' principal duty is to take possession of, protect, realise, and distribute the assets, or the proceeds of the realisation of the assets, in accordance with the Act.

The Liquidators may also review certain transactions undertaken by the companies ('voidable transactions') and the conduct of certain parties ('breaches of duty'), with a view to seeking recoveries for the benefit of creditors:

- Voidable transactions can be pursued to recover money from a person who has received money from a company at a time when it was insolvent, and that money is more than the person would receive or be likely to receive, in the company's liquidation. The process is not without cost, and there may be defences available to recipients of money. In the case of the Companies, our preliminary observation is that we would not expect material recoveries from voidable transactions (if any).
- Breaches of duty by responsible parties can result in recoveries for creditors in circumstances where the business of a company is carried on in a manner likely to create a substantial risk of serious loss to the company's creditors, or where an obligation is incurred without reasonable grounds to believe that the company will be able to perform the obligation when it is required to do so. Any review will need to be undertaken once liquidators are in place and will be subject to funding being available. It is important to

recognise that the case of WGL and WNZL is different to many liquidations in that the most material losses have been suffered by shareholders rather than by creditors.

The liquidations of WGL and WNZL will involve:

- Determination of claims against the proceeds in each Company, in the context of the statutory priorities.
- Consideration of the prospects of recoveries for creditors from voidable transactions (if any) and breaches of duty (if any) in each Company, to the extent that funding is available for the necessary investigations. Please refer to our comments above about our preliminary view on such actions.
- Payment of proceeds to creditors in the statutory order being:
  - Preferential claims of staff (in the case of WNZL), to the extent of available funds.
  - Unsecured claims, to the extent any funds are available (which at this stage is unlikely).
  - Shareholders, in the event a surplus of funds is available over and above the company's obligations to creditors. At this stage we do not believe there is any prospect of a surplus being available to shareholders.

Each of WGL and WNZL would be a separate liquidation and the outcomes for creditors of each company may differ.

Based on our experience in such matters, we estimate the liquidations will require 6 to 12 months if no action ensues on voidable transactions or breaches of duty.

8 Administrators' opinion on the options

We provide our opinion below in relation to each company.

8.1 Wynyard Group Limited

WGL is unable to meet its obligations to its creditors. It has no trading assets and no observable means to generate money to eventually repay its creditors. The Administrators consider it would be in the interests of creditors for it to be placed in liquidation.

8.2 Wynyard (NZ) Limited

WNZL is unable to meet its obligations to its creditors. It is not trading and has no observable means to generate money to eventually repay its creditors. The Administrators consider it would be in the interests of creditors for it to be placed in liquidation.

9 Administrators' addresses

If you have any queries or concerns regarding this report, please contact us at our contact details below.

Relevant addresses of the Administrators for **all purposes** in respect of the companies are:

Post:	Wynyard Group Limited (Administrators Appointed) Wynyard (NZ) Ltd (Administrators Appointed) PO Box 982 Shortland Street Auckland 1140
Phone:	+64 9 307 7865
Fax:	+64 9 377 7794
Email:	wynyard@kordamentha.com
Courier:	Level 16, 45 Queen Street Auckland 1010

Appendix 1: Restrictions

This report is not intended for general circulation, nor is it to be reproduced or used for any purpose other than that outlined above without our written permission in each specific instance. We do not assume any responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

In preparing this report we have relied on information provided to us by the companies. We have not carried out any form of due diligence or audit on that information. The information provided to us included forecasts of future revenues and expenditures, profits and cashflow that were prepared by the companies. Forecasts by their very nature are uncertain, and some assumptions inevitably will not materialise. Therefore the actual results achieved may vary significantly from those in the forecasts.

We reserve the right (but will be under no obligation) to review this report and if we consider it necessary to revise the report in light of any information existing at the date of this report which becomes known to us after that date.