



SECOND REPORT TO CREDITORS

**OBJECTIF TELECOMMUNICATIONS LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 056 482 636**

We refer to the Administrators' First Report to Creditors dated 3 February 2003 and pursuant to the provisions of the Corporations Act we attach the following documents for your attention:

- a) The Joint and Several Administrators' Report to Creditors pursuant to Section 439A(4)(a);
- b) Statement of the Joint and Several Administrators' opinion pursuant to Section 439A(4)(b); and
- c) Notice of Second Meeting of Creditors.

The main features of the abovementioned Administrators' Report and statements may be summarised, as follows:

(a) Return to Creditors

The Administrators are investigating a sale of the Company's operations as a going concern, as detailed in Section VIII of this report. As at the date of this report, a number of expressions of interests have been received for the purchase of part or all of the business. Additionally, the directors and third parties have advised that they are in the process of preparing a possible Deed of Company Arrangement for the Company which will provide for a greater return to creditors than otherwise available. Accordingly, creditors should consider resolving to adjourn the second creditors meeting called for 27 February 2003 for a period up to 60 days in accordance with Section 439B(2) of the Corporations Act, to allow the possible Deed of Company Arrangement proposal to be finalised or for sale negotiations to be concluded.

Should the Company be placed into Liquidation at the second meeting it is uncertain whether priority employee entitlements will be paid in full and it appears likely that unsecured creditors would not receive any dividend from the assets of the Company. Please refer to Section X of the Section 439A (4)(a) report for further details of our calculations and the possible distribution to the creditors of the Company.

(b) Administrators' Opinion

If creditors resolve not to adjourn the second meeting of creditors and as no Deed has been proposed to the Administrators as at the date of writing this report, and the

 **Objectif**

KNIGHTS
INSOLVENCY ADMINISTRATION

Company is insolvent, it is our opinion at this time that the Company should be placed into Liquidation as detailed in Section XI of the attached Section 439A (4)(a) report.

(c) Second Meeting of Creditors

The second meeting of creditors to determine *Objectif's* future is to be held at Knights Insolvency Administration, Level 27, The Chifley Tower, 2 Chifley Square, Sydney on 27 February 2003 at 10:30am as detailed in Section XII of the Section 439A (4)(a) report.

Do not hesitate to contact either Mr Damien Davis or Mr David Orr of our office on (02) 8226 8127 or (02) 8226 8116 respectively if you have any queries in relation to this matter.

DATED this 19th day of February 2003.



Bill Cotter
Joint and Several
Administrator



**JOINT & SEVERAL ADMINISTRATORS
REPORT TO CREDITORS
Pursuant to Section 439A (4)(a) of the Corporations Act**

The Joint and Several Administrators of Objectif Telecommunications Limited (Administrators Appointed), hereinafter referred to as "Objectif", present their report to creditors pursuant to the provisions of Section 439A(4)(a) of the Corporations Act under the following headings:

- I. FIRST MEETING OF CREDITORS**
- II. HISTORY**
- III. SHAREHOLDERS**
- IV. SECURED CREDITOR**
- V. PARTLY SECURED CREDITORS**
- VI. SUMMARY OF FINANCIAL POSITION**
- VII. TRADE ON**
- VIII. SALE OF BUSINESS / ASSETS**
- IX. INVESTIGATIONS AND ANTECEDENT TRANSACTIONS**
- X. RETURN TO CREDITORS**
- XI. ADMINISTRATORS' OPINION**
- XII. SECOND MEETING OF CREDITORS**

I. FIRST MEETING OF CREDITORS

The first meeting of creditors of Objectif was held at the offices of Knights Insolvency Administration, Level 27, The Chifley Tower, 2 Chifley Square, Sydney, on Friday, 7 February 2003, at 10:00 am.

At the meeting, there was no resolution proposed to remove the Administrators from office and appoint someone else as administrator(s). Further, there was a resolution for the appointment of a Committee of Creditors and that it consists of the following members: -

1. Mr Lorenzo Macolini representing Millhouse IAG Australia Pty Ltd;
2. Mr Nelson Lam representing Optus Billing Services Pty Ltd;
3. Mr Ian Wollett representing M13 Consult;
4. Mr Peter Bull representing himself; and
5. Ms Sylvia Else representing herself.



The Resolution was moved and seconded, then carried unanimously. No other resolution was passed at the meeting. As at the time of writing this report, there has not yet been cause to convene a meeting of the Committee.

II. HISTORY

(i) *Statutory Information*

Objectif was originally formed on 22 June 1992 as Fordcoe Pty Ltd and was a company limited by shares. On 17 October 1994 the name of the Company was changed to Objectif Pty Ltd. On 10 March 2000 the structure of the Company was changed to an unlisted public company and given the name of Objectif Telecommunications Limited. By 26 May 2000 Objectif became a listed public company on the Australian Stock Exchange (ASX) with the list code of OBJ.

Objectif has 360,000,000 issued ordinary shares, which were suspended from trading on 31 January 2003 by the Australian Stock Exchange on notice from the Directors. This is further discussed in section III of this report.

(ii) *Trading Locations*

The trading operations of Objectif are located at two separate leased premises as follows:

- Registered and Head Office located at Level 7, 99 Walker Street North Sydney New South Wales, Australia; and
- The Tauro Trade Centre, President Kennedylaan 19, 2517 JK Den Haag, The Netherlands.

(iii) *Background*

Objectif was established in 1992 and provides Next Generation Operational Support System (NGOSS) solutions to the global telecommunications market.

Objectif was originally established to produce software for Optus, Australia's second telecommunications carrier. A Freephone Order Management System was created at that time and has become one of the core products of Objectif.

Objectif's NGOSS platform, Keystone, integrates customer order management with service provisioning for broadband, wireless, wireline, mobile, internet, freephone and number portability providers. The Keystone platform allows telecommunications companies to reduce time-to-market and time-to-customer, enabling rapid revenue acquisition from new service rollout and greater levels of customer satisfaction and retention.

(iv) *Products*

Key product offerings developed by Objectif include the following: -



- **KEYSTONE DSL**

The Digital Subscriber Line (DSL) market is an emerging growth factor in the telecommunications industry. Keystone DSL enables the DSL provider to create, manage and maintain new products and services.

- **KEYSTONE DATA/VOICE OVER INTERNET PROTOCOL (VoIP)**

Keystone Data/Voice over Internet Protocol (VoIP) is a solution for the management of internet access and content services. Keystone Data/VoIP gives providers the ability to meet the demands of the customer, and manage the complete cycle from order management to provisioning, allowing for faster delivery of products.

- **KEYSTONE NUMBER PORTABILITY**

Keystone Number Portability is a tool for managing the interaction of carriers transporting numbers in key markets.

- **KEYSTONE FREEPHONE**

Keystone Freephone creates a provider's complete supply chain management of Freephone services, from order management to provisioning and activation.

- **KEYSTONE NETWORK INVENTORY**

Keystone Network Inventory gives the provider an accurate picture of inventory, enabling them to maximise the value of their resources.

- **KEYSTONE RETAIL**

Keystone Retail assists retail telecommunication providers with an easy to use system to sell both fixed net and mobile products to the Small and Medium Enterprises market.

(v) *Customers*

Objectif has been, and continues to be associated with a number of the leaders in the telecommunications industry and outlined below are a few of the established relationships with these customers:

- Optus is an Australian leader in integrated communications. Objectif has been providing continuous support to Optus Communications (formerly Cable & Wireless Optus), a subsidiary of Singapore Telecommunications, since 1994 when its first order management systems went into production;
- SNT (formerly KPN Telecom) is the largest carrier Telecommunications carrier in The Netherlands. Objectif provides support for their real-time



proactive order management and service-provisioning system, which manages KPN Telecom's Freephone and Value Added Intelligent Network services;

- RSLCOM Australia (formerly a division of ComVergent Telecommunications) is a large privately owned telecommunications provider, delivering voice, data and Internet products to business customers. Objectif provides the Operational Support Systems support for all of RSL COM's Freephone Services in Australia; and
- RSLCOM Mobile is an Australian-based supplier of mobile services. Objectif provides support and maintenance services to RSLCOM Mobile to support in the introduction of their Mobile Number Portability services including the provision of the required server hardware and operating systems infrastructure support.

(vi) *Intellectual Property*

Significant intellectual property has been established within Objectif over a period of 6 years. The Intellectual Property of Objectif exists essentially within the following areas:

- The core Keystone OSS software platform and a suite of developed Keystone applications, including Keystone DSL, Keystone Retail, and Keystone Inventory Management. Some \$7 million in R&D expenditure has been invested in the Keystone program; and
- There is significant Intellectual Capital invested in the specialist development staff of Objectif.

Objectif's past and current officers as at the date of our appointment, according to the database of the Australian Securities and Investments Commission ("ASIC"), are as follows: -

<u>Name</u>	<u>Position</u>	<u>Start Date</u>	<u>Date Ceased</u>
Mr Robert Jeffrey Mills	Director	03/07/1992	Continuing
Mr Kenneth John Walton	Director	10/09/2002	Continuing
Mr Penelope Jane Mills	Director	29/10/2002	Continuing
Mr Brian Patrick Davis	Director	24/03/2000	29/10/2002
Mr Peter Leonard Shore	Director	24/03/2000	26/06/2002
Mrs Penelope Jane Mills	Director	03/07/1992	24/03/2000
Mr Antony Robert Harris	Director	22/06/1992	03/07/1992
Mr Robert Gordon Harvey	Director	22/06/1992	03/07/1992
Mrs Penelope Jane Mills	Secretary	03/07/1992	Continuing
Mr Jennifer Lynette Bennett	Secretary	22/06/1992	03/07/1992

The auditors of Objectif are PKF Chartered Accountants & Business Advisers who were appointed on 20 April 2000.



Jeff Mills & Penny Mills, two of the directors of *Objectif*, attribute the primary failure of *Objectif* to the following: -

- The Company was pursuing a late payment of \$254,000 from Net2Phone Inc. from the USA for licensed software that was delivered by *Objectif*. The Company pursued the debt throughout December 2002 however, were notified on 11 January 2003 that payment would not be received;
- Negotiations with Keppel Transport and Telecommunications in Singapore regarding a capitalisation deal had progressed substantially however due to the parent company, Keppel Corp, deciding to refocus on its core engineering capabilities and the downturn in the global telecommunications market, it was evident that even though they were still considering the investment it was now considered less likely and considerably delayed at best. This resulted in other potential funding sources needing to be quickly identified; and
- A proposal was made to the Australian Taxation Office (“ATO”) regarding a repayment arrangement be entered into for the outstanding BAS amounts. The ATO declined the proposal and subsequently issued demands on the Company pursuant to Section 222 of the Income Tax Assessment Act giving the current directors fourteen days to comply.

The Administrators believe that the above factors are the major factors that have lead to the current position of *Objectif* however, also believe that lack of financial controls have also contributed to the Company’s poor financial position.

III. SHAREHOLDERS

Pursuant to Section 437F of the Corporations Act, a transfer of shares in a company, or an alteration in the status of members of a company, that is made during the administration of the company is void except so far as the Court otherwise orders. Accordingly, the Company’s listing on the ASX was suspended on our appointment and we have requested for the continued suspension on trade for approximately seven (7) weeks.

We note however, that the Company’s current share capital is as follows: -

- 360,000,000 issued ordinary shares; and
- 13,956,800 options have been issued to current and former employees of *Objectif* with various prices and exercise dates. We note that no options have been exercised.

During the period of our Administration we have endeavoured to keep Shareholders informed as to the Administration by providing a circular on our website, receiving telephone calls and liaising with the ASX.

The top 20 shareholders as at 5 February 2003 are as set out below: -



Name	Number Held	% Issued Capital	Rank
Jeff Mills	120,000,000	33.33	1
Penny Mills	120,000,000	33.33	2
Bannaby Investments Pty Ltd	6,211,555	1.73	3
Permanent Nominees (Aust)	6,000,000	1.67	4
Indo-Suez Investments Limited	5,100,000	1.42	5
Trevor Hay	4,677,231	1.30	6
Chemical Trustee Limited	4,500,000	1.25	7
City and Westminster Limited	4,032,751	1.12	8
Erik Adriannse (Capital City Nominees)	3,750,000	1.04	9
Normandy Finance & Investments	3,750,000	1.04	10
Pacific Securities Inc	3,750,000	1.04	11
Apollo Solutions Limited	3,451,957	0.96	12
Jeffrey Birk	3,416,667	0.95	13
Huang Xiao Sheung Limited	3,375,000	0.94	14
Erik Adriannse (ACT Invest Management)	3,000,000	0.83	15
IRSS Nominees (26) Limited	2,775,000	0.77	16
Semetes Pty Ltd	2,400,000	0.67	17
Southsea (Australia) Limited	2,250,000	0.63	18
Ridge Enterprises Pty Ltd	1,839,999	0.51	19
Keith Kerridge	1,802,092	0.50	20

IV. SECURED CREDITOR

The Commonwealth Bank of Australia ("CBA") has a Fixed and Floating Charge over all of the assets and undertakings of *Objectif*, and we understand, also has third party guarantees from two of the directors. The charge was created on 8 December 1997 and registered with the ASIC on 12 December 1997. The ASIC charge number is 622593.

Objectif previously held an overdraft account with a maximum limit of \$1,000,000 however this facility was finalised and the account was closed on 22 August 2001. As at the date of the appointment of the Administrators, *Objectif* held three trading accounts with the CBA and also two business credit cards with a total maximum credit card limit of \$32,000.

The CBA holds a bank guarantee in favour of Yamamoto Realty Co Limited who own the premises located at Level 7, 99 Walker Street, North Sydney. The amount of the guarantee is \$151,600 and is in respect to the obligations under the lease agreement that is currently in place with *Objectif*. As at the date of the Administrators' appointment, the amount owing to the lessor is \$98,694.69, not including make good provisions in the lease which expires on 31 March 2003.



The CBA also holds a further guarantee in favour of ABN AMRO to the maximum sum of forty thousand Netherland Guilders (approximately \$AUD 4,649) relating to the bank account held with ABN AMRO in the Netherlands.

The CBA has submitted a Formal Proof of Debt in the amount of \$202,505 comprising the following:

	\$
Overdrawn account 2217 1030 3363	14,256
Rental Bond Guarantee (Yamamoto)	151,600
Rental Bond Guarantee (ABN AMRO)	4,649
Mastercard / Business Card (Limit)	<u>32,000</u>
TOTAL	<u>\$202,505</u>

It should be noted that the total amount of the debt to the CBA may vary depending on the actual final balance of the Mastercards and also the actual amount payable under the guarantees. We also note that any shortfall suffered by CBFC Ltd, which Objectif holds four hire-purchase agreements with, would be included in the total amount owed to the CBA under their fixed and floating charge. The position of leased creditors is discussed below in Section V.

V. PARTLY SECURED CREDITORS

The directors have advised that currently six (6) lease or hire-purchase agreements exist in Australia for office furniture & fittings, computer equipment or motor vehicles. Below is a summary of each lease Objectif has entered into and a review of the possibility of their being equity available for the Objectif creditors.

We instructed Dominion Valuers and Auctioneers ('Dominion') to provide an independent valuation of the leased assets and the position of each lease is as follows:

I. Suncorp Metway Ltd

Objectif entered into a lease agreement with Suncorp Metway on 4 April 2000. The lease was in respect of a quantity of computer equipment. We have been advised that the payout of the lease is \$2,503.64, which is less than the auction realisable value of the computer equipment.

Upon confirmation of the payout figure, the Administrators advised Suncorp Metway that they would continue to maintain the lease payments for the period of the Administration. It appears that there is equity in the lease and therefore a benefit to the creditors in maintaining the lease payments.



II. CBFC Ltd

Objectif has entered into four separate hire-purchase agreements with CBFC and these are detailed as follows:

Contract Number	Date Contract Entered	Description of Asset
232266219	3 November 2000	Workstations
232412375	27 December 2001	Computer Equipment
232449731	Unknown	Computer Equipment
232482427	12 June 2002	Computer Equipment

The combined total payout figure for the four contracts totals \$117,286. This appears to be greater than the auction realisable value of the combined total of all of the hire-purchase assets. An analysis of each individual agreement was also undertaken and it was confirmed that no equity was held in any asset for the benefit of creditors. However, as the leased equipment is necessary in maintaining the continued trading of the business it was necessary to maintain the agreements for the period of the Administration. It should also be noted that some of the computer equipment is located at the premises of some of the major clients of Objectif.

III. BMW Financial Services

Objectif entered into a lease agreement with BMW Financial Services on 26 March 2002. The lease was in respect of a BMW 535i Exec. We have been advised that the payout of the lease is \$74,273.98 and this is less than the auction realisable value of the BMW.

Upon confirmation of the payout figure, the Administrators advised BMW Financial Services that they would continue to maintain the lease payments for the period of the Administration. It appears that there is equity in the lease and therefore a benefit to the creditors in maintaining the lease payments.

Objectif Telecommunications Europe also has two leased motor vehicles. The details of which are one operational lease with BMW Financial Services for a BMW 318i Sedan and also one operational lease with Volvo Car Finance Netherlands for a Volvo V70. The Administrators are in the process of obtaining advice in relation to the likely effect of disclaiming the leases of the two vehicles however at the date of writing the report have not finalised this position.

VI. SUMMARY OF FINANCIAL POSITION

Each of the three directors have prepared and submitted a Report as to Affairs ("RATA") in respect of Objectif as at the date of the Administrators' appointment. We have reviewed the directors' RATA and investigated Objectif's affairs. The RATA is summarised below, along with our estimate of Objectif's financial position as at the date of our appointment:



FINANCIAL POSITION OF OBJECTIF

	Note	Directors' Report as to Affairs (Book Value) \$	Directors' Estimated Realisable Value \$	Administrators' Estimated Realisable Value \$
Assets				
Cash at Bank	1.	Nil	Nil	Nil
Debtors	2.	144,531	108,398	139,980
Work in Progress	3.	32,000	32,000	46,000
Unencumbered Plant & Equipment	4.	160,000	60,000	Withheld
Equity in Leased Plant & Equipment	5.	40,872	8,997	8,997
Other Assets	6.	Unknown	Unknown	Unknown
Total Assets		377,403	209,395	Unknown
		+ Unknown	+ Unknown	
Liabilities				
Secured Creditor	7.	26,256	26,256	202,505
Priority Employee Entitlements	8.	398,013	398,013	928,538
Partly Secured Creditors	5.	103,986	103,986	103,986
Unsecured Creditors	9.	1,106,424	1,106,424	1,882,319
Contingent Liabilities	10.	156,249	156,249	Nil
Total Liabilities		1,790,928	1,790,928	3,117,348
Total Est. Deficiency		1,413,525	1,581,533	Unknown
		+ Unknown	+ Unknown	

(Subject to the costs of Administration and/or Liquidation)

Notes:

1. Cash at Bank

Objectif operated three accounts with the CBA and also one account in the Netherlands with ABN AMRO. On the date of appointment all bank accounts were frozen. None of the accounts were in credit.

2. Debtors

According to the RATA submitted by the directors, the balance of the debtors of Objectif was \$144,531 and after the directors reviewed the recoverability of same it is anticipated that a total of \$108,398 will be recovered by the Administrators. The Administrators have also reviewed the recoverability and are of the opinion that a total of \$139,980 will be collected. We note that this amount includes the sum of \$116,000 due in respect to a Research & Development grant. As at the date of writing this report the Administrators have received a total of \$22,000.



3. Work in Progress

During the continued trading period the directors believe that a current project to be completed will enable the Administrators to collect an estimated \$32,000. Following subsequent enquiry and negotiation the Administrators believe that this amount will actually be \$46,000.

4. Unencumbered Plant and Equipment

We instructed Dominion to provide an independent valuation of all of the plant & equipment of Objectif. These assets are currently subject to the possible sale process being undertaken by the Administrators and accordingly, their value is being withheld at this time.

5. Encumbered Plant & Equipment

As discussed in Section V of this report, Objectif has a number of leases and hire purchase agreements in place relating primarily to assorted computer equipment, motor vehicles and office equipment. The position of each of the agreements has been discussed earlier and the total value of the leases where equity apparently exists is \$8,997.

6. Other Assets

The directors have included an "unknown" amount for the value of other assets of Objectif. Such assets include items such as the Intellectual Property (IP), goodwill and also the value of the actual listed entity structure of Objectif. The Administrators are not able to place a value on any of these assets at this stage due to the sale process that is currently proceeding. We refer creditors to Section VIII of this report for further discussion of this sale process.

7. Secured Creditor - The Commonwealth Bank of Australia

The directors' RATA indicates that the total amount owing to the CBA was \$26,256 representing an anticipated credit card debt of \$12,000 and also an overdrawn bank account balance of \$14,256. The directors have included as a contingent liability the amounts that may be owed to the CBA if the two bank guarantees are called upon. We note that the CBA has submitted a Proof of Debt in the sum of \$202,505. Further discussion in relation to this matter is included at point 10 below.

8. Employee Entitlements

Outstanding entitlements owing to employees are afforded a priority in accordance with Section 556 of the Corporations Act. The priority employee entitlements outstanding for the Australian employees according to the Administrators calculations and the records of Objectif are as follows: -



<u>Entitlement</u>	<u>Amount (\$)</u>
Wages	107,320
Annual Leave	75,740
Long Service Leave	25,570
Redundancy	299,645
P.I.L.N.	139,787
Superannuation	<u>156,859</u>
Total Priority Employee Entitlements	<u>\$804,921</u>

The priority employee entitlements outstanding for the European employees according to the Administrators calculations and the records of *Objectif* are broken up as follows: -

<u>Entitlement</u>	<u>Amount (\$)</u>
Wages	36,371
Annual Leave	4,674
Redundancy	32,936
P.I.L.N.	33,087
Pension	<u>16,549</u>
Total Priority Employee Entitlements	<u>\$123,617</u>

Pursuant to Section 556 of the Corporations Act, excluded employees (including directors & relatives of directors) are limited to participate in any priority distribution to the extent of \$2,000 for wages and superannuation and \$1,500 for annual and long service leave entitlements. Any claims above these thresholds rank as unsecured. Two of the claims that have been lodged are from excluded employees the total amount that will rank as a priority employee entitlement will be \$7,000. The balance of the excluded employee entitlements amounts to \$171,176 and will rank as an unsecured creditor claim. We note that employees have been referred to the General Employee Entitlements and Redundancy Scheme (GEERS) to lodge claims for unpaid entitlements. We note that a query has been raised as to the contractual entitlement to Redundancy and P.I.L.N following a review of the contract of employment. This matter requires further consideration and further advice is currently being sought.

9. Unsecured Creditors

The Directors' RATA discloses unsecured creditors totalling \$1,106,424. The Administrators have received one claim that is substantially different to that reported in the records of *Objectif* and if admissible could now be the largest unsecured creditor of *Objectif*. The Administrators are currently considering the calculation of this claim and its correct entitlement to vote at the second meeting of creditors. A decision as to the admissible amount of the claim will be made prior to the second meeting. The ten largest unsecured creditors, according to claims received and our investigations to date are as follows:



<u>Number</u>	<u>Creditor</u>	<u>Amount Claimed</u>
		\$
1.	Millhouse IAG Australia Pty Ltd	728,000
2.	Australian Taxation Office	343,598
3.	Office of State Revenue	123,291
4.	Robert Jeffrey Mills	108,071
5.	Jones Lang LaSalle	98,695
6.	Penelope Mills	63,105
7.	UK Tax & Inland Revenue	61,403
8.	MIB. Consult	57,145
9.	PKF Chartered Accountants & Business Advisers	51,370
10.	Belastingdienst	43,849

10. Contingent Liabilities

The directors have included the total of the two bank guarantees held by the CBA as a contingent liability due to the fact that they have not been called upon as at the date of the appointment of the Administrators. Should the guarantees be called up, the debt secured under the Fixed and Floating Charge of the CBA will be in the vicinity of \$202,505 as set out in the Proof of Debt lodged by the CBA.

VII. TRADE ON

We have continued to trade the business since our appointment whilst awaiting the submission of a Deed of Company Arrangement ("Deed"), carrying out our investigations and considering avenues for a sale of whole or part of the Company's assets. The Administrators believe continuing to trade the business, will maximise the chance for a sale of the business or Deed and therefore generate a potentially greater return to creditors. It appears clear that there will be no significant return to employees or unsecured creditors should the business cease to trade and the Company be wound up.

Creditors will be provided with a further update in relation to the trading at the second meeting of creditors.

VIII. SALE OF BUSINESS / ASSETS

It was noted by the Administrators at the first meeting of creditors that the business and/or assets of Objectif would be offered for sale. We advise that we have since marketed the sale and sought expressions of interest for the purchase of, or equity investment in, the business and assets of Objectif. Mediums for advertising included local and national papers, and also direct marketing through a database of solicitors, accountants and business advisers.

As a result we have received numerous enquires, including at least thirty (30) interested parties requesting further information at the time of writing this report. An Information



Memorandum has been prepared by the Administrators and duly forwarded to each interested party. We have requested that offers to purchase or invest in the business be made in writing by 20 February 2003. We will be able to report to creditors on the results of this process at the second meeting of creditors. Should any offer for sale be received and require immediate action, a meeting of the committee of creditors will be convened to consider same.

We note recent advice that due to the fact that Objectif has received a Research & Development Grant from the Aus Industry program of the Commonwealth Government there may be an issue relating to the ability to sell the IP to another entity without the approval of the Commonwealth. We are awaiting written advice from Aus Industry in this regard.

IX. INVESTIGATIONS AND ANTECEDENT TRANSACTIONS

Pursuant to Regulation 5.3A.02 of the Corporations Regulations, an administrator of a Company under administration, in setting out his or her opinions in a statement referred to in paragraph 439A(4)(b) of the Corporations Act, must specify whether there are any transactions that appear to the administrator to be voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Corporations Act.

There are two broad categories of potential recoveries that may be made by a liquidator pursuant to Part 5.7B of the Corporations Act, namely "Voidable Transactions" and "Insolvent Trading Actions against Directors", which will be discussed in further detail below.

The voidable transactions provisions of the Corporations Act cover transactions that may be classed as "Unfair Preferences", "Uncommercial Transactions", "Insolvent Transactions" and "Unfair Loans". The general principle behind these provisions is to allow a liquidator to void certain transactions that have imparted an unfair advantage or benefit on a creditor or related party at the time the company was insolvent. The liquidator is able to recover the amount of the unfair benefit so that it may be distributed equitably (and in accordance with the provisions of the Corporations Act) as if that property was available for distribution at the time the company became insolvent. There are differing rules and time limits applying to the various types of voidable transactions.

The Insolvent Trading provisions allow a Liquidator (and in some cases, a creditor) to seek to recover "damages" from the directors of insolvent companies equivalent to the unpaid debts incurred since the date the company was determined to have become insolvent. A liquidator, in determining whether to initiate or proceed with an insolvent trading claim against a current or past directors of a company, would have regard for the following issues:

1. The availability of strong evidence of the company's insolvency;
2. The commercial benefit that may accrue in pursuing such an action, taking into account potential legal costs and the quantum of damages being sought;
3. The availability of statutory defences that the directors may seek to rely upon;
4. The directors ability to adequately compensate the company for an Order made by the Court; and
5. Other mitigating factors that may weaken the case against the directors.



We have conducted our preliminary investigations into the affairs of *Objectif* for the purpose of ascertaining whether there is evidence of the types of transactions that may be recovered by a future appointed liquidator of *Objectif*, if creditors resolved that *Objectif* be wound up. Our findings are summarised below. In relation to these investigations creditors should note that in the event of the winding up of the Company, available assets would be subject to the priorities of the Corporations Act and hence first go to meet the claims of secured creditors and employees. Accordingly, consideration would need to be given to the possibility of creditors providing a future appointed liquidator with funding for the costs of any actions, or alternatively, the liquidators approaching Litigation Funders to finance the recovery action in exchange for a share of proceeds recovered.

Voidable Transactions

We have reviewed *Objectif*'s records for evidence of any transactions that may constitute Unfair Preferences, Uncommercial Transactions or Unfair Loans that may be voidable as against a creditor by a future appointed Liquidator.

Our investigations to date have not disclosed any significant payments made to creditors that may potentially be classified as voidable and therefore recoverable by a future appointed Liquidator. Similarly we are not aware of any significant transactions that may constitute Uncommercial Transactions or Unfair loans, which would give rise to potential recoveries. Our preliminary review of these transactions and all of the circumstances surrounding the payments would be subject to further investigation if a Liquidator were to be appointed. Consideration of statutory defences available to creditors would also be required.

Insolvent Trading

Based on our preliminary review of *Objectif*'s historical trading position, it would appear as though a case may exist against the directors of the Company in relation to a breach of Section 588G of the Corporations Act, in that they continued to trade *Objectif* when there were reasonable grounds to suspect that the Company was unable to pay its debts as and when they fell due. Should the Company be placed into Liquidation, the directors could be held personally liable for an amount equivalent to the unpaid debts incurred since the date it was determined to have become insolvent. It should be noted that any claim that may be made against a director would be limited to the period in which they actually acted as a director of *Objectif*. In this regard it is noteworthy that in the period March 2000 to September 2002, the Company only had one director, Mr Jeffrey Mills.

Further consideration which would affect whether a Liquidator was to commence such actions against the directors for insolvent trading include the commercial benefit that may accrue in pursuing such an action, the directors' ability to adequately compensate *Objectif* for an Order made by the Court and the availability of information to bring a strong case against the directors. Further, the directors may consider that they have defences available to them, as set out in Section 588H of the Corporations Act. In this case, directors may seek to rely on the expectation that future capital raising was likely, however a future appointed Liquidator would be required to assess such defences, as and when raised. Employees and unsecured



creditors should note that the proceeds derived from a successful Insolvent Trading claim are available to them, rather than to secured creditors in priority.

We have conducted preliminary enquiries of the directors personal financial affairs, in terms of their ability to meet any amounts, which a Court may determine them to be personally liable for. It appears that some resources are available to meet a claim made, however the extent of the ability to fully compensate is questionable. Further consideration would also be required of other parties claims against the directors personally, under guarantees or otherwise, which would compete with any claim by the future appointed Liquidators.

There are a number of factors that should be taken into account when considering an insolvent trading action, although these factors are not conclusive individually. We comment hereunder on these indicators of insolvency.

Historical Trading

The last formal financial accounts that have been prepared and audited for Objectif were for the financial year ended 30 June 2002. A comparison to the financial years ended 30 June 2001 and 30 June 2000 are also available. A summary of the financial statements are as follows:

Statement of Financial Position

	<u>As at</u> 30 June 2002 \$	<u>As at</u> 30 June 2001 \$	<u>As at</u> 30 June 2000 \$
Total Current Assets	1,731,955	4,517,763	10,748,193
Total Non-Current Assets	893,020	876,819	599,749
Total Assets	2,624,975	5,394,582	11,347,942
Total Current Liabilities	2,109,434	1,962,049	2,011,277
Total Non-Current Liabilities	157,674	114,362	354,233
Total Liabilities	2,267,108	2,076,410	2,365,510
Net Assets/(Deficiency)	357,867	3,318,172	8,982,432

Statement of Financial Performance

	<u>As at</u> 30 June 2002 \$	<u>As at</u> 30 June 2001 \$	<u>As at</u> 30 June 2000 \$
Revenue from ordinary activities	5,204,725	5,030,851	6,985,593
Expenses from ordinary activities	8,165,030	(10,616,277)	(5,591,927)
Profit / (Loss) from ordinary activities before income tax expense	(2,960,305)	(5,585,426)	1,393,666
Net Profit / (Loss) from ordinary activities after income tax expense	(2,960,305)	(5,664,345)	1,472,585



Statement of Cash Flows

	<u>As at</u> <u>30 June 2002</u> \$	<u>As at</u> <u>30 June 2001</u> \$	<u>As at</u> <u>30 June 2000</u> \$
Net cash inflow/ (outflow) from operating activities	(1,655,867)	(3,177,725)	(363,965)
Net cash inflow/ (outflow) from investing activities	(93,265)	(292,105)	(80,616)
Net cash inflow/ (outflow) from financing activities	<u>(305,086)</u>	<u>(385,973)</u>	<u>7,137,946</u>
Net decrease in cash held	<u>(2,054,086)</u>	<u>(3,795,803)</u>	<u>6,693,365</u>
Cash at the beginning of the financial year	<u>2,515,691</u>	<u>6,311,494</u>	<u>(381,871)</u>
Cash at the end of the financial year	<u>461,473</u>	<u>2,515,691</u>	<u>6,311,494</u>

Other Evidence

The records of Objectif, with the exception of action by the ATO, do not evidence significant attempts of recovery by creditors or evidence of repayment arrangements or other demands or correspondence that would provide strong supporting evidence for an Insolvent Trading claim. Should any creditors have such demands and correspondence they should please supply same to this office to assist in future assessment of the possible claim against directors. However, it is evident that superannuation and tax instalment deductions have not been made for some time (at least 7 months). These two factors are indicators of poor cash flow and questionable solvency of a company. Another factor usually considered relating to solvency is the dishonouring of cheques by the bank of the Company however, the Administrators have not located any evidence of this occurring in this case.

It should be noted that in the last financial accounts of the Company the auditors gave an unqualified audit opinion. It was however noted that there was an inherent uncertainty regarding continuation as a going concern for Objectif and that the ability to continue as a going concern was dependent on the forecast cash-flows and also the raising of additional capital.

In summary, the Administrators believe that there may be a reasonable case in relation to an insolvent trading claim against the directors of Objectif. Bearing in mind the above discussion, if an insolvent trading action were to be commenced the Administrators anticipate that an amount in the region of \$750,000 could be claimable, although any recovery would be subject to ability to recover from the directors, payment of legal costs, the costs of the Liquidators in taking the action, and in the absence of funds in the Administration, subject to payment to a Litigation Funder required to fund the action.



Related Party Transactions

After a review of the records of Objectif the Administrators have not been able to locate any significant transactions with related parties that warrant further investigation at this stage. A Liquidator if one is appointed would be able to further investigate this issue. It is to be noted that the remuneration of the current directors has been in accordance with the amounts disclosed to shareholders in the Company's annual reports. In addition, directors have had the use of business credit cards and also the use of a leased motor vehicle.

Possible Offences

Our preliminary investigations have revealed that the directors and former directors may have committed offences under the following sections of the Corporations Act: -

- Contravention of Section 180 – failing to exercise due care and diligence; and
- Contravention of Section 588G – trading whilst insolvent.

The Administrators will report to the ASIC pursuant to Section 438D of the Corporations Act detailing the results of our investigations. Further, a liquidator, if one is appointed, will also be required to provide a report to ASIC pursuant to Section 533 of the Corporations Act, detailing the results of their investigations and any offences committed by the directors.

Books & Records

We have reviewed and investigated the financial records of Objectif and believe that these records have been maintained in accordance with Section 286 of the Corporations Act. We believe that the financial records would enable true and fair financial statements to be prepared and audited if required and that they correctly record and explain Objectif's transactions, financial position and performance.

X. RETURN TO CREDITORS

As stated earlier in this report, at the time of writing we have firm advices that at least one Deed proposal will be imminently received, following confirmation of financing arrangements. Further, we have received numerous enquiries for the sale of all or part of the business and its assets. Accordingly, it appears to be in the best interests of creditors that the second meeting be adjourned so that further information regarding the likely return to creditors can be provided. Further, as we are currently assessing options for the sale of the assets we are necessarily required to withhold information regarding the Estimated Realisable Value of the assets, so are unable to precisely quantify the likely return to classes of creditors on Liquidation. However, at this point we can state that it appears likely that in the event of Liquidation there will be no return to unsecured creditors.



XI. ADMINISTRATORS' OPINION

At the second meeting, the creditors must consider several motions relating to *Objectif's* future. Pursuant to Section 439A(4), the Administrators are required to provide a statement detailing their opinion on these motions, in particular, whether it would be in creditors' interests for:

1. *Objectif* to execute a Deed of Company Arrangement;
2. The administration to end; or
3. *Objectif* to be wound up.

We have previously outlined that we believe it to be in the best interests of creditors for the Second Meeting to adjourned to provide further time within which to resolve viable options for *Objectif's* future which would provide a greater return to the creditors of the Company than it being placed into Liquidation. However, having regard to all of the matters contained in this report and should creditors resolve that they do not wish to adjourn the second meeting of creditors then, as we are required to provide a recommendation on one of the available options, it is our opinion that it would be in the best interests of *Objectif's* creditors for the Company to be wound up. Creditors are referred to the attached statement pursuant to Section 439A(4)(b) of the Corporations Act for further details of the Administrators reasons for this opinion.

XII. SECOND MEETING OF CREDITORS

Attached is a Notice of Meeting of Creditors convened in accordance with Section 439A of the Corporations Act, to be held at the offices of Knights Insolvency Administration, Level 27, The Chifley Tower, 2 Chifley Square, Sydney, on Thursday, 27 February 2003 at 10:30am.

1. Purpose

The purpose of the meeting is to decide *Objectif's* future. At the meeting, creditors will decide whether the Company should execute a Deed of Company Arrangement, the administration should end, the Company be wound up or the meeting be adjourned.

2. Voting

The required resolutions are by a simple majority in number unless two or more creditors request a poll in which case a majority in number and value is required. In a deadlock, the Chairman has the casting vote.

Attached are forms of Proof of Debt and Proxy.

Those creditors who previously lodged a Proof of Debt with the Administrators are not required to lodge a further Proof of Debt. However, a further Proxy form must be completed for the second meeting.

The Proxy form must be completed if the creditor is a Company or if an individual creditor wishes to appoint another party as his or her representative and, pursuant to Regulation 5.6.35



of the Corporations Regulations, the appointment of a proxy by a Company must be in accordance with its constitution.

It is requested that all forms be lodged with this office **prior to attendance** at the meeting of creditors.

Should any creditor require assistance in completing the relevant forms or have any queries, please contact either Mr Damien Davis or Mr David Orr of our office on (02) 8226 8127 or (02) 8226 8116 respectively.

DATED this 19th day of February 2003.

Bill Cotter
**Joint and Several
Administrator**

Encl.



**SECOND REPORT TO CREDITORS
OBJECTIF TELECOMMUNICATIONS LIMITED
(ADMINISTRATORS APPOINTED)**

A.C.N. 056 482 636

**Statement of the Joint and Several Administrators' Opinion
pursuant to Section 439A(4)(b)**

Section 439A(4)(b) of the Corporations Act requires the Administrators of the company to prepare a statement setting out the Administrators' opinion on each of the following matters:

- a. Whether it would be in the creditors' interests for the company to execute a deed of company arrangement;
- b. Whether it would be in the creditors' interest for the administration to end; and
- c. Whether it would be in the creditors' interests for the company to be wound up.

and setting out the Administrators' reasons for those opinions.

Accordingly, we set out herewith our opinions and reasons:

1. Execute a Deed of Company Arrangement

In our opinion it would not be in the creditors interest for Objectif to execute a Deed of Company Arrangement. Our reason for this opinion is:

At the time of writing there has been no proposal for a Deed of Company Arrangement received by the Administrators.

2. Administration to End

In our opinion, it would not be in the creditors' interest for the administration to end. Our reason for this opinion is:

Objectif is insolvent and would likely remain so if its affairs were returned to the directors.

3. The Company to be Wound Up

As set out in the Administrators report we believe it to be in the best interests of creditors for the Second Meeting to adjourned to provide further time within which to resolve viable options for the Company's future which would provide a greater return to the creditors of the Company than it being placed into Liquidation. However, the Administrators are required to provide a recommendation and in the event that creditors do not resolve to adjourn the second meeting, in our opinion, it would be in the

 Objectif



creditors' interests for the company to be wound up. However, creditors may decide to vote otherwise. Our reasons for this opinion are:

At the time of writing this report there has been no Deed proposed by the directors of the Company, the Company is insolvent and should be wound up.

Dated this 19th day of February 2003.

Bill Cotter
Joint and Several
Administrator

FORM 529

Sub-regulation 5.6.12(2)

*Corporations Act***NOTICE OF MEETING****OBJECTIF TELECOMMUNICATIONS LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 056 482 636**

Notice is given that a meeting of the creditors of the Company will be held at the offices of Knights Insolvency Administration, Level 27, The Chifley Tower, 2 Chifley Square, Sydney on Thursday 27 February 2003 at 10:30am.

AGENDA

1. Receive a report by the Administrators.
2. Receive a statement setting out the Administrators' opinion and their reasons, about each of the following matters:-
 - a) whether it would be in the creditors' interests for the Company to execute a Deed of Company Arrangement;
 - b) whether it would be in the creditors' interests for the administration to end;
 - c) whether it would be in the creditors' interests for the Company to be wound up.
3. Resolve:
 - a) that the Company execute a Deed of Company Arrangement; or
 - b) that the Administration should end; or
 - c) that the Company be wound up.
4. Consider the appointment of a Committee of Inspection.
5. Consider the approval of remuneration of the Administrators from 31 January 2003 to 15 February 2003 be approved and paid in the amount of \$62,055 (plus GST and conditional upon funds becoming available and the raising of a tax invoice) and from that date to the conclusion of the administration be approved and paid in the amount of \$20,000 (plus GST and conditional upon funds becoming available and the raising of a tax invoice), be hereby fixed on a time basis as per the rates established by Knights Insolvency Administration's best practice.
6. Consider the approval of remuneration of the Deed Administrator, if one is appointed.
7. Consider the approval of remuneration of the Liquidator, if one is appointed.
8. Any other business which may be lawfully brought forward.

Dated this 19th day of February, 2003



Bill Cotter

**Joint & Several
Administrator**

C/- Knights Insolvency Administration
Level 27, The Chifley Tower,
2 Chifley Square,
Sydney NSW 2000

FORM 532
Corporations Act

Regulation 5.6.29

A.C.N. 056 482 636

APPOINTMENT OF PROXY

OBJECTIF TELECOMMUNICATIONS LIMITED
(ADMINISTRATORS APPOINTED)

*I/*We ⁽¹⁾ _____
of _____
a creditor of Objectif Telecommunications Ltd, appoint ⁽²⁾ _____ or
in his or her absence _____ as *my/*our *general/*special proxy to vote at the
meeting of creditors to be held on the 27 February 2003 or at any adjournment of that meeting⁽³⁾.

If you have circled **special proxy** above, indicate your voting preference as follows:-

- * I vote for/ against the company execute a Deed of Company Arrangement;
- * I vote for/ against the administration should end;
- * I vote for/ against the company be wound up;
- * I vote for/ against the remuneration of the Administrators;
- * I vote for/ against the approval of remuneration of the liquidator, if one is appointed.

Dated this _____ day of _____, 2003.

Signature _____

CERTIFICATE OF WITNESS⁽⁴⁾

I, _____
of _____
certify that the above instrument appointing a proxy was completed by me in the presence of and at the
request of the person appointing the proxy and read to him or her before he or she signed or marked the
instrument.

Dated this _____ day of _____, 2003.

Signature of Witness ⁽⁵⁾ _____

Description _____

Place of Residence _____

* Omit if inapplicable

- (1) If a firm, strike out "I" and set out the full name of the firm.
- (2) Insert the name, address and description of the person appointed.
- (3) If a special proxy circle the words "to vote for" or the words "to vote against" as appropriate.
- (4) This certificate is to be completed only if the person giving the proxy is blind or incapable of writing.
- (5) The signature of the creditor, contributory, debenture holder or member must not be witnessed by the person nominated as proxy.

A.C.N. 056 482 636

Form 535
Corporations Act

Subregulation 5.6.49(2)

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)To the Administrators of **OBJECTIF TELECOMMUNICATIONS LIMITED**
(ADMINISTRATORS APPOINTED)

1. This is to state that the company was on 31 January 2003 and still is, justly and truly indebted to¹
of
in the sum of dollars and cents.

Particulars of the debt are-

Date	Consideration (state how the debt arose)	Amount \$ c	Remarks (include details of vouchers substantiating payment)
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2. To my knowledge or belief the creditor has not, nor has any person by the creditor's order, had or received
any satisfaction or security for the sum or any part of it except for the following:²

Date	Drawer	Acceptor	Amount Due Date \$ c
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*3. 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, remains unpaid and unsatisfied.

*3. I am the creditor's agent duly authorised in writing to make this statement in writing. I know that the debt
was incurred for the consideration stated and that the debt, to the best of my knowledge and belief,
remains unpaid and unsatisfied.

Dated this day of 2003

Signature

Occupation

Address

*Do not complete if this proof is made by the creditor personally.

¹ Insert full name and address of the creditor and, if applicable, the creditor's partners. If prepared by an
employee or agent of the creditor, also insert a description of the occupation of the creditor.

² Insert particulars of all securities held. If the securities are on the property of the company, assess the value
of those securities. If any bills or other negotiable securities are held, show them in a schedule in the form
shown.