



1 September 2021

To the creditor as addressed

Dear Sir/Madam

Semantic Software Asia Pacific Limited
(In Liquidation) (the Company)
ACN 134 067 691

Martin Ford and I were appointed Liquidators of the Company on 15 July 2021. This report should be read in conjunction with my initial report to creditors dated 21 July 2021 (Previous Report). If you do not have a copy of the Previous Report, please contact my office.

The purpose of this report is to provide you with an update on the progress of the liquidation.

1. Update on the progress of the Liquidation

1.1 Books and records

We recovered various books and records from the Company's former trading premises, imaged the Company's various servers, laptops and other peripherals and are storing the Company's physical server offsite. We have also gained access to the Company's Xero account and issued notices to various third parties to obtain further books and records to assist our investigations. We are yet to be provided with access to all of the Company's systems which has hampered our progress in the liquidation.

Our initial review and discussions with the Company's staff in respect to the Company's financial records has highlighted that they are only likely to be up to date to 30 June 2020. This has left us with significant information gaps in respect to:

- Current amounts owed to employees for unpaid wages, leave, redundancy and payment in lieu of notice
- The current Company balance sheet and exposures
- Any other potential recoveries such as preferences, director related transactions etc.

Prior to our appointment the Company had employed two internal accountants to bring the financial records up to date including amounts owed in respect of employee entitlements. We have commenced discussions with Fair Entitlements Guarantee (FEG) to apply for funding to engage the former employees to finish this process, please see Section 2 of this report for further information in respect to this.

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1.2 Assets and Liabilities

A director of the Company in a liquidation has an obligation to prepare and submit a Report on company activities and property (**ROCAP**) as at the date of appointment of the liquidators. The ROCAP is a schedule providing specific details of the assets (if any) and liabilities of the company. The Directors have not lodged a completed ROCAP at the date of this report and have advised that they do not have the ability to complete a ROCAP which has hindered a full investigation of the Company's affairs. We note that in respect of two of the directors, Deborah Pike and Maureen Moore they have further advised they are in poor health at present, and Duncan Mount has indicated that we should refer our enquiries to Mark Bradley.

Given the responses from Mr Mount we have written to Mr Bradley as a former director of the Company seeking his assistance and directing him to submit a ROCAP.

1.2.1 Intellectual property patents (IP)

The patent portfolio is comprised of the following patents:

Patent Number	Jurisdiction	Status
9767175	United States	Registered
9934296	United States	Registered
9959331	United States	Registered
9720988	United States	Registered
8615483	United States	Registered
2002318987	Australia	Registered
10031955	United States	Registered
10073898	United States	Registered
10078675	United States	Registered
10133799	United States	Registered
10169435	United States	Registered
10303698	United States	Registered
10387491	United States	Registered
9317573	United States	Registered
10706064	United States	Registered
9679035	United States	Registered
9607064	United States	Registered
9378257	United States	Registered
7464099	United States	Registered



In addition to the above there are a number of patent applications in progress that were not finalised at the date of our appointment.

The patents are all registered in the name of Semantic Technologies Pty Limited. Searches of this entity reveal that it presently does not have any directors and its sole shareholder is the Company. Given the company is without a director and is the registered owner of the various patents we have sought legal advice on whether this entity should be placed into liquidation so these patents can be legally transferred.

We have written to all the Company's former patent attorney's notifying them of our appointment and undertaken an initial review of the providence of each patent along with the costs associated with maintaining the portfolio. We have also had discussions with various former employees of the Company to assist us in this process. We have also commenced discussions with the former valuer engaged by the Company, Brattle Group.

Whilst our focus to date has been on preserving the patent portfolio, we have also commenced discussions with a number of different parties around the globe who specialise in selling Intellectual Property Patents. As the Company has not generated licensing or royalty revenue from any of its patents historically, in order to maximise the potential value, it may be beneficial to engage experts that specialise in building claim charts for certain patents in the portfolio that have a greater viability than others. We understand the Company has not previously completed any detailed studies of this nature, so we have sought proposals from a number of firms to prepare an initial study of the portfolio.

We consider it will also be beneficial to engage former employees of the Company to assist in the above studies and preparing additional collateral to properly market and present the patents in a future sale process. Former employees have indicated they are prepared to assist however they expect to be remunerated.

As the liquidation is currently unfunded, we have been meeting various costs associated with the upkeep of the patent portfolio to date however going forward given the Company is presently without funds, in order to undertake these steps, it would be necessary to obtain funding in order to meet these expenses.

We have approached FEG to obtain an initial level of funding and a response is pending as at the date of this report. Should any other creditors be interested in providing funding in the liquidation please refer to the section of this report titled funding for further information on how you may be able to assist.

1.2.2 Potential Research & Development grant

We have liaised with the research and development expert engaged by the Company prior to our appointment, Jamie Collins, and internal experts from PwC Tax team in respect to the position on the R&D rebates. Whilst initial work has been completed by Mr Collins, there is further work required to complete the application for FY21. We are advised that part of the delays in completing these grants has been a dispute with AusIndustry in respect to the Company's eligibility to apply for R&D incentives. We understand this dispute was resolved prior to our appointment in the Company's favour by the Administrative Appeals Tribunal.



The Australian Tax Office have provided us with their initial work papers that indicate the following debts are owed by the Company to the ATO:

Description	Amount \$
Running Balance Account	1.6m
Income Tax Account	3.9m
General interest on Income Tax	0.7m
Superannuation Guarantee Charge	2.1m
Total Debt	8.3m

The ATO has lodged a proof of debt for the above amounts and we note this grossly exceeds initial estimates in respect to the ATO debt were disclosed by management prior to our appointment. We understand that the R&D rebate credits are significantly below the indicative ATO debt – noting that there are 28 PAYG/BAS statements and 3 income tax returns that are yet to be lodged and, on lodgement, which may further increase the ATO debt. We understand that the primary SGC debt has been estimated to our appointment, but the RBA debts (PAYG & GST) are not up to date and as such, could increase.

There are various lodgements that will need to be completed in addition to the above outstanding lodgements including:

- Amended returns for the FY13, FY14, FY15, FY16 and FY17 income tax returns
- Preparation and filing of the FY18, FY19, FY20 and FY21 income tax returns
- Preparation and filing of the FY21 R&D application with AusIndustry
- 28 PAYG/BAS statements

The ATO portal for the period 27 July 2019 to the date of liquidation reflects that a least \$1.7m of this primary debt relates to penalties and interest for non-lodgement/late lodgement of the Company's various tax returns and lack of payment. We have requested further information from the ATO to understand historical penalties and interest. A response is pending as at the date of this report. In certain circumstances a taxpayer is able to seek remission from the Commissioner of penalties and interest.

Mr Collins has indicated to us that on lodgement of the outstanding ITRs and the FY21 R&D claim with AusIndustry, there will be a credit on the income tax account of c\$2.3m – noting that this is on the assumption that the ATO remits all interest and penalties. However significant liabilities remain in respect to unremitted amounts for SGC and PAYG (running balance account) which the ATO is entitled to offset.

Accordingly, it appears that the best-case position for the Company based on information presently available is as follows:

Description	Amount \$
Running Balance Account	1.6m
Income Tax Account	(2.3m)
Superannuation Guarantee Charge	2.1m
Shortfall Debt owed to ATO	1.4m

Mr Colins retainer with the Company was on the basis he would be remunerated from refunds that might become due to the Company once all outstanding taxation lodgements were completed. In our experience these types of practices are relatively common however it does not appear that there will be any refunds to the Company. Mr Collins has provided us with a proposal to act on behalf of the Company in respect to the R&D grants and for us to engage a third-party accounting firm to complete the outstanding lodgements (PAYG/BAS/ITRs). The total cost of the process under the proposal is \$445k plus GST (\$95k for R&D and \$350k for outstanding lodgements).

Given the significant costs in preparing all outstanding R&D and tax lodgements and the present indication there will still be a shortfall owing to the ATO, it appears unlikely there will be any net recoveries available to the Company from this source. We will advise creditors in due course if this position changes.

1.2.3 Cost orders

The Company was awarded a Cost Orders in their favour in respect to proceedings brought against the Company and its former Director, Mark Bradley. We understand that the Cost Orders relate to legal costs incurred in the amount of circa c\$1.1m. We have engaged solicitors to assist us with recovering the amount payable pursuant to the Cost Order. Pattison Hardman, the Company's pre-appointment cost assessor, have been instructed to finalise the bill of costs and commence the process of costs assessment.

We will provide an update to creditors in due course on progress and likelihood of recoveries from this source.

1.2.4 Other receivables

The Company's balance sheet indicates that there are a number of other receivables owed to the Company by Mark Bradley and the M&V Bradley Trust totalling \$1.3m. We have issued a demand to Mr Bradley and the trustee of the M&V Bradley Trust. We note that Mr Bradley was declared bankrupt on 25 October 2018 and as such we do not expect to realise any funds from this source. A response from M&V Bradley Trust is pending at the date of this report.

1.3 Liabilities

1.3.1 Priority creditors/employees

According to the Company's incomplete financial records, there are unpaid wages of approximately \$2.3 million to the financial year ended 30 June 2020. Further, we understand that wages continued



to be underpaid for the financial year ended 30 June 2021 and accordingly we expect the total amount owing to be materially higher than \$2.3m.

The Company's records also indicated that approximately \$175k is owing in respect to annual leave for the financial year ended 30 June 2020 while the balance sheet indicates a provision for annual leave of \$331k.

The Company's former employees can submit their claims in respect of outstanding employee entitlements with the FEG. If you have any questions regarding the FEG claim, please contact the FEG on 1300 135 040.

1.3.2 Secured and unsecured creditors

We have received a number of Proof of Debt (POD) forms from creditors to date, and we understand that the Company's secured creditor, ACN 603 303 126 Pty Ltd is owed c\$400k however we are awaiting formal confirmation.

We are yet to ascertain the position of shareholders for which the Company provided guarantees. At this stage we are recording all creditors' claims, including shareholders' claims in our system as creditors. We intend to provide a further update on creditors' claims in our statutory report that is required to be issued before 15 October 2021. We request that any shareholder to whom the Company gave a guarantee, provide a copy of the guarantee to us when submitting a claim.

We appreciate creditors' patience and note our primary focus of the liquidation at this stage is on identifying and preserving the Company's assets and taking preparatory steps to realise these for the benefit of creditors.

The formal Proof of Debt form is attached at **Appendix A** Please complete and send this form with your supporting documents to au_semantic@pwc.com.

2. Funding options

We have had discussions with the Attorney Generals Department at FEG and lodged an indicative application for potentially funding an initial tranche of various expenses of the liquidation including, but not limited to:

- Engaging former employees to bring the Company's financial records up to date
- Ongoing patent renewal fees
- Responding to examiner reports in respect to the current patent applications
- Engaging infringement mapping experts and a valuation expert(s)
- Other costs associated with taking preparatory steps to market the Company's assets

The Attorney Generals Department provides funding to companies in external administration to assist investigations and potential litigation. As noted, a response is pending as at the date of this report.

As indicated in this report we consider it would be beneficial to engage a number of experts and potentially former employees to assist in the sale process of the intellectual property patents. As the liquidation is presently unfunded and there may not be any other asset recoveries in the short term from other asset classes we request that any creditors that wish to provide funding in this liquidation to contact Nick Charwood in writing within 21 days from the date of this report.



3. Where can you get more information?

You can access information on corporate insolvency that may assist you on the following websites:

- ARITA at www.arita.com.au/creditors
- ASIC at www.asic.gov.au (search for “insolvency information sheets”).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Andrew Scott'.

Andrew Scott
Joint and Several Liquidator

List of appendices

Appendix A Formal proof of debt form

Date of appointment:	15 July 2021
Contact name:	Joanne Chu
Email:	au_semantic@pwc.com

Appendix A

Formal proof of debt

FORM 535

FORMAL PROOF OF DEBT OR CLAIM

To the Joint and Several Liquidators of Semantic Software Asia Pacific Limited (In Liquidation) ACN 134 067 691 (the Company)

1. This is to state that the company was, on 15 July 2021 and still is, justly and truly indebted to:

.....('Creditor')
(name of creditor)

.....
of (full address)

for \$.....(amount inclusive of GST)

Particulars of the debt are:

Date (when the debt arose)	Consideration (how debt arose and attach supporting documentation)	Assigned debt (was this debt assigned to you?)	Amount \$ (if an assigned debt, the consideration paid)

I have attached the following documents to substantiate my claim (*tick as many as appropriate*):

- ☐ Invoices ☐ Judgement from Court ☐ Letters of demand ☐ Orders from Company
☐ Monthly statements ☐ Statutory demand ☐ Credit application ☐ Guarantee from Company
☐ Assignment of debt ☐ Other – please specify.....

2. To my knowledge or belief the Creditor has not, nor has any person by the Creditor's order, had or received any manner of satisfaction or security for the sum or any part of it except for the following:

(Insert particulars of all securities held. Where the securities are on the property of the company, assess the value of those securities. If any bills or other negotiable securities are held, specify them in a schedule in the following form)

Date	Drawer	Acceptor	Amount A\$	Due Date

3. Select one of the following options:

- ☐ I am **not** a related creditor of the Company
☐ I am a related creditor of the Company (eg director, relative of director, related company)

4. Signatory (*select one of the following options*)

- ☐ I am the Creditor personally.
☐ I am employed by the Creditor and authorised in writing by the Creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.
☐ I am the Creditor's agent authorised to make this statement in writing. I know that the debt was incurred and for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

Signature: Address:

Name: Phone number:

FUTURE COMMUNICATION BY EMAIL

Do you elect to receive electronic notification of future notices and documents from this office by email in accordance to Section 600G of the Corporations Act 2001?

- ☐ Yes, send all future notices to this email address:
☐ No